THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in FlexSystem Holdings Limited (the "**Company**"), you should at once hand this circular to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8050)

MAJOR TRANSACTION:
ACQUISITION OF REAL PROPERTY

A letter from the board of directors of the Company is set out on pages 3 to 6 of this circular.

This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its publication.

27 July 2006

CHARACTERISTICS OF GEM

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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

"Acquisition"	the acquisition of the Property subject to and upon the terms and conditions of the Sale and Purchase Agreement
"associates"	has the meaning ascribed to this term under the GEM Listing Rules
"Board"	the board of Directors
"Company"	FlexSystem Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on GEM
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
"Directors"	the directors of the Company from time to time
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company together with its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Latest Practicable Date"	26 July 2006, being the latest practicable date for the purpose of ascertaining certain information for inclusion in this circular
"Property"	Unit A on 4th Floor and Parking Space No. 45 on Ground Floor of Eastern Sea Industrial Building, No. 29-39 Kwai Cheong Road and No. 48-56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong
"Purchaser"	FlexSystem Limited, a wholly-owned subsidiary of the Company
"Sale and Purchase Agreement"	the formal agreement for sale and purchase of the Property dated 5 July 2006 and entered into between the Purchaser and the Vendor
"SFO"	Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)

"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"SomaFlex"	SomaFlex Holdings Inc., a controlling Shareholder interested in 475,500,000 Shares representing approximately 79.25% of the total issued share capital of the Company as at the Latest Practicable Date, which is a private company incorporated in the British Virgin Islands and is beneficially owned as to approximately 98.27% by Mr. Lok Wai Man, the chairman and an executive Director
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Tai Wah Television Industries Limited, the beneficial owner of the Property
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8050)

Executive Directors:
Mr. Lok Wai Man *(Chairman)*
Mr. So Yiu King
Mr. Chow Chi Ming, Daniel

Independent non-executive Directors:
Mr. Lee Kar Wai
Mr. Tse Lin Chung
Mr. Mak Wing Kwong, David

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business in Hong Kong:
12th Floor, North Block
Skyway House
No. 3 Sham Mong Road
Tai Kok Tsui
Kowloon
Hong Kong

27 July 2006

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION: ACQUISITION OF REAL PROPERTY

INTRODUCTION

On 5 July 2006, the Board announced that the Group entered into the Sale and Purchase Agreement with the Vendor in relation to the acquisition of the Property for a cash consideration of HK$19,500,000.

The purpose of this circular is to provide you with further details in respect of the Acquisition, the independent valuation of the Property, and other information with regard to the Group and the Property.

SALE AND PURCHASE AGREEMENT

Date: 5 July 2006

Parties: Purchaser: FlexSystem Limited, a wholly-owned subsidiary of the Company

Vendor: Tai Wah Television Industries Limited

To the best of the Directors' knowledge, information and belief having made reasonable enquiry, the Vendor and its ultimate beneficial owners are independent third parties independent of the Company and its connected persons within the meaning of the GEM Listing Rules. To the best of the Directors' knowledge, information and belief, the Vendor is an investment holding company.

Asset to be acquired:

Pursuant to the Sale and Purchase Agreement, the Vendor agreed to sell and the Purchaser agreed to acquire the Property upon the terms and conditions of the Sale and Purchase Agreement. To the best of the Directors' knowledge, information and belief, the Property has a gross area of about 30,667 square feet and is at present vacant.

Consideration:

The consideration for the Property is HK$19,500,000, of which:

(i) HK$1,950,000 has been paid by the Group upon signing the Sale and Purchase Agreement as deposit and part payment; and

(ii) the remaining balance of HK$17,550,000 shall be payable by the Group upon Completion.

The consideration for the Property, representing about HK$635 per square foot, was arrived at after arm's length negotiations between the parties to the Sale and Purchase Agreement after having taken into account the market prices of comparable industrial properties in the proximity which is in the range of about HK$500 per square foot to HK$1,200 per square foot. The consideration has been/will be financed by the internal resources of the Group.

The Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Condition precedent

The Acquisition is conditional upon the approval by the Shareholders having been obtained on or before the date of Completion. This condition has been fulfilled as at the Latest Practicable Date.

Completion

Subject to the fulfillment of the condition precedent mentioned above, Completion will take place on or before 30 September 2006.

It is provided in the Sale and Purchase Agreement that the Vendor shall release and/or discharge all mortgages, charges and charging orders affecting the Property on or before the date of Completion.

