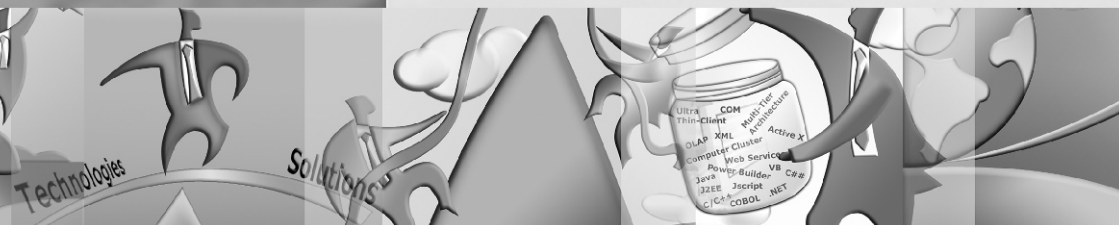


FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report
2005/2006



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 Stock 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 announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

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.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2005

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 six months ended 30th September, 2005 with the unaudited consolidated comparative figures for the corresponding period in 2004 as follows:

		Three months ended 30th September,		Six months ended 30th September,	
		2005	2004	2005	2004
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<u>17,882</u>	17,668	<u>37,453</u>	31,335
Gross profit		<u>13,127</u>	13,032	<u>28,169</u>	22,850
Operating profit		1,824	1,628	4,798	447
Provision for amount due from investee companies		(215)	–	(665)	–
Share of (loss) of a jointly controlled entity		–	(100)	–	(45)
Share of (loss) of an associated company		(271)	–	(271)	–
Profit before taxation		1,338	1,528	3,862	402
Taxation	3	<u>(160)</u>	(164)	<u>(401)</u>	(209)
Net profit for the period		<u>1,178</u>	<u>1,364</u>	<u>3,461</u>	<u>193</u>
Attributable to:					
Equity holders of the Company		1,146	1,285	3,429	114
Minority interests		32	79	32	79
		<u>1,178</u>	<u>1,364</u>	<u>3,461</u>	<u>193</u>
Earnings per share – Basic	4	<u>0.19 cent</u>	0.21 cent	<u>0.57 cent</u>	0.02 cent
Dividend per share		<u>Nil</u>	Nil	<u>Nil</u>	Nil

CONSOLIDATED BALANCE SHEET

		As at 30th September, 2005	As at 31st March, 2004
	<i>Note</i>	HK\$'000 (unaudited)	HK\$'000 (audited)
Fixed assets		3,730	4,023
Investment in a jointly controlled entity		–	–
Investment in an associated company		–	–
Long-term investments		15	15
Other investments		1,560	1,560
		5,305	5,598
Current assets			
Inventories		1,396	1,312
Trade and other receivables	5	16,560	14,156
Bank balances and cash		39,412	39,373
		57,368	54,841
Current liabilities			
Trade and other payables	6	19,836	21,367
Taxation payable		5,367	5,063
		25,203	26,430
Net current assets		32,165	28,411
Total assets less current liabilities		37,470	34,009
Financed by:			
Share capital		60,000	60,000
Reserves	7	(23,404)	(26,833)
		36,596	33,167
Minority interests		874	842
Total equity		37,470	34,009

CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September, 2005 <i>HK\$'000</i> (unaudited)	For the six months ended 30th September, 2004 <i>HK\$'000</i> (unaudited)
NET CASH FROM OPERATING ACTIVITIES	<u>1,014</u>	<u>1,436</u>
INVESTING ACTIVITIES		
Interest received	391	40
Dividend received	24	23
Purchase of fixed assets	(179)	(492)
Advance to an associated company	(546)	(912)
Advance to investee companies	<u>(665)</u>	<u>-</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(975)</u>	<u>(1,341)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	39	95
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	<u>39,373</u>	<u>37,320</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>39,412</u></u>	<u><u>37,415</u></u>

Notes:

1. Basis of presentation

The principal accounting policies adopted in preparing the Group's unaudited consolidated results conform to accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("the new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position.

