

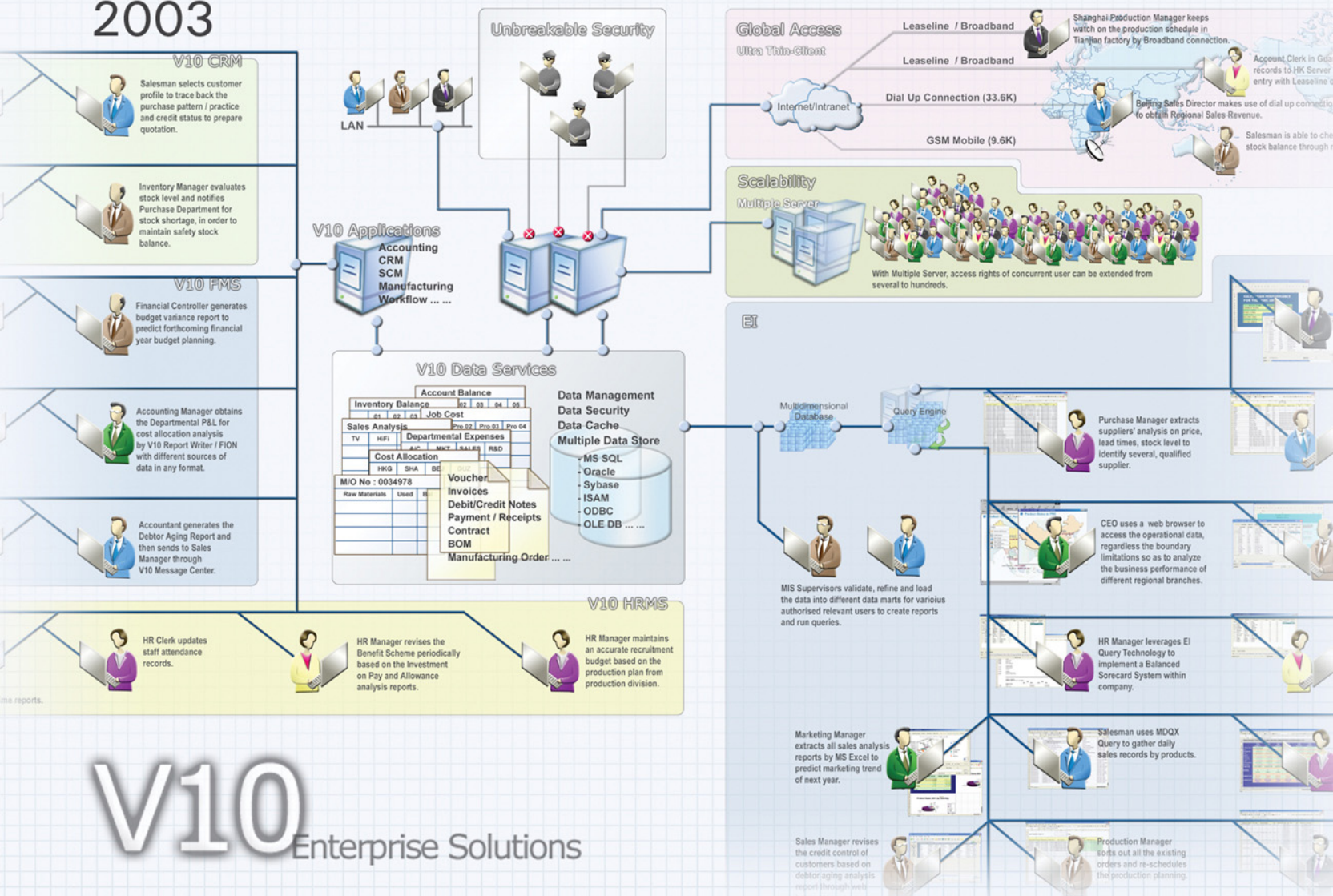


FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report

2003



V10 Enterprise Solutions

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 howsoever 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
Leung Wai Cheung

NON-EXECUTIVE DIRECTORS

Lo Yip Tong (resigned on 31 January, 2003)

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

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

Secretaries Limited
Ground Floor
Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Chairman's Statement

BUSINESS REVIEW

Although the overall local market condition is being worsen, the Group's business is relatively stable. In recent months, both local and international application software developers are struggling for survival in view of the tough economic conditions in Hong Kong. However, the Group has been able to maintain its competitive edge in the market. Such achievement has clearly demonstrated the fact that we are going in the right direction - deploying resources in research and development ("R&D"). The Group is of the view that the R&D efforts would bring forth new and improved products and technologies to our new and potential customers.

DEPLOYING RESOURCES IN RESEARCH AND DEVELOPMENT

Despite the market sentiment is not good, the Group persists in deploying resources in research and development. During the year under review, the Group has expanded its R&D department by employing more new staff and injecting additional resources. Following the completion of its ECSS, an enterprises computing support tool, the Group is allocating more resources to develop new ERP application software to enrich the Group's application suite.

FINAL DIVIDEND

The board of Directors does not recommend a final dividend payment for the year ended 31 March, 2003.

OUTLOOK

Due to the unfavorable economical conditions in Hong Kong, the Group believes that the computer industry is still undergoing a slow recovery. As most companies curtail their IT expenditure budget, fierce competition in our industry is still ongoing. In order to well-equip ourselves, the Group had undergone a re-structure by tightening the growth of overseas operations as well as the operation cost of the Group.

The Group continues to pursue its enterprise solutions business, with additional sales and marketing efforts for the ERP products. Most importantly, the Group makes special effort in Hong Kong and the PRC markets by employing more sales and marketing staff in these areas.

The Group believes that R&D is the most important factor in maintaining its competitiveness in the industry. The Group is now employing almost 60 staff in the R&D department to fine-tune the basic development framework and upgrade the ERP products. Upon successful completion of the development framework, it is expected to save more than 70% development time.