REASON FOR THE ACQUISITION

The Group is principally engaged in development and sale of software products and provision of application software services.

As present, the Company is leasing its principal office in Hong Kong. The Directors intend to use the Property as the principal office of the Group in Hong Kong. According to the information available to the Directors, the permitted use of the industrial building is now extended to cover information technology business, and thus the Group is able to use the Property to develop its software development and application business. The Acquisition will enable the Group to have its own place of business in Hong Kong thereby avoiding any increase in rental expenses from leasing of property in the long run.

FINANCIAL EFFECT ON THE ACQUISITION

The costs of the Property will be capitalised as fixed assets of the Group. As the consideration for the Acquisition has been/will be financed by the internal resources of the Group, the Acquisition will not materially affect the total assets of the Group, nor will it increase the gearing position of the Group.

GENERAL

The Acquisition constitutes a major transaction on the part of the Company under the GEM Listing Rules and is conditional upon the approval of Shareholders.

As no Shareholder is required to abstain from voting on the Sale and Purchase Agreement and the transactions contemplated thereby and the written approval has been obtained from SomaFlex., the controlling Shareholder which holds more than 50% in nominal value of the total issued share capital of the Company, in respect of the Sale and Purchase Agreement and the transactions contemplated thereby, no general meeting of the Company will be held in relation to the Acquisition.

PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

The procedures by which the Shareholders may demand a poll at general meeting of the Company are set out below.

According to article 66 of the articles of association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by:–

(a) the chairman of the meeting; or

(b) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to attend and vote at the meeting; or

(d) a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices of this circular.

By order of the Board
FlexSystem Holdings Limited
Lok Wai Man
Chairman

(A) FINANCIAL SUMMARY

The following information has been extracted from the annual report of the Company for the two years ended 31 March 2006 in respect of the audited consolidated financial information of the Group for each of the three years ended 31 March 2006 (the auditors of the Company have given unqualified opinions on the financial statements for each of the three years ended 31 March 2006):

Consolidated Income Statement

	For the year ended 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	71,497	63,826	51,828
Cost of sales	(18,130)	(19,724)	(15,144)
Gross profit	53,367	44,102	36,684
Other income and gains	1,024	359	690
Distribution costs	(15,423)	(13,421)	(9,910)
Administrative expenses	(34,157)	(31,137)	(31,397)
Other operating expenses	(2,882)	(1,683)	(1,843)
Operating profit/(loss)	1,929	(1,780)	(5,776)
Provision for amounts due from investee companies	–	–	(584)
Share of loss of a jointly controlled entity	–	(347)	(107)
Share of loss of an associated company	–	–	(858)
Loss on disposal of subsidiaries	(48)	(37)	–
Loss on disposal of a jointly controlled entity	–	(62)	–
Profit/(loss) before income tax	1,881	(2,226)	(7,325)
Income tax	685	(72)	470
Profit/(loss) for the year	2,566	(2,298)	(6,855)
Attributable to:			
Equity holders of the Company	2,566	(2,298)	(6,688)
Minority interests	–	–	(167)
	2,566	(2,298)	(6,855)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year – basic and diluted	0.43 cents	(0.38) cents	(1.17) cents

Consolidated Balance Sheet

	As at 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	3,386	4,023	4,342
Intangible assets	–	–	–
Investment in a jointly controlled entity	–	–	669
Interest in an associated company	–	–	–
Investments			
– Available-for-sale financial assets	1,779	–	–
– Loans and receivables	13	–	–
– Long-term investments	–	15	515
– Other investments	–	1,560	1,408
	5,178	5,598	6,934
Current assets			
Inventories	1,094	1,312	947
Trade and other receivables	13,984	14,156	13,144
Bank balances and cash	40,619	39,373	37,320
	55,697	54,841	51,411
Total assets	60,875	60,439	58,345
Less: Current liabilities			
Trade and other payables	19,790	21,367	16,664
Income tax payable	4,295	5,063	5,374
	24,085	26,430	22,038
Net current assets	31,612	28,411	29,373
Net assets	36,790	34,009	36,307
Capital and reserves			
Equity attributable to equity holders of the Company			
Share capital	60,000	60,000	60,000
Reserves	(24,052)	(26,833)	(24,535)
	35,948	33,167	35,465
Minority interests	842	842	842
Total equity	36,790	34,009	36,307