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 six months ended 30th September, 2005 with the unaudited consolidated figures for the corresponding period in 2004 are as follows:-

	Three months ended		Six months ended	
	30th September,		30th September,	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segment:-				
Sale and lease of				
application software	10,865	10,324	24,339	17,965
Maintenance services	5,790	5,186	10,788	10,105
Sale of hardware	1,227	2,158	2,326	3,265
	<u>17,882</u>	<u>17,668</u>	<u>37,453</u>	<u>31,335</u>
Geographical segment:-				
Hong Kong	15,070	12,783	30,802	23,571
The PRC	1,679	2,861	4,406	5,088
Others	1,133	2,024	2,245	2,676
	<u>17,882</u>	<u>17,668</u>	<u>37,453</u>	<u>31,335</u>

3. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) 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. Earnings per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30th September, 2005 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$1,146,000 and HK\$3,429,000 respectively, and 600,000,000 Shares in issue during the period.

The calculation of the Group's basic loss per share for the three months and six months ended 30th September 2004 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$1,285,000 and HK\$114,000 respectively, and 600,000,000 Shares in issue.

5. Trade and other receivables

	As at 30th September, 2005 HK\$'000	As at 31st March, 2005 HK\$'000
Debtors, deposits and prepayments comprise:		
Trade debtors	11,315	9,086
Other debtors, deposits and prepayments	3,916	3,802
Advances to staff	1,329	1,268
	<u>16,560</u>	<u>14,156</u>

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 debtors, credit evaluations of customers are performed periodically. The following is an aging analysis of trade debtors net of provision or bad and doubtful debts.

	30th September, 2005 HK\$'000	31st March, 2005 HK\$'000
0 – 30 days	3,517	2,619
31 – 60 days	1,257	1,018
61 – 90 days	776	479
91 – 180 days	1,500	1,189
181 – 365 days	3,312	3,343
Over 365 days	953	438
	<u>11,315</u>	<u>9,086</u>

6. Creditors, accruals and deposits

	As at 30th September, 2005 HK\$'000	As at 31st March, 2005 HK\$'000
Creditors, accruals and deposits comprise:–		
Due to investee companies	45	158
Trade creditors	787	1,146
Other payables and accruals	5,857	5,413
Deferred income	6,176	5,985
Sales deposits received	6,971	8,665
	<u>19,836</u>	<u>21,367</u>

The following is an aging analysis of trade creditors:–

	30th September, 2005	31st March, 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	507	456
31 – 60 days	124	677
61 – 90 days	–	1
91 – 180 days	10	1
181 – 365 days	2	–
Over 365 days	144	11
	<u>787</u>	<u>1,146</u>

7. RESERVES

	Group				
	Share premium	Merger reserve	Exchange reserve	Retained earnings	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1st April, 2004	83,955	(47,430)	(55)	(61,005)	(24,535)
Loss attributable to shareholders for the year	–	–	–	(2,298)	(2,298)
	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(63,303)</u>	<u>(26,833)</u>
As at 31st March, 2005 (Audited)	83,955	(47,430)	(55)	(63,303)	(26,833)
As at 1st April, 2005	83,955	(47,430)	(55)	(63,303)	(26,833)
Profit attributable to shareholders for the period	–	–	–	3,429	3,429
	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(59,874)</u>	<u>(23,404)</u>
As at 30th September, 2005	83,955	(47,430)	(55)	(59,874)	(23,404)

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2005 (six months ended 30th September, 2004: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial review

During the period ended 30th September, 2005, turnover increased by approximately 20% to approximately HK\$37 million as compared with the corresponding period last period. Moreover, the Group also recorded profit attributable to shareholders amounted to approximately HK\$3,429,000 due to the recovery of the IT sector.

Business review and Outlook

During the period under review, demands for business application have gradually increased and the Group expects the improving trend will be continued. In order to keep our competitive advantages, the Group has continually investing resources in research and development of new applications and technologies to create value for products and services.

V10 ERP application software, which ranges from financial management, trading management, manufacturing control, human resources management, workflow management to business analysis tool, has been launched to the market. The Group has put more sales and marketing activities through advertising, sponsoring and exhibition to increase sales and enhance brand name recognition.