Finally, People are always the key component to the 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, 19 June, 2003

Management Discussion and Analysis

FINANCIAL REVIEW

During the year ended 31 March, 2003, turnover of approximately HK\$54 million and loss attributable to shareholders of approximately HK\$14 million were recorded. The decrease in turnover of 4.2% as compared with the previous 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, 2003, the shareholders' funds of the Group amounted to approximately HK\$42 million. Current assets were approximately HK\$52 million, mainly comprising cash and bank deposits of approximately HK\$35.3 million and debtors, deposits, prepayments and inventories of approximately HK\$16.7 million. Current liabilities were approximately HK\$20 million, mainly comprising creditors, accruals and deposits received of approximately HK\$14 million and taxation payable of approximately HK\$6 million. The net asset value per share was HK\$0.07. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31 March, 2003, 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 2.5:1 (2002: 3.7:1), reflecting the adequacy of financial resources.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year ended 31 March, 2003, the Group experienced only immaterial exchange rates 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 currency. The Group considered that as the exchange rate risk of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the year ended 31 March, 2003, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 31 March, 2003, the Group had no material investment.

CAPITAL COMMITMENTS

As at 31 March, 2003, the Group had operating lease commitments in respect of rented premises of approximately HK\$3,089,000 (2002: HK\$3,750,000). As at 31 March, 2002 and 2003, the Group had no significant capital commitment and have no future plans for material investment.

CONTINGENT LIABILITIES

As at 31 March, 2002 and 2003, the Group had no material contingent liabilities.

Management Discussion and Analysis

CHARGES ON THE GROUP'S ASSETS

As at 31 March, 2003, the Group had no charges on the Group's assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March, 2003, the Group had 238 employees (2002: 212). The total remuneration to employees, including that to the directors, for the year ended 31 March, 2003 amounted to approximately HK\$31.6 million (2002: HK\$35.7 million). 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 and Singapore.

SEGMENTAL INFORMATION

Business segment

During the year under review, the turnover of maintenance services has slightly increased by approximately 1% as the number of customers have increased as compared with the previous year. However, the turnover of software sales has slightly decreased by approximately 6% as the market sentiment of the software industry has not yet recovered.

Geographical segments

The major contribution of turnover is still from Hong Kong. Turnover from the Hong Kong segment represented approximately 84% of the total turnover (2002: 84%). The high percentage of the Hong Kong segment is mainly due to the fact that the market sentiment of Asian markets has not yet recovered.

In the PRC, the turnover has decreased by approximately 17% to approximately HK\$6 million as compared with the previous year. The decrement was attributed by the restructuring of the Group's sales and marketing team in the PRC.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Comparison of use of proceeds

	Amount to be used up to 31 March, 2003 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	25.0	21.0
Research and development	25.0	24.0
ASP Business	25.0	7.0
Marketing and promotional activities	10.0	9.0
	115.0	91.0
Total	115.0	91.0

The under-utilisation is mainly attributable to the proportion of proceeds set aside for the 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.

Difference of approximately HK\$24 million between Placing of shares proceeds of approximately HK\$115 million and the actual amount used up to 31 March, 2003 of approximately HK\$91 million was used as additional working capital for the Group.

Comparison of Business Objectives with Actual Business Progress

RESEARCH AND DEVELOPMENT

Product development

Objective: Develop the next generation of FlexAccount products.

Actual: The Group has completed and launched a series of Enterprise Solutions into the market, including V10 FMS, workflow management and web-based ERP suit.

Objective: Enhance the functionality of FlexAccount products.

Actual: Resources have been allocated on products upgrade. New version of FlexAccount NV5 with modern technology and rich features have been developed.

Objective: Develop application for insurance industry

Actual: The Group has been re-focusing on its core development, which is accounting, business intelligence and trading and manufacturing. Hence, the Group will put the development plan on hold, until the market conditions recover.

Objective: Perform localisation of FlexAccount products for the Australian market

Actual: The Group has restructured its Australian operations to maintain a minimum running cost, instead of allocating resources on product localisation for the market.

Objective: Perform localisation of FlexAccount products for the US Market

Actual: The Group has conducted a preliminary study regarding the US market and concluded that the market is not yet ready for the product. Therefore, the Group will have the localisation plan pending for the time being, until the market in the US is being deemed appropriate.

Comparison of Business Objectives with Actual Business Progress

Research

Objective: To research and implement new technology on FlexAccount products

Actual: The Group has built a series of new technologies, such as OLAP, Ultra-thin client, Microsoft.net and has applied the technologies on its latest products suite.

Objective: To enhance the functionality of FlexAccount Data Center

Actual: The Group will deploy new Ultra-thin client technology to improve its Data Center performance and connectivity.

Objective: To research and implement new technology for ASP business.

Actual: The Group is working on a computer grid technology, in which the multiple server is capable to expand the accessibility of concurrent users, in order to enhance the scalability of the ASP business.

Objective: To develop the next generation of Soma*AI

Actual: The Group has upgraded its Soma*AI (thin client technology) to the Ultra-thin client technology with higher performance and lower bandwidth consumption.

Objective: To implement the next generation Soma*AI on FlexAccount Data Centre.

Actual: The Group has utilised the Ultra-thin client technology to implement on its Data Center business.

ASP BUSINESS

In Hong Kong

Objective: To 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 of its Enterprise Server Edition to existing FlexSystem's corporate users via direct sale approaches.

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

Actual: The Group is still in the process of locating business partners.

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

Actual: The Group has restructured its ASP business model in the district, and will put more emphasis on the Enterprise Data Center sector, in which the client will host and maintain its own application server. As a result, the Group will halt recruiting value-added partners who are MPF providers for SME clients.

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

Actual: The Group has suspended its investment on the on-line stock brokerage system development at this stage and will resume until the on-line stock trading system is profitable.

Comparison of Business Objectives with Actual Business Progress

In other Asian markets

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

Actual: The Group will continue its ASP business in Taiwan, though the main focus will shift back to the sales of enterprise solutions.

Objective: To set up call center for its ASP clients in Malaysia and Singapore.

Actual: The Group has suspended to set up call center for the time being and will resume when the business sector in the Asian market recovers.

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 has placed 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 resume until the business sector in the Asian market recovers.

In other markets outside Asia

Objective: To expand the ASP business into Australia and the US.

Actual: The Group has placed 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 resume until the business sector in Australia and the US recovers.

Comparison of Business Objectives with Actual Business Progress

ENTERPRISE APPLICATION BUSINESS

Objective: To launch and promote the Linux compatible version of FlexAccount products in Hong Kong and the PRC.