The following is the audited financial statements of the Group for the year ended 31 March 2006 together with the accompanying notes as extracted from the Company's 2006 annual report:

Consolidated Balance Sheet
As at 31 March, 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	15	3,386	4,023
Intangible assets	14	–	–
Interest in an associated company	17	–	–
Investments			
– Available-for-sale financial assets	18	1,779	–
– Loans and receivables	19	13	–
– Long-term investments	20	–	15
– Other investments	21	–	1,560
		5,178	5,598
Current assets			
Inventories	22	1,094	1,312
Trade and other receivables	23	13,984	14,156
Bank balances and cash	24	40,619	39,373
		55,697	54,841
Total assets		60,875	60,439
Less: Current liabilities			
Trade and other payables	25	19,790	21,367
Income tax payable		4,295	5,063
		24,085	26,430
Net current assets		31,612	28,411
Net assets		36,790	34,009
Capital and reserves			
Equity attributable to equity holders of the Company			
Share capital	26	60,000	60,000
Reserves		(24,052)	(26,833)
		35,948	33,167
Minority interests		842	842
Total equity		36,790	34,009

Balance Sheet

As at 31 March, 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Non-current assets			
Interests in subsidiaries	*16*	10,254	9,204
Investments			
– Available-for-sale financial assets	*18*	1,764	–
– Other investments	*21*	–	1,560
		12,018	10,764
Current assets			
Prepayments	*23*	112	143
Bank balances and cash		29,053	29,849
		29,165	29,992
Total assets		41,183	40,756
Less: Current liabilities			
Accruals	*25*	407	231
		407	231
Net current assets		28,758	29,761
Net assets		40,776	40,525
Capital and reserves			
Equity attributable to equity holders of the Company			
Share capital	*26*	60,000	60,000
Reserves	*28*	(19,224)	(19,475)
Total equity		40,776	40,525

Consolidated Statement of Changes in Equity

For the year ended 31 March, 2006

	Attributable to equity holders of the Company								
		Reserves							
	Share capital HK'000 (Note 26)	Share premium HK'000	Merger reserve HK'000 (Note)	Exchange reserve HK'000	Available-for-sale financial assets revaluation reserve HK'000	Accumulated losses HK'000	Total reserves HK$'000	Minority interests HK'000	Total equity HK'000
As at 1 April, 2004									
As previously reported as equity	60,000	83,955	(47,430)	(55)	–	(61,005)	(24,535)	–	35,465
As previously separately reported as minority interests	–	–	–	–	–	–	–	842	842
As at 1 April, 2004, as restated	60,000	83,955	(47,430)	(55)	–	(61,005)	(24,535)	842	36,307
Loss for the year	–	–	–	–	–	(2,298)	(2,298)	–	(2,298)
Total income and expense for the year	–	–	–	–	–	(2,298)	(2,298)	–	(2,298)
As at 31 March, 2005	60,000	83,955	(47,430)	(55)	–	(63,303)	(26,833)	842	34,009
As at 1 April, 2005, as per above	60,000	83,955	(47,430)	(55)	–	(63,303)	(26,833)	842	34,009
Opening adjustment for the adoption of HKAS 39 *(Note 2(i))*	–	–	–	–	(397)	397	–	–	–
As at 1 April, 2005, as restated	60,000	83,955	(47,430)	(55)	(397)	(62,906)	(26,833)	842	34,009
Changes in fair value of available-for-sale financial assets	–	–	–	–	204	–	204	–	204
Exchange realignment	–	–	–	11	–	–	11	–	11
Total income and expense recognised directly in equity	–	–	–	11	204	–	215	–	215
Profit for the year	–	–	–	–	–	2,566	2,566	–	2,566
Total income and expense for the year	–	–	–	11	204	2,566	2,781	–	2,781
As at 31 March, 2006	60,000	83,955	(47,430)	(44)	(193)	(60,340)	(24,052)	842	36,790

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 thereof.

Consolidated Cash Flow Statement

For the year ended 31 March, 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000*
Operating activities			
Net cash generated from operating activities	*29(a)*	2,947	2,862
Investing activities			
Interest received		943	162
Dividends received		81	45
Purchase of property, plant and equipment		(636)	(937)
Disposal of subsidiaries	*29(b)*	(92)	(10)
Advance to an associated company		(1,107)	(298)
Sale of long-term investments		–	483
Advances to investee companies		(862)	(254)
Net cash used in investing activities		(1,673)	(809)
Net increase in cash and cash equivalents		1,274	2,053
Cash and cash equivalents at beginning of the year		39,373	37,320
Effect of foreign exchange rate change, net		(28)	–
Cash and cash equivalents at end of the year		40,619	39,373
Analysis of balances of cash and cash equivalents			
Bank balances and cash		40,619	39,373

Notes to the Financial Statements

For the year ended 31 March, 2006

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 8 May, 2000 as an exempted company with limited liability under the Companies Law 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").