Looking ahead, we are confident that the operating results of the Group will continue in the upward trend in the ensuring quarters.

Financial resources and liquidity

As at 30th September, 2005, the shareholders' funds of the Group amounted to approximately HK\$37 million. Current assets amounted to approximately HK\$57 million, of which approximately HK\$39 million were cash and bank deposits and approximately HK\$18 million were debtors, deposits, prepayments and inventory. Its current liabilities amounted to approximately HK\$25 million, mainly comprise of creditors, accruals and deposits received and taxation payable amounted to approximately HK\$20 million and HK\$5 million respectively. The net asset value per share was approximately HK\$0.06. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30th September, 2005, 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 2.3:1 (As at 31st March, 2005: 2.1:1), reflecting the adequacy of financial resources.

Exposure to exchange rate fluctuations

During the period ended 30th September, 2005, the Group experienced only immaterial exchange rate fluctuations as most of the Group's monetary assets and liabilities were denominated in Hong Kong Dollars and the Group conducted its business transactions principally in this type of currency. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Significant investments and acquisitions

During the six months ended 30th September, 2005, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 30th September, 2005, the Group had no material investment.

Capital commitments

As at 30th September, 2005, the Group had no future plans for material investment.

Contingent liabilities

As at 30th September, 2005, the Group had no material contingent liabilities.

Charges on the Group's assets

As at 30th September, 2005, the Group had no charges on the Group's assets.

Capital structure

The Group remains a debt free capital structure and will utilise internal funding for its business operations and development. The Group will also consider external funding when the cost of internal funding exceeds the cost of external funding.

Segmental information

Business segment

During the period under review, the turnover of maintenance services has increased by approximately 7% as the number of customers have increased as compared with the previous period. Moreover, the turnover of software sale has also increased by approximately 35% as the market sentiment of the software industry has recovered.

Geographical segments

The major contribution of turnover is still from Hong Kong. Turnover from the Hong Kong segment represented approximately 82% of the total turnover (2004: 75%). The high percentage of the Hong Kong segment is mainly due to the fact that the Group deploys more resources on the local market.

In the PRC, the turnover has decreased by approximately 13% as compared with the previous period. The decreased was attributed to the software market in the PRC has not yet recovered.

Employees and remuneration policies

As at 30th September, 2005, the Group had 265 employees (2004: 234) and the total remuneration for the period was approximately HK\$15 million (2004: HK\$14 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.

DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SECURITIES

As at 30th September, 2005, the interests and short position 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>)	Nil	1,000,000 <i>(Note 2)</i>	1,000,000

Notes:

- 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 Chi 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.
- 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 September, 2005, 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 September, 2005.

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.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries 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 period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2005, 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 interests 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	Personal interests	Corporate interests	Total	Percentage of issued share Capital
SomaFlex Holdings Inc. (Note 1)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (Note 2)	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 September, 2005, 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

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less than exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the three months ended 30th September, 2005. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and the required standard of dealings throughout the three months ended 30th September, 2005.

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 Institute of Certified Public 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 three independent non-executive directors, namely Mr. Tse Lin Chung, Mr. Lee Kar Wai and Mr. Mak Wing Kwong, David. The unaudited consolidated results of the Group for the six months ended 30th September, 2005 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.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practice contained in Appendix 15 of the GEM Listing Rules through the period under review, except that:

A.2.1 The chairman and chief executive officer of the Company is the same individual.

Deviation and its reasons

Mr. Lok Wan Man has been both chairman and chief executive officer of the company since its incorporation, the management considered that there is no imminent need to change the arrangement.

A.4.2 Not all Directors are subject to retirement by rotation at least once every three years.

Deviation and its reasons

According to the Articles of Association of the Company, at each annual general meeting one-third of the director for the time being shall retire from office by rotation, the management considered that is no imminent need to amend the Article of Association of the Company.

By order of the Board

Lok Wai Man

Chairman

Hong Kong, 10th November, 2005

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, Mr. Lee Kar Wai and Mr. Mak Wing Kwong, David as independent non-executive directors.