Actual: The Group's study of the Linux market indicates an overall unfavorable economic environment. The Group has concluded to postpone the said application development at this stage.

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 approach to introduce FlexSystem products to the overseas market through the regional offices.

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

Actual: The Group expects the next generation FlexAccount - FlexAccount NV5 will be launched by the middle of year 2003 and the next generation BI tool - ECSS launched in December, 2002.

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

Actual: The Group signed a business partnership with a software developer in Japan.

Objective: To launch and promote FlexAccount products for wireless applications in selected Asian markets.

Actual: The Group's study of the wireless application market indicates an overall unfavorable economic environment. The Group has concluded to postpone the said application development at this stage.

RESOURCES DEPLOYMENT

Objective: To continue to expand the research and development team in the PRC, Macau and Malaysia.

Actual: In view of the number of R&D professionals being employed and the development projects as planned, the Group has concluded that R&D expansion has reached a stage of equilibrium, and thus will cease its R&D expansion in Malaysia.

Biographical Information of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Lok Wai Man, aged 43, 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 42, 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 organisation 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 38, 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 of 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 38, 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, CPA Australia, 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)

Independent Non-Executive Director

Mr. Tse Lin Chung, aged 42, 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 54, 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 CPA Australia. He graduated with a master degree in accounting science from University of Urbanna, 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 38, 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 39, is the senior vice president of the Group. He is responsible for the overall business development and 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 37, is the associate director (support division) 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.

Biographical Information of Directors and Senior Management

SENIOR MANAGEMENT *(continued)*

Ms. Chow Ching Lan, aged 39, 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. Lau Tak Shun, Saiki, aged 34, is the associate director (R&D division) of the Group. He is responsible for the overall supervision and management of the Group's development team. He also concentrates in the new product development and technology research. Mr. Lau has over 10 years of product development in the Accounting package in Hong Kong and Mainland China. Mr. Lau joined the Group in 1993.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 March, 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 14 to the financial statements. The Group is principally engaged in the development and sales of enterprise software in Hong Kong, the People's Republic of China (the "PRC") 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 from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<i>Principal activities:</i>				
Software	33,734	35,758	(4,541)	(9,862)
Services	18,137	18,024	(11)	2,643
Other operations	1,928	2,416	(675)	(895)
	<u>53,799</u>	<u>56,198</u>	<u>(5,227)</u>	<u>(8,114)</u>
Other expenses			(8,899)	(8,756)
Interest income			589	1,974
Dividend income			14	299
Operating loss			<u>(13,523)</u>	<u>(14,597)</u>
	Turnover		Contribution to loss from operations	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
<i>Principal markets:</i>				
Hong Kong	45,123	47,092	(2,175)	(1,748)
The PRC	5,966	7,183	(690)	(3,053)
Others	2,710	1,923	(2,362)	(3,313)
	<u>53,799</u>	<u>56,198</u>	<u>(5,227)</u>	<u>(8,114)</u>
Other expenses			(8,899)	(8,756)
Interest income			589	1,974
Dividend income			14	299
Operating loss			<u>(13,523)</u>	<u>(14,597)</u>

Report of the Directors

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 22.

On 12 November, 2002, the Directors declared an interim dividend of HK\$0.005 per ordinary share, totalling HK\$3,000,000.

The Directors do not recommend a final dividend payment for the year ended 31 March, 2003.

RESERVES

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$11,000 (2002: Nil).

FIXED ASSETS

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

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. As at 31 March, 2003, in the opinion of the Directors, the Company's reserves available for distribution to shareholders comprising share premium and retained earnings, amounted in total to approximately HK\$84,045,000 (2002 : HK\$94,455,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out below:

	2003	2002	2001	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>53,799</u>	<u>56,198</u>	<u>61,898</u>	<u>44,756</u>	<u>38,408</u>
(Loss)/profit attributable to shareholders	<u>(14,464)</u>	<u>(66,724)</u>	<u>20,014</u>	<u>16,194</u>	<u>9,917</u>
Total assets	<u>63,634</u>	<u>86,960</u>	<u>144,826</u>	<u>23,081</u>	<u>12,251</u>
Total liabilities	<u>(20,472)</u>	<u>(19,812)</u>	<u>(21,997)</u>	<u>(15,770)</u>	<u>(10,064)</u>
Minority interests	<u>(675)</u>	<u>(1,197)</u>	<u>(447)</u>	<u>—</u>	<u>—</u>
Net assets	<u>42,487</u>	<u>65,951</u>	<u>122,382</u>	<u>7,311</u>	<u>2,187</u>

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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, 2003.

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

Leung Wai Cheung

Non-Executive Directors

Lo Yip Tong (resigned on 31 January, 2003)

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.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 11 to 13.

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 into by the Group during the year ended 31 March, 2003, 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 financial statements.

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

DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTERESTS IN SECURITIES

As at 31 March, 2003, 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 SDI Ordinance or as notified to the Company were as follows:

	Number of shares		
	Personal interests	Corporate interests	Total
Mr. Lok Wai Man (<i>note 1</i>)	3,534,000	475,500,000 (<i>note 2</i>)	479,034,000
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 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 an initial management shareholder (as defined in the GEM Listing Rules) of the Company. Mr. So Yiu King, Mr. Chow Chi 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 SHI, he is deemed, by virtue of the SDI Ordinance, to be interested in the same 475,500,000 shares held by SHI. The indirect interest of the other remaining Directors are the corresponding number of shares held by SHI by reference to their respective shareholding in SHI.

Save as disclosed above, as at 31 March, 2003, none of the Directors, chief executives of the Company or their respective 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).

SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed herein in respect of the Directors, chief executives and their respective associates, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 March, 2003, the Company had the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

	Number of shares			Percentage of issued share capital
	Personal interests	Corporate interests	Total	
SHI (<i>note 1</i>)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (<i>note 2</i>)	3,534,000	475,500,000	479,034,000	79.84%

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 SHI, he is deemed, by virtue of the SDI Ordinance, to be interested in the same 475,500,000 shares held by SHI.

MANAGEMENT SHAREHOLDERS

Save for the Directors and substantial shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 March, 2003 were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

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	46%
— five largest suppliers combined	78%

Sales

— the largest customer	2%
— five largest customers combined	7%

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.