In the opinion of the directors, the parent and ultimate holding company of the Group is SomaFlex Holdings Inc., which is incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services.

These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand (HK$'000) unless otherwise stated.

2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 GEM of the Stock Exchange. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5 to the financial statements.

Adoption of new/revised HKFRSs

For the year ended 31 March, 2006, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs

HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 31, 33, 36, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January, 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January, 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parities and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(i) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investments in unlisted equity securities as long-term investments, which were held for non-trading purposes and were stated at cost less any provision for impairment losses. The investments in listed securities are classified as other investments and stated at fair value and the gains or losses arising from changes in the fair values of such securities were credited or charged to the income statement in the period in which they arose.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 required retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Upon the adoption of HKASs 32 and 39, debt securities, investments in listed securities, and investments in unlisted equity securities are classified as held-to-maturity financial assets, financial assets at fair value through profit or loss, and available-for-sale financial assets, respectively. Held-to-maturity financial assets are stated at amortised cost less impairment losses. Available-for-sale financial assets are classified at fair value, where an active market exists, with any realised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Financial assets at fair value through profit or loss are carried at fair value.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Trade and other receivables were previously carried at cost less impairment of receivables.

The effect of the above changes are summarised below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

The adoption of HKAS 39 resulted in an decrease in opening reserves at 1 April, 2005:

Decrease in available-for-sale financial assets revaluation reserve	HK$397,000
Decrease in accumulated losses	HK$397,000

The details of the adjustments to the balance sheet as at 31 March, 2006 and the income statement for the year then ended are as follows:

Increase in available-for-sale financial assets	HK$1,779,000
Increase in loans and receivables	HK$13,000
Decrease in long-term investments	HK$1,777,000
Decrease in other investments	HK$15,000
Decrease in unrealised gains on other investments	HK$204,000
Increase in available-for-sale financial assets revaluation reserve	HK$204,000
Decrease in basic and diluted earnings per share	0.034 HK$ cents

(ii) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 April, 2001 was written off against reserves and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 April, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April, 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against reserves remains eliminated against reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

The Group has not applied the following new/revised HKFRSs, that have been issued but are not yet effective, to these financial statements:

HKAS 1 Amendment	Capital Disclosures *(Note (a))*
HKAS 21 Amendment	Net Investment on a Foreign Operation *(Note (b))*
HKAS 39 Amendment	The Fair Value Option *(Note (b))*
HKFRS 7	Financial Instruments: Disclosures *(Note (a))*

Notes:

(a) Effective for accounting periods beginning on or after 1 January, 2007

(b) Effective for accounting periods beginning on or after 1 January, 2006

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January, 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits of losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

(iii) Jointly-controlled entities

A jointly-controlled entity is joint venture that is subject to joint control, resulting in none of the participating parties have unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

b. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

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

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 using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

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

d. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of leasehold improvements are calculated to write off their cost on a straight-line basis over the unexpired period of the lease.

Depreciation of other property, plant and equipment is calculated to write off their cost on a reducing balance basis to their residual values over their expected useful lives to the Group. The principal annual rates used for each of the categories of property, plant and equipment are as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

e. Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(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 assets and have definite useful lives. The costs are 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 expenses are not recognised as assets in a subsequent period.

f. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

g. Investments

From 1 April, 2004 to 31 March, 2005:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as long-term investments and other investments.

(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.

From 1 April, 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

h. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

i. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

j. Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

k. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

l. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

m. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

n. Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

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 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. Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

4 FINANCIAL RISK MANAGEMENT

a. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Market risk

(1) Foreign exchange risk

The Group operates mainly in Hong Kong and the exposure to foreign exchange risk is limited arising from various currency exposures. Foreign exchange risk mainly arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The management of the Group considers the foreign exchange risk of the Group is not significant, and thus does not have any active policies to hedge against the foreign exchange risk.

(2) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that credits are granted to customers with an appropriate credit history.

