



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT
2004/2005

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This report, for which the directors of FlexSystem Holdings Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to FlexSystem Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH JUNE, 2004

The board (“Board”) of directors (“Directors”) of FlexSystem Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months ended 30th June, 2004 with the unaudited consolidated comparative figures for the corresponding period in 2003 as follows:

		Three months ended	
		30th June,	
		2004	2003
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	2	<u>13,667</u>	<u>11,674</u>
Gross profit		<u>9,818</u>	<u>8,496</u>
Share of loss of a jointly controlled entity		(55)	(82)
Loss before taxation		(1,126)	(1,556)
Taxation	3	<u>(45)</u>	<u>(38)</u>
Loss after taxation		(1,171)	(1,594)
Minority interests		<u>–</u>	<u>(5)</u>
Loss attributable to shareholders		<u><u>(1,171)</u></u>	<u><u>(1,599)</u></u>
Loss per share – Basic	4	<u><u>(0.20) cent</u></u>	<u><u>(0.27) cent</u></u>

Notes:

1. Basis of presentation

The Company was incorporated in the Cayman Islands on 8th May, 2000 as an exempted company with limited liability under the Companies Law (2000 Revised) of the Cayman Islands. The shares of the Company (the "Shares") are listed on GEM of the Exchange.

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice 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 Exchange. The financial statements have been prepared under the historical cost convention except that certain property and investments in securities are stated at fair value.

2. Turnover

The Group is principally engaged in the development, sale and lease of enterprise software products in Hong Kong, mainland China (the "PRC") and other Asian countries. The unaudited consolidated revenue for the three months ended 30th June, 2004 with the unaudited consolidated figures for the corresponding period in 2003 are as follows:

	Three months ended	
	30th June,	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Sale and lease of application software	7,641	7,151
Maintenance services	4,919	4,142
Sale of hardware	1,107	381
	<u>13,667</u>	<u>11,674</u>

3. Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the period. PRC income tax has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing to the enterprises in the PRC.

4. Loss per share

The calculation of the Group's basic loss per share for the three months ended 30th June, 2004 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$1,171,000 (2003: HK\$1,599,000) and the weighted average number of 600,000,000 (2003: 600,000,000) ordinary shares in issue during the period.

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

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June, 2004 (2003: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial Performance

For the three months ended 30th June, 2004, turnover increased by approximately 17% to approximately HK\$13,667,000 as compared with the corresponding period of last year. The Group also recorded a net loss of HK\$1,171,000 for this period. Our group still maintains a non-gearing capital structure.

Business Review and Outlook

Notwithstanding the gradual recovery of the global economy and the more promising economic growth in Hong Kong, the competition among providers of ERP application software remains tough. However, the Group is still deploying resources in research and development in ERP application software to enrich the Group's application suite. The deployment of resources in research and development is the right direction for the maintenance of the competitive advantage in the market.

The Group also put more effort on sales & marketing of the ERP application software by increasing additional sales staff.

We will continue to dedicate efforts on research and development with an aim to enhance existing products as well as to expand our product suite.

COMPETING INTERESTS

During the period under review, none of the directors or the management shareholders or substantial shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SECURITIES

As at 30th June, 2004, the interests and short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Rules 5.46 of the GEM Listing Rules, were as follows:

	Number of shares		
	Personal interests	Corporate interests	Total
Mr. Lok Wai Man (<i>note 1</i>)	3,798,000	475,500,000 (<i>note 2</i>)	479,298,000
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>)	–	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 and Mr. Chow Ching Ming, Daniel are executive directors of the Company and Mr. Leung Wai Cheung is the executive of the Company and are also considered to be initial management shareholders of the Company.
2. The 475,500,000 shares were held by SomaFlex Holdings Inc., a private company beneficially owned by Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel and Mr. Leung Wai Cheung. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holdings Inc., he is deemed, by virtue of the SFO, to be interested in the same 475,500,000 shares held by SomaFlex Holdings Inc.. The indirect interest of the other remaining Directors are the corresponding number of shares held by SomaFlex Holdings Inc. by reference to their respective shareholding in SomaFlex Holdings Inc..

Save as disclosed above, as at 30th June, 2004, none of the directors or their associates as well as the chief executive of the Group had any interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 of the GEM Listing Rules.

OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

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

No share options were granted by the Company during the period ended 30th June, 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its Shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2004, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

	Number of shares			Percentage of issued share capital
	Personal interests	Corporate interests	Total	
SomaFlex Holdings Inc. (<i>Note 1</i>)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (<i>Note 2</i>)	3,798,000	475,500,000	479,298,000	79.88%

Notes:

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

Save as disclosed above, as at 30th June, 2004, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

CORPORATE GOVERNANCE

During the three months ended 30th June, 2004, the Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures.

AUDIT COMMITTEE

The audit committee has been established since May 2000. 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 principal duties of the audit committee include the review and supervision of the Company's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors, namely Mr. Tse Lin Chung and Mr. Lee Kar Wai. The unaudited consolidated results of the Group for the three months ended 30th June, 2004 have been reviewed by the committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

By order of the Board

Lok Wai Man

Chairman

Hong Kong, 11th August, 2004

As at the date of this report, the board of directors of the Company comprises Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel as executive directors and Mr. Tse Lin Chung and Mr. Lee Kar Wai as independent non-executive directors.