Report of the Directors

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 throughout the financial year.

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 ended 31 March, 2003, 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 or might compete with the business of the Group.

AUDITORS

HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of PricewaterhouseCoopers with effect from 7 March, 2003. Save as aforesaid, there had been no other changes of the Company’s auditors in the past three financial years.

A resolution for the appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lok Wai Man
Chairman

Hong Kong, 19 June, 2003

Auditors' Report



Chartered Accountants
Certified Public Accountants

6/F, Wheelock House
20 Pedder Street, Central
Hong Kong

TO THE SHAREHOLDERS OF FLEXSYSTEM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 22 to 60 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 financial statements which give a true and fair view. In preparing financial statements 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 financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March, 2003 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.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 19 June, 2003

Consolidated Income Statement

For the year ended 31 March, 2003

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	3	53,799	56,198
Cost of sales		(11,482)	(9,853)
Gross profit		42,317	46,345
Other revenues	3	603	2,273
Distribution costs		(10,076)	(11,806)
Administrative expenses		(36,055)	(35,153)
Other operating expenses		(10,312)	(16,256)
Operating loss	4	(13,523)	(14,597)
Finance costs	5	—	(17)
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	(660)	(11,503)
Provision for amounts due from investee companies	17	(778)	(12,818)
Share of profit/(loss) of a jointly controlled entity		250	(639)
Share of loss of an associated company		(856)	(585)
Loss before taxation		(15,567)	(67,092)
Taxation	6	581	(111)
Loss after taxation		(14,986)	(67,203)
Minority interests		522	479
Loss attributable to shareholders	7	(14,464)	(66,724)
Dividends	8	3,000	12,000
Loss per share	9	(2.41) cents	(11.12) cents

All of the Group's operations are classified as continuing.

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 March, 2003

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current assets			
Intangible assets	12	—	2,341
Fixed assets	13	5,459	5,799
Investment in a jointly controlled entity	15	776	520
Investment in an associated company	16	—	—
Long-term investments	17	4,365	4,525
Other investments	18	1,001	1,403
		<u>11,601</u>	<u>14,588</u>
Current assets			
Inventories	19	891	702
Trade and other receivables	20	15,798	20,856
Bank balances and cash		35,344	50,814
		<u>52,033</u>	<u>72,372</u>
Current liabilities			
Trade and other payables	21	14,606	12,951
Taxation payable		5,866	6,861
		<u>20,472</u>	<u>19,812</u>
Net current assets		<u>31,561</u>	<u>52,560</u>
Total assets less current liabilities		<u>43,162</u>	<u>67,148</u>
Financed by:			
Share capital	22	60,000	60,000
Reserves	23	(17,513)	5,951
Shareholders' funds		42,487	65,951
Minority interests		675	1,197
		<u>43,162</u>	<u>67,148</u>

Lok Wai Man
Director

Leung Wai Cheung
Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

As at 31 March, 2003

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current assets			
Investments in subsidiaries	14	134,305	143,402
Other investments	18	1,001	1,403
		<u>135,306</u>	<u>144,805</u>
Current assets			
Bank balances and cash		9,087	10,500
		<u>9,087</u>	<u>10,500</u>
Current liabilities			
Accruals	21	348	850
		<u>348</u>	<u>850</u>
Net current assets		<u>8,739</u>	<u>9,650</u>
Total assets less current liabilities		<u>144,045</u>	<u>154,455</u>
Financed by:			
Share capital	22	60,000	60,000
Reserves	23	84,045	94,455
Shareholders' funds		<u>144,045</u>	<u>154,455</u>

Lok Wai Man
Director

Leung Wai Cheung
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March, 2003

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total equity as at 1 April, 2002/2001	65,951	122,382
Impairment charge for goodwill previously written off to reserves	—	25,367
Reserves transferred to income statement upon disposal of fixed assets	—	(44)
Exchange differences	—	(30)
2002/2001 final dividend paid (<i>note 8</i>)	(6,000)	(9,000)
2003/2002 interim dividend paid (<i>note 8</i>)	(3,000)	(6,000)
Loss attributable to shareholders for the year	(14,464)	(66,724)
	<hr/>	<hr/>
Total equity as at 31 March, 2003/2002	42,487	65,951
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March, 2003

	<i>Note</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash (used in)/from operating activities	24(a)	<u>(2,463)</u>	<u>5,232</u>
Investing activities			
Interest received		589	1,974
Dividends received		14	299
Purchase of fixed assets		(1,733)	(1,291)
Sale of fixed assets		79	278
Payment for deferred development costs		—	(1,228)
Purchase of subsidiaries	24(e)	—	247
Purchase of investment securities		—	(1,957)
Advance to an associated company		(1,678)	(1,158)
Purchase of investments		(1,278)	(19,628)
Net cash used in investing activities		<u>(4,007)</u>	<u>(22,464)</u>
Financing activities	24(b)		
Dividends paid		(9,000)	(15,000)
Capital element of finance lease payments		—	(118)
Net cash used in financing activities		<u>(9,000)</u>	<u>(15,118)</u>
Net decrease in cash and cash equivalents		(15,470)	(32,350)
Cash and cash equivalents at the beginning of the year		50,814	83,164
Cash and cash equivalents at the end of the year		<u>35,344</u>	<u>50,814</u>
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		<u>35,344</u>	<u>50,814</u>

Certain items have been reclassified to conform with the presentation as required by Statement of Standard Accounting Practice No.15 (revised) "Cash flow statements".

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

1 CORPORATE INFORMATION AND BASIS OF PREPARATION

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. The shares of the Company are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice (“SSAP”) and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The financial statements 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 has adopted the following SSAPs which are effective for accounting periods commencing on or after 1 January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The changes to the Group’s accounting policies and the effects of adopting these new or revised SSAPs are set out in the accounting policies below.

2 PRINCIPAL ACCOUNTING POLICIES

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

(a) Consolidation

The consolidated financial statements include the financial statements 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 of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

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 any 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 an entity which operates under 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 income statement 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 or a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement 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.

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.

Notes to the Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Fixed assets

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 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 rates used for each of the categories of fixed assets are 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 income statement. 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 income statement 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 income statement. 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 leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the 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 income statement 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 the 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 income statement 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 "Business combinations" 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 "Impairment of assets".