In addition, the Group reviews the recoverable amounts of each individual trade debt at each balance sheet date to ensure the adequate impairment losses are made for irrecoverable amounts. The Group has maintained relationship with various financial institutions, and has policies that limit the amount of credit exposure to any financial institution.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. Due to the dynamic nature of the underlying businesses, the Group employs a prudent liquidity policy.

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

b. Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of available-for-sale financial assets

The Group had available-for-sale financial assets which were stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual basis. Any gains or losses are recognised as a separate component of equity until the financial asset is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Management has to consider whether it is appropriate to charge the cumulative loss to income statement.

In making its judgement, the Group considers (i) the future prospect of the underlying investments; and (ii) the underlying financial position of the investments. Management considers that no objective evidence of impairment exists and the cumulative loss was not charged to the income statement.

6 TURNOVER, OTHER INCOME AND GAINS, AND SEGMENT INFORMATION

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

	2006	**2005**
	HK$'000	*HK$'000*
Turnover		
Software	45,343	36,118
Services	22,394	20,069
Other operations	3,760	7,639
	71,497	63,826
Other income and gains		
Interest income	943	162
Net unrealised holding gains on other investments	–	152
Dividend income from listed investments	81	45
	1,024	359

Primary reporting format – business segments

The Group is organised into two main business segments:

– Software – sale of enterprise software

– Services – rendering of maintenance services

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

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

Secondary reporting format – geographical segments

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

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

Primary reporting format – business segments

Income statement	**Software 2006** *HK$'000*	**Services 2006** *HK$'000*	**Other operations 2006** *HK$'000*	**Group 2006** *HK$'000*
Turnover	45,343	22,394	3,760	71,497
Segment results	1,509	4,313	(993)	4,829
Unallocated corporate expenses				(2,900)
Operating profit				1,929
Loss on disposal of subsidiaries				(48)
Profit before income tax				1,881
Income tax				685
Profit for the year				2,566
Balance sheet				
Segment assets	–	–	1,094	1,094
Unallocated corporate assets				59,781
Total assets				60,875
Segment liabilities	6,377	6,962	–	13,339
Unallocated corporate liabilities				10,746
Total liabilities				24,085

Income statement	**Software 2005** *HK$'000*	**Services 2005** *HK$'000*	**Other operations 2005** *HK$'000*	**Group 2005** *HK$'000*
Turnover	36,118	20,069	7,639	63,826
Segment results	139	2,983	(2,333)	789
Unallocated corporate expenses				(2,569)
Operating loss				(1,780)
Share of loss of a jointly controlled entity	(347)	–	–	(347)
Loss on disposal of subsidiaries				(37)
Loss on disposal of a jointly controlled entity				(62)
Loss before income tax				(2,226)
Income tax				(72)
Loss for the year				(2,298)
Balance sheet				
Segment assets	–	–	1,312	1,312
Unallocated corporate assets				59,127
Total assets				60,439
Segment liabilities	8,665	5,984	–	14,649
Unallocated corporate liabilities				11,781
Total liabilities				26,430

Secondary reporting format – geographical segments

	Hong Kong 2006	**PRC 2006**	**Others 2006**	**Group 2006**
Income statement	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	53,960	9,401	8,136	71,497
Segment results	5,343	1,145	(1,659)	4,829
Unallocated corporate expenses				(2,900)
Operating profit				1,929
Balance sheet				
Segment assets	49,657	6,161	5,057	60,875

	Hong Kong 2005	PRC 2005	Others 2005	Group 2005
Income statement	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	48,988	8,723	6,115	63,826
Segment results	(76)	1,814	(949)	789
Unallocated corporate expenses				(2,569)
Operating loss				(1,780)
Balance sheet				
Segment assets	42,793	6,599	11,047	60,439

7 OPERATING PROFIT/(LOSS)

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

	2006	2005
	HK$'000	*HK$'000*
Salaries, wages and other benefits	33,608	30,286
Contributions to defined contribution scheme	1,872	1,490
Total staff costs (including directors' remuneration)	35,480	31,776
Depreciation of owned property, plant and equipment	1,152	1,195
Cost of inventories	3,060	6,732
Operating lease rentals in respect of rented premises	2,359	2,311
Auditors' remuneration	280	260
Loss on disposal of a long-term investment	–	17
Provision for impaired receivables	1,326	1,224
Provision of impairment for amount due from an associate company	1,107	298
Provision of impairment for amounts due from investee companies	849	254