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 income statement.

Notes to the Financial Statements

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 investments will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to the income statement 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 income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

(i) Accounts receivable

Provision is made against accounts receivable to the extent that 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 comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(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) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed.

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 financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

Notes to the Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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 income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at the average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the income statements of foreign enterprises were translated at closing rate. This is a change in accounting policy, however, the translation of the income statements of foreign enterprises in prior years have not been restated as the effect of this change is not material to the current and prior years.

(n) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Revenue from the sales 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.
- (ii) 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.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iv) Dividend income is recognised when the right to receive payment is established.

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) **Employee benefits**

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Group's contributions to the Hong Kong Mandatory Provident Fund Scheme (the "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 MPF 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 defined contribution retirement schemes. The contributions are expensed as incurred.
- (iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

Notes to the Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(s) **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments information be presented as the primary reporting format and geographical segments information as the secondary reporting format for the purposes of these financial statements.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

3 TURNOVER, REVENUES AND SEGMENT INFORMATION

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

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Software	33,734	35,758
Services	18,137	18,024
Other operations	1,928	2,416
	53,799	56,198
Other revenues		
Interest income	589	1,974
Dividend income from listed investments	14	299
	603	2,273
Total revenues	54,402	58,471

Primary reporting format - business segments

The Group is organised into two main business segments:

- Software - sales of enterprise software
- Services - rendering of maintenance services

Other operations of the Group mainly comprise sales 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.

Notes to the Financial Statements

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

Primary reporting format - business segments

	Software 2003 <i>HK\$'000</i>	Services 2003 <i>HK\$'000</i>	Other operations 2003 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
Turnover	33,734	18,137	1,928	53,799
Segment results	(4,541)	(11)	(675)	(5,227)
Unallocated				(8,296)
Operating loss				(13,523)
Impairment charge for long-term investments				(660)
Provision for amounts due from investee companies				(778)
Share of profit/(loss) of				
a jointly controlled entity	250	—	—	250
an associated company	(856)	—	—	(856)
Loss before taxation				(15,567)
Taxation				581
Loss after taxation				(14,986)
Minority interests				522
Loss attributable to shareholders				(14,464)
Segment assets	—	—	891	891
Investment in a jointly controlled entity	776	—	—	776
Unallocated assets				61,967
Total assets				63,634
Segment liabilities	4,009	5,704	—	9,713
Unallocated liabilities				10,759
Total liabilities				20,472
Amortisation charge	2,341	—	—	2,341

Notes to the Financial Statements

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

Primary reporting format - business segments *(continued)*

	Software 2002 HK\$'000	Services 2002 HK\$'000	Other operations 2002 HK\$'000	Group 2002 HK\$'000
Turnover	35,758	18,024	2,416	56,198
Segment results	(9,862)	2,643	(895)	(8,114)
Unallocated				(6,483)
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				(66,724)
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

Notes to the Financial Statements

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

Secondary reporting format - geographical segments

	Hong Kong 2003 <i>HK\$'000</i>	PRC 2003 <i>HK\$'000</i>	Others 2003 <i>HK\$'000</i>	Group 2003 <i>HK\$'000</i>
Turnover	<u>45,123</u>	<u>5,966</u>	<u>2,710</u>	<u>53,799</u>
Segment results	<u>(2,175)</u>	<u>(690)</u>	<u>(2,362)</u>	<u>(5,227)</u>
Unallocated				<u>(8,296)</u>
Operating loss				<u>(13,523)</u>
Segment assets	54	23	814	891
Investment in a jointly controlled entity	—	—	776	776
Segment liabilities	8,052	1,661	—	9,713
	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	<u>47,092</u>	<u>7,183</u>	<u>1,923</u>	<u>56,198</u>
Segment results	<u>(1,748)</u>	<u>(3,053)</u>	<u>(3,313)</u>	<u>(8,114)</u>
Unallocated				<u>(6,483)</u>
Operating loss				<u>(14,597)</u>
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

Notes to the Financial Statements

4 OPERATING LOSS

Operating loss is stated after charging the following:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Salaries, wages and other benefits	29,917	34,056
Contributions to defined contribution schemes (<i>note 10</i>)	1,548	1,644
	<hr/>	<hr/>
Total staff costs (including directors' remuneration)	31,465	35,700
Less: amounts capitalised as intangible assets	—	(1,228)
	<hr/>	<hr/>
	31,465	34,472
	<hr/>	<hr/>
Depreciation of owned fixed assets	1,821	1,590
Cost of inventories	1,344	2,047
Operating lease rentals in respect of premises	2,449	3,462
Auditors' remuneration	334	666
Research and development costs	—	6,107
Write-off of deferred development costs (<i>note 12</i>)	—	5,163
Amortisation of deferred development costs (<i>note 12</i>)	2,341	1,972
Loss on disposal of fixed assets	173	258
Provision for doubtful debts	4,084	4,231
Bad debts written off	2,686	1,983
Net unrealised loss on other investments	402	554
	<hr/> <hr/>	<hr/> <hr/>

5 FINANCE COSTS

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest element of finance leases	—	17
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

6 TAXATION

Hong Kong profits tax is calculated at the rate of 16% (2002: 16%) on the estimated assessable profits for the year. No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profits in both the current and prior years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	—	—
PRC income tax	—	111
Overseas income tax	4	—
Over-provision in prior years	(585)	—
	<u>(581)</u>	<u>111</u>

There was no material unprovided deferred taxation for the year (2002: Nil).

7 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately HK\$1,410,000 (2002: HK\$1,307,000).

8 DIVIDENDS

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim, paid, of HK\$0.005 (2002: HK\$0.010) per ordinary share	3,000	6,000
Final, proposed, of HK\$ Nil (2002: HK\$0.010) per ordinary share	—	6,000
	<u>3,000</u>	<u>12,000</u>

The Directors do not recommend the payment of a final dividend for the year ended 31 March, 2003.

9 LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of approximately HK\$14,464,000 (2002: HK\$66,724,000) and 600,000,000 (2002: 600,000,000) ordinary shares in issue during the year.

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

10 RETIREMENT SCHEMES

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, monthly 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, 2002 and 2003, 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% (2002: 28%) of the applicable basic payroll costs.

The Singapore subsidiary of the Group has participated in the Central Provident Fund. Contributions are made at 32% (2002: 32%) of an employee's ordinary wages.

Notes to the Financial Statements

11 DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' remuneration

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

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	170	180
Other emoluments:		
Basic salaries, allowances and benefits in kind	2,528	4,182
Contributions to defined contribution scheme	61	84
	<u>2,759</u>	<u>4,446</u>

The executive directors received individual emoluments for the year ended 31 March, 2003 of approximately HK\$883,000 (2002: HK\$2,029,000), HK\$585,000 (2002: HK\$585,000), HK\$540,000 (2002: HK\$540,000) and HK\$520,000 (2002: HK\$520,000) respectively.

One non-executive director received a director's fee of HK\$50,000 (2002: HK\$60,000) for the year ended 31 March, 2003. Two independent non-executive directors who are also members of the audit committee of the Company each received a director's fee of HK\$60,000 (2002: HK\$60,000) for the year ended 31 March, 2003. All non-executive director 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, 2003 (2002: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2002: one) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2002: four) individuals during the year are as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, allowances and benefits in kind	2,907	3,054
Contributions to defined contribution scheme	90	89
	<u>2,997</u>	<u>3,143</u>

Notes to the Financial Statements

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

(b) Five highest paid individuals (continued)

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

	Number of individuals	
	2003	2002
Nil - HK\$1,000,000	3	3
HK\$1,000,001 - HK\$1,500,000	1	1
	<u>4</u>	<u>4</u>

No emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12 INTANGIBLE ASSETS

	Goodwill	Deferred development costs	Total
	HK\$'000	HK\$'000	HK\$'000
As at 1 April, 2002	1,566	2,341	3,907
Impairment	(1,566)	—	(1,566)
Amortisation charge	—	(2,341)	(2,341)
	<u>—</u>	<u>—</u>	<u>—</u>
As at 31 March, 2003	<u>—</u>	<u>—</u>	<u>—</u>
As at 31 March, 2003			
Cost	1,566	7,145	8,711
Impairment	(1,566)	—	(1,566)
Accumulated amortisation	—	(7,145)	(7,145)
	<u>—</u>	<u>—</u>	<u>—</u>
Net book amount	<u>—</u>	<u>—</u>	<u>—</u>
As 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)
	<u>—</u>	<u>—</u>	<u>—</u>
Net book amount	<u>—</u>	<u>2,341</u>	<u>2,341</u>

Notes to the Financial Statements

13 FIXED ASSETS

	Group				Total <i>HK\$'000</i>
	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	
Cost:					
As at 1 April, 2002	2,473	3,569	3,517	593	10,152
Additions	73	1,475	185	—	1,733
Disposals	—	(36)	(132)	(426)	(594)
As at 31 March, 2003	<u>2,546</u>	<u>5,008</u>	<u>3,570</u>	<u>167</u>	<u>11,291</u>
Accumulated depreciation:					
As at 1 April, 2002	508	1,545	1,956	344	4,353
Charge for the year	686	685	406	44	1,821
On disposals written back	—	(35)	(52)	(255)	(342)
As at 31 March, 2003	<u>1,194</u>	<u>2,195</u>	<u>2,310</u>	<u>133</u>	<u>5,832</u>
Net book value:					
As at 31 March, 2003	<u>1,352</u>	<u>2,813</u>	<u>1,260</u>	<u>34</u>	<u>5,459</u>
As at 31 March, 2002	<u>1,965</u>	<u>2,024</u>	<u>1,561</u>	<u>249</u>	<u>5,799</u>

Notes to the Financial Statement

14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Unlisted shares, at cost	47,550	47,550
Amounts due from subsidiaries	86,755	95,852
	134,305	143,402

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 of the Company as at 31 March, 2003:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ 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., Ltd.	PRC (<i>Note (i)</i>)	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 MOP\$30,000	100%
Norray Professional Computer Limited	Hong Kong	Sales of computer equipment, computer programming and provision of computer maintenance and tuition services in Hong Kong	200,000 ordinary shares of HK\$1 each	70%
Starwise International Computers Limited	Hong Kong	Investment holding in Hong Kong	1,050,000 ordinary shares of HK\$1 each	100%

Notes to the Financial Statement

14 INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ 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	Sales of computer equipment, computer programming and provision of computer maintenance and consultation services in Hong Kong	10,000 ordinary shares of HK\$1 each	100%
FlexSystem Limited, Taiwan Branch	Taiwan	Sales of computer equipment, computer programming and provision of computer maintenance and consultation services in Taiwan	Registered capital of NT\$2,500,000	100%
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 AUS\$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)

<u>Name</u>	<u>Place of incorporation</u>	<u>Principal activities and place of operation</u>	<u>Particulars of issued share capital/ registered capital</u>	<u>Effective interest held</u>
<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 Limited	Australia	Distribution of FlexAccount products in Australia	100 ordinary shares of AUS\$1 each	70%
Flexsunland Century Software Limited	PRC (Note (i))	Development of educational software and distribution of FlexAccount products in the PRC	Registered capital of RMB2,500,000	51%
Beijing Flexdigisuper Software Co., Ltd.	PRC (Note (i))	Development of educational software and distribution of FlexAccount products in the PRC	Registered capital of US\$200,000	60%
Soma Systems Technology Sdn. Bhd.	Malaysia	Distribution of FlexAccount products in Malaysia	2 ordinary share of RM1 each	100%
FlexDevelopments (Macau Commercial Offshore) Limited	Macau	Research and development of software in Macau	Registered capital of MOP\$100,000	100%

Note (i): Wholly foreign-owned enterprise established in the PRC

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statement

15 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	733	483
Amount due from a jointly controlled entity	43	37
	776	520
	776	520

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

The following are the details of the jointly controlled entity of the Company as at 31 March, 2003:

Name	Place of incorporation	Principal activities and place of operation	Particulars of registered capital	Indirect interest held
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	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets	(1,441)	(585)
Amount due from an associated company	2,836	1,158
	1,395	573
Provision for amount due from the associated company	(1,395)	(573)
	—	—
	—	—

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

The following are the details of the associated company of the Company as at 31 March, 2003:

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

Notes to the Financial Statement

17 LONG-TERM INVESTMENTS

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities, at cost		
Listed in Hong Kong	3,865	3,865
Unlisted	12,663	12,163
	16,528	16,028
Impairment	(12,163)	(11,503)
Amounts due from investee companies	13,596	12,818
	17,961	17,343
Provision for amounts due from investee companies	(13,596)	(12,818)
	4,365	4,525
Market value of listed investments	5,980	19,600

The investment in Hong Kong listed equity securities represented approximately 29.5% interest in the issued share capital of MRC Holdings Limited (“MRC”), a company incorporated in the Cayman Islands and the shares of which are listed on the GEM of the Stock Exchange. Subsequent to 31 March, 2003, the Group disposed of its entire interest in MRC to an independent third party at a consideration of approximately HK\$3,924,000.