8 INCOME TAX

Current tax

Hong Kong profits tax is calculated at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit arising in Hong Kong 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 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 income tax (credited)/charged to the consolidated income statement represents:

	2006	2005
	HK$'000	*HK$'000*
Hong Kong profits tax	–	–
Overseas income tax	39	385
Over-provision in prior years	(724)	(313)
	(685)	72

A reconciliation between tax (credit)/charge and accounting profit/(loss) at applicable tax rate is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Profit/(loss) before income tax	1,881	(2,226)
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	329	(390)
Tax effect of income not taxable for tax purpose	(934)	(788)
Tax effect of share of results of a jointly controlled entity	–	61
Tax effect of expenses that are not deductible in determining taxable profit	856	811
Tax effect of tax losses not recognised	249	734
Utilisation of previously unrecognised tax losses	(441)	–
Over-provision for current tax	(724)	(313)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(20)	(43)
Tax (credit)/charge for the year	(685)	72

No deferred tax liabilities are recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31 March, 2005 and 2006.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 March, 2006, the unprovided deferred tax asset of the Group and of the Company are as follows:

	Group		**Company**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Tax effect of temporary difference attributable to estimated tax losses	7,352	7,544	701	549

9 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$47,000 (2005: loss of HK$327,000).

10 EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net profit/(loss) of the Group attributable to equity holders of the Company of approximately HK$2,566,000 (2005: loss of HK$2,298,000) and the weighted average number of 600,000,000 (2005: 600,000,000) ordinary shares in issue during the year.

There is no diluted earnings/(loss) per share since the Company has no dilutive potential ordinary shares in existence for the years ended 31 March, 2005 and 2006.

11 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 future contributions to the MPF Scheme. During the years ended 31 March, 2005 and 2006, 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% (2005: 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% (2005: 32%) of an employee's ordinary wages.

12 DIRECTORS' REMUNERATION

	2006	**2005**
	HK$'000	*HK$'000*
Directors' fees paid to Independent Non-executive Directors	90	75
Other emoluments paid to Executive Directors		
Salaries, allowances and benefits in kind	2,404	2,175
Contributions to defined contribution scheme	49	49
Total emoluments	2,543	2,299

The remuneration of every Director for the year ended 31 March, 2006 is set out below:

Name of Director	**Fee**	**Salaries, allowances, and benefits in kind**	**Contributions to defined contribution scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lok Wai Man	–	981	12	993
Mr. So Yiu King	–	883	12	895
Mr. Chow Chi Ming, Daniel	–	540	25	565
Independent non-executive directors				
Mr. Tse Lin Chung	30	–	–	30
Mr. Lee Kar Wai	30	–	–	30
Mr. Mak Wing Kwong, David	30	–	–	30
	90	2,404	49	2,543

The remuneration of every Director for the year ended 31 March, 2005 is set out below:

Name of Director	Fee	Salaries, allowances, and benefits in kind	Contributions to defined contribution scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lok Wai Man	–	880	12	892
Mr. So Yiu King	–	755	12	767
Mr. Chow Chi Ming, Daniel	–	540	25	565
Independent non-executive directors				
Mr. Tse Lin Chung	30	–	–	30
Mr. Lee Kar Wai	30	–	–	30
Mr. Mak Wing Kwong, David *(Note)*	15	–	–	15
	75	2,175	49	2,299

Note: Appointed on 22 September, 2004

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office (2005: Nil). None of the Directors waived or agreed to waive any remuneration during the year (2005: Nil).

13 EMPLOYEES' EMOLUMENTS

The five highest paid employees during the year included two (2005: two) Directors, details of whose remuneration are set out in Note 12 to the financial statements. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	1,944	1,917
Contributions to defined contribution scheme	63	63
	2,007	1,980

The emoluments were within the following band:

	2006 No. of employees	2005 No. of employees
Nil – HK$1,000,000	3	3

14 INTANGIBLE ASSETS

		Group	
	Goodwill	Deferred development costs	Total
	HK$'000	*HK$'000*	*HK$'000*
31 March, 2006			
As at 1 April, 2005			
Cost, as previously reported	1,566	7,145	8,711
Effect of adopting HKFRS 3 *(Note 2 (ii))*	(1,566)	–	(1,566)
As restated	–	7,145	7,145
Accumulated amortisation and impairment, as previously reported	1,566	7,145	8,711
Effect of adopting HKFRS 3 *(Note 2 (ii))*	(1,566)	–	(1,566)
As restated	–	7,145	7,145
Net carrying amount	–	–	–
Cost as at 1 April, 2005, net of accumulated amortisation and impairment	–	–	–
Net carrying amount as at 31 March, 2006	–	–	–
As at 31 March, 2006			
Cost	–	7,145	7,145
Accumulated amortisation and impairment	–	(7,145)	(7,145)
Net carrying amount	–	–	–
31 March, 2005			
As at 1 April, 2004 and 31 March, 2005			
Cost	1,566	7,145	8,711
Accumulated amortisation and impairment	(1,566)	(7,145)	(8,711)
Net carrying amount	–	–	–

There were no movements in the intangible assets for the years ended 31 March, 2005 and 2006.

15 PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold improvements	**Plant and machinery**	**Furniture and fixtures**	**Motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March, 2006					
As at 1 April, 2005					
Cost	3,013	4,899	3,931	167	12,010
Accumulated depreciation	(1,994)	(3,030)	(2,820)	(143)	(7,987)
Net carrying amount	1,019	1,869	1,111	24	4,023
As at 1 April, 2005, net of accumulated depreciation	1,019	1,869	1,111	24	4,023
Additions	55	56	337	188	636
Depreciation for the year	(467)	(365)	(310)	(10)	(1,152)
Disposal of subsidiaries	–	(135)	(16)	–	(151)
Exchange realignment	9	–	21	–	30
As at 31 March, 2006, net of accumulated depreciation	616	1,425	1,143	202	3,386
As at 31 March, 2006					
Cost	3,096	4,731	4,300	355	12,482
Accumulated depreciation	(2,480)	(3,306)	(3,157)	(153)	(9,096)
Net carrying amount	616	1,425	1,143	202	3,386
31 March, 2005					
As at 1 April, 2004					
Cost	2,544	4,885	3,605	167	11,201
Accumulated depreciation	(1,590)	(2,562)	(2,564)	(143)	(6,859)
Net carrying amount	954	2,323	1,041	24	4,342
As at 1 April, 2004, net of accumulated depreciation	954	2,323	1,041	24	4,342
Additions	469	101	367	–	937
Depreciation for the year	(404)	(504)	(287)	–	(1,195)
Disposal of subsidiaries	–	(51)	(10)	–	(61)
As at 31 March, 2005, net of accumulated depreciation	1,019	1,869	1,111	24	4,023
As at 31 March, 2005					
Cost	3,013	4,899	3,931	167	12,010
Accumulated depreciation	(1,994)	(3,030)	(2,820)	(143)	(7,987)
Net carrying amount	1,019	1,869	1,111	24	4,023

16 INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	47,550	47,550
Amounts due from subsidiaries	65,704	64,654
	113,254	112,204
Impairment	(103,000)	(103,000)
	10,254	9,204

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from subsidiaries approximate their fair values.

The following is a list of the principal subsidiaries of the Company as at 31 March, 2006:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
Subsidiary held directly				
SomaFlex International Inc.	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Subsidiaries held indirectly				
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. *(Note)*	PRC	Development and distribution of FlexAccount products in the PRC	Registered capital of US$400,000	100%
FlexSystem Software Limited	Macau	Research and development in Macau	Registered capital of 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%
FlexEducation Technology Limited	Hong Kong	Development of educational software and investment holding in Hong Kong	100 ordinary shares of HK$1 each	100%

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
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%
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%
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%
Soma Systems Technology Sdn. Bhd.	Malaysia	Distribution of FlexAccount products in Malaysia	2 ordinary shares 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: Wholly foreign-owned enterprise establish in the PRC

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

17 INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Share of net liabilities	(2,299)	(2,299)
Amount due from an associated company	5,977	4,870
	3,678	2,571
Provision for amount due from the associated company	(3,678)	(2,571)
	–	–

The amount due from the associated company is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from an associated company approximate its fair value.

Details of the associated company of the Group as at 31 March, 2006 are as follows:

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%

The following table illustrates the summarised financial information of the associate of the Group as extracted from its financial statements:

	2006	2005
	HK$'000	*HK$'000*
Total assets	2,867	–
Total liabilities	8,903	4,925
Revenues	1,129	1,738
Loss	(1,111)	(301)

The Group has not recognised losses amounting to approximately HK$556,000 (2005: HK$150,000) for the above associated company. The accumulated losses not recognised were approximately HK$706,000 (2005: HK$150,000)

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	Company
	2006	2006
	HK$'000	*HK$'000*
Opening adjustment for the adoption of HKAS 39 *(Note2(i))*	1,575	1,560
Revaluation surplus transfer to equity	204	204
	1,779	1,764

There were no disposals on available-for-sale financial assets in 2006.