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

18 OTHER INVESTMENTS

	Group and Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong, at market value	1,001	1,403

19 INVENTORIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Merchandise, at cost	891	702

Notes to the Financial Statement

20 TRADE AND OTHER RECEIVABLES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Due from:		
A related company (<i>note (a)</i>)	—	559
Directors (<i>note (b)</i>)	19	254
Trade receivables (<i>note (d)</i>)	10,246	13,692
Prepayments and deposits	1,416	1,702
Advances to staff (<i>note (c)</i>)	1,495	2,991
Other receivables	2,622	1,658
	<u>15,798</u>	<u>20,856</u>

Notes:

(a) The amount due from a related company is unsecured, interest-free and has no fixed repayment terms. 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 as at 31 March, 2003 <i>HK\$'000</i>	Amount outstanding as at 31 March, 2002 <i>HK\$'000</i>
Mr. Lok Wai Man	Unsecured, interest-free and has no fixed repayment terms	233	—	233
Mr. Chow Chi Ming, Daniel	Unsecured, interest-free and has no fixed repayment terms	19	19	19

The remaining balance due from directors as at 31 March, 2003 is unsecured, interest-free and has no fixed repayment terms.

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

Name	Terms	Maximum amount outstanding during the year <i>HK\$'000</i>	Amount outstanding as at 31 March, 2003 <i>HK\$'000</i>	Amount outstanding as at 31 March, 2002 <i>HK\$'000</i>
Mr. Goh Kim Chuan	Unsecured, interest-free and has no fixed repayment terms	681	191	681

The remaining balances of advances to staff are unsecured, interest-free and have no fixed terms of repayments.

Notes to the Financial Statement

20 TRADE AND OTHER RECEIVABLES (continued)

- (d) The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically. The following is an ageing analysis of trade receivables net of provision for bad and doubtful debts:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 - 30 days	2,584	4,084
31 - 60 days	1,516	1,228
61 - 90 days	1,665	896
91 - 180 days	111	1,350
181 - 365 days	1,798	2,922
Over 365 days	2,572	3,212
	<u>10,246</u>	<u>13,692</u>

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Due to:				
A related company (note (a))	290	—	—	—
Investee companies (note (b))	254	366	—	—
Trade payables (note (c))	319	231	—	—
Other payables	2,235	1,611	—	—
Accruals	1,794	1,849	348	850
Deferred income	5,883	5,222	—	—
Sales deposits received	3,831	3,672	—	—
	<u>14,606</u>	<u>12,951</u>	<u>348</u>	<u>850</u>

Notes:

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

	Group	
	2003 HK\$'000	2002 HK\$'000
0 - 30 days	227	180
31 - 60 days	19	—
61 - 90 days	3	6
91 - 180 days	25	17
181 - 365 days	3	27
Over 365 days	42	1
	<u>319</u>	<u>231</u>

Notes to the Financial Statement

22 SHARE CAPITAL

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Authorised:		
2,000,000,000 (2002: 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 (2002: 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> <i>(Note)</i>	Revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April, 2001	82,588	(47,430)	44	(25)	27,205	62,382
Impairment charge for goodwill previously written off to reserves	25,367	—	—	—	—	25,367
Disposal of fixed assets	—	—	(44)	—	—	(44)
Exchange differences	—	—	—	(30)	—	(30)
2001 final dividend paid	(9,000)	—	—	—	—	(9,000)
2002 interim dividend paid (<i>note 8</i>)	(6,000)	—	—	—	—	(6,000)
Loss attributable to shareholders for the year	—	—	—	—	(66,724)	(66,724)
As 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 :						
As at 31 March, 2002 after proposed final dividend	86,955					
2002 final dividend proposed	<u>6,000</u>					
As 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)
As 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 Financial Statement

23 RESERVES (continued)

	Group					Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000 <i>(Note)</i>	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	
As at 1 April, 2002	92,955	(47,430)	—	(55)	(39,519)	5,951
2002 final dividend paid <i>(note 8)</i>	(6,000)	—	—	—	—	(6,000)
2003 interim dividend paid <i>(note 8)</i>	(3,000)	—	—	—	—	(3,000)
Loss attributable to shareholders for the year	—	—	—	—	(14,464)	(14,464)
As at 31 March, 2003	<u>83,955</u>	<u>(47,430)</u>	<u>—</u>	<u>(55)</u>	<u>(53,983)</u>	<u>(17,513)</u>
Representing :						
Company and subsidiaries	83,955	(47,430)	—	(55)	(52,026)	(15,556)
Jointly controlled entity	—	—	—	—	(516)	(516)
Associated company	—	—	—	—	(1,441)	(1,441)
As at 31 March, 2003	<u>83,955</u>	<u>(47,430)</u>	<u>—</u>	<u>(55)</u>	<u>(53,983)</u>	<u>(17,513)</u>

Note: 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 therefor.

Notes to the Financial Statement

23 RESERVES (continued)

	Company		
	Share premium <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April, 2001	109,872	890	110,762
2001 final dividend paid	(9,000)	—	(9,000)
2002 interim dividend paid (<i>note 8</i>)	(6,000)	—	(6,000)
Loss attributable to shareholders for the year	—	(1,307)	(1,307)
	<u>94,872</u>	<u>(417)</u>	<u>94,455</u>
As at 31 March, 2002			
Representing :			
As at 31 March, 2002 after proposed final dividend	88,872		
2002 final dividend proposed	6,000		
	<u>94,872</u>		
As at 31 March, 2002			
As at 1 April, 2002	94,872	(417)	94,455
2002 final dividend paid (<i>note 8</i>)	(6,000)	—	(6,000)
2003 interim dividend paid (<i>note 8</i>)	(3,000)	—	(3,000)
Loss attributable to shareholders for the year	—	(1,410)	(1,410)
	<u>85,872</u>	<u>(1,827)</u>	<u>84,045</u>
As at 31 March, 2003			

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash (used in)/from operating activities

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Operating loss	(13,523)	(14,597)
Depreciation	1,821	1,590
Amortisation of deferred development costs	2,341	1,972
Net unrealised loss on equity securities carried at market value	402	554
Write-off of deferred development costs	—	5,163
Interest income	(589)	(1,974)
Dividend income	(14)	(299)
Provision for amount due from an associated company	822	573
Loss on disposal of fixed assets	173	258
	<hr/>	<hr/>
Operating loss before changes in working capital	(8,567)	(6,760)
Increase in inventories	(189)	(7)
Decrease in trade and other receivables	5,058	14,194
Increase/(decrease) in trade and other payables	1,655	(2,011)
Increase in amount due from a jointly controlled entity	(6)	—
	<hr/>	<hr/>
Cash (used in)/from operating activities	(2,049)	5,416
Interest paid	—	(17)
Hong Kong profits tax paid	(472)	(10)
Overseas taxation refunded/(paid)	58	(157)
	<hr/>	<hr/>
Net cash (used in)/from operating activities	(2,463)	5,232
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statement

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Share capital		Minority interests		Obligations	
	including share premium				under finance leases	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 April	152,955	142,588	1,197	447	—	118
Dividends paid	(9,000)	(15,000)	—	—	—	—
Impairment charge for goodwill previously written off to reserves	—	25,367	—	—	—	—
Minority interest in share of losses and exchange reserves	—	—	(522)	(478)	—	—
Minority share of net assets of subsidiaries	—	—	—	1,228	—	—
Payment of capital element of finance leases	—	—	—	—	—	(118)
As at 31 March	<u>143,955</u>	<u>152,955</u>	<u>675</u>	<u>1,197</u>	<u>—</u>	<u>—</u>

(c) Major non-cash transactions

During the year ended 31 March, 2002, the Group capitalised a loan to an investee company of HK\$2 million as additional investment cost.

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Purchase of subsidiaries

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net assets acquired		
Fixed assets	—	72
Trade and other receivables	—	108
Bank balances and cash	—	247
Trade and other payables	—	(1,993)
	<u>—</u>	<u>—</u>
	—	(1,566)
Goodwill arising on acquisition	—	1,566
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>
Satisfied by:		
Investment cost	—	—
Consideration payable	—	—
Cash	—	—
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>

For the year ended 31 March, 2003, the Group did not acquire any subsidiaries. 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 were 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.

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Cash consideration	—	—
Bank balances and cash in hand acquired	—	247
	<u>—</u>	<u>247</u>
Net cash inflow in respect of the purchase of subsidiaries	<u>—</u>	<u>247</u>

Notes to the Financial Statement

25 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments under operating leases

As at 31 March, 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	2,349	2,398
Later than one year and not later than five years	740	1,352
	<u>3,089</u>	<u>3,750</u>

(b) As at 31 March, 2003, the Company had no significant capital commitment and commitment under operating lease.

(c) As at 31 March, 2003, the Group and the Company had no significant contingent liabilities.

Notes to the Financial Statement

26 RELATED PARTY TRANSACTIONS

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

	<i>Note</i>	Group	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Software royalty expenses paid to MRC	(i) & (iv)	211	499
Commission paid to Globe ASP Limited	(i) & (iv)	8	54
Software royalty expenses paid to i-Global Solutions Limited	(i) & (iv)	278	—
Sale of hardware to Salesmate Marketing Services Limited	(i) & (iv)	18	—
Research and development fee paid to Flex-Top Limited	(i) & (iv)	—	180
Software royalty received from DeloitteFlex e-Business Inc.	(ii) & (iv)	166	—
Purchase of fixed assets from Goldplace Investments Limited	(iii) & (iv)	900	—
		<u>211</u>	<u>499</u>

Notes:

- (i) MRC, Global ASP Limited, i-Global Solutions Limited, Salesmate Marketing Services Limited and Flex-Top Limited are investee companies of the Group.
- (ii) DeloitteFlex e-Business Inc. is a jointly controlled entity of the Group.
- (iii) Goldplace Investments Limited is a related company of the Group and is beneficially owned by a director of the Company.
- (iv) In the opinion of the directors, the above related party transactions are conducted in the normal course of the Group's business at prices and terms comparable to those charged to and contracted with independent third party customers and suppliers of the Group.

27 POST BALANCE SHEET EVENTS

Save as disclosed in note 17 to the financial statements, there were no significant post balance sheet events.

28 ULTIMATE HOLDING COMPANY

The directors regard SomaFlex Holdings Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company as at 31 March, 2003.

29 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 June, 2003.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the shareholders 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 Thursday, 24 July, 2003 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 of the Company (“Director”) and the auditors for the financial year ended 31 March, 2003;
- 2 To re-elect Directors and authorise the board of Directors to fix their remuneration;
- 3 To re-appoint auditors and authorise the Directors to fix their remuneration;
- 4 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 of 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

Notice of Annual General Meeting

(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 recognised regulatory body or any stock exchange applicable to the Company).

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

Notice of Annual General Meeting

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

6 **THAT** the Directors be and are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution No. 4 set out in the notice convening this meeting in respect of the share capital of the Company referred to in subparagraph (ii) of paragraph (c) of such Resolution.

By Order of the Board
LEUNG Wai Cheung
Company Secretary

Hong Kong, 19 June, 2003

Registered office:

Century Yard
Cricket Square
Hutchison Drive
P.O. Box 2681GT
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 Sui,
Kowloon
Hong Kong

Notes:

- (a) A member entitled to attend and vote at the Annual General 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.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's principal office at 12/F., North Block, Skyway House, No. 3 Sham Mong Road, Tai Kok Tsui, Kowloon, Hong Kong not less than 48 hours before the time for holding the Annual General Meeting.