Available-for-sale financial assets including the following:

Listed securities		
Equity securities – Hong Kong	1,764	1,764
Unlisted securities		
Equity securities traded on inactive markets and of private issuers	15	–
	1,779	1,764
Market value of listed securities	1,764	1,764

19 LOANS AND RECEIVABLES

	Group 2006 HK$'000
Amounts due from investee companies	15,296
Less: Provision of impairment for amounts due from investee companies	(15,283)
	13

The amounts due from the investee companies are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from investee companies approximate their fair values.

20 LONG-TERM INVESTMENTS

	Group 2005 HK$'000
Unlisted equity securities, at cost	12,098
Impairment	(12,083)
Amounts due from investee companies	14,434
	14,449
Provision of impairment for amounts due from investee companies	(14,434)
	15

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

21 OTHER INVESTMENTS

	Group and Company 2005 HK$'000
Equity securities listed in Hong Kong, at market value	1,560

22 INVENTORIES

	Group	
	2006 HK$'000	2005 HK$'000
Merchandise	1,094	1,312

23 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables *(Note (b), (c) & (d))*	10,306	9,086	–	–
Prepayments, deposits and other receivables *(Note (c))*	2,422	3,802	112	143
Advances to staff *(Note (a) & (c))*	1,256	1,268	–	–
	13,984	14,156	112	143

Notes:

(a) The advances to staff were unsecured, interest-free and have no fixed terms of repayment.

(b) In view of the aforementioned and that Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

(c) The fair values of the Group's and Company's trade receivables, prepayments, deposits, and other receivables, and advances to staff included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

(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 aging analysis of trade receivables net of provision for impairment:

	2006	**2005**
	HK$'000	*HK$'000*
0 – 30 days	2,965	2,619
31 – 60 days	1,449	1,018
61 – 90 days	915	479
91 – 180 days	1,122	1,189
181 – 365 days	2,975	3,343
Over 365 days	880	438
	10,306	9,086

24 BANK BALANCES AND CASH

As at 31 March, 2006, the Group had bank balances and cash of approximately HK$4,616,000 (2005: HK$5,016,000) which are denominated in Renminbi. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

25 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to investee companies *(Notes (a) & (b))*	139	158	–	–
Trade payables *(Notes (b) & (c))*	548	1,146	–	–
Other payables and accruals *(Note (b))*	5,764	5,413	407	231
Deferred income *(Note (b))*	6,962	5,985	–	–
Sales deposits received *(Note (b))*	6,377	8,665	–	–
	19,790	21,367	407	231

Notes:

(a) The amounts due to investee companies are unsecured, interest-free and have no fixed terms of repayment.

(b) The fair values of the Group's amounts due to investee companies, trade payables, other payables and accruals, deferred income, and sales deposits received included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

(c) Aging analysis of trade payables is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
0 – 30 days	481	456
31 – 60 days	36	677
61 – 90 days	–	1
91 – 180 days	3	1
181 – 365 days	15	–
Over 365 days	13	11
	548	1,146

26 SHARE CAPITAL

	2006	**2005**
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	200,000	200,000
Issued and fully paid:		
600,000,000 ordinary shares of HK$0.10 each	60,000	60,000

27 SHARE OPTIONS

Pursuant to the share option scheme for employees which was adopted on 15 July, 2000, the directors of the Company may at their discretion, invite any full-time employees of the Group, including executive directors of any companies in the Group to take up options to subscribe for ordinary shares in the Company. It is believed that the share option scheme will assist the Group in its recruitment and retention of high calibre computer professionals, executives and employees.

Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant. The subscription price of a share in respect of any particular option granted under the share option scheme shall be such price as the board of directors of the Company shall determine save that such price will not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

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 employee shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued or issuable under the share option scheme.

An option may be exercised in accordance with the terms of the share option scheme at any time during a period of three years commencing on the expiry of six months after the date of acceptance of the option and expiring on the last day of the three-year period or the tenth anniversary of the date of adoption of the share option scheme, whichever is earlier.

The share option scheme will remain in force for a period of 10 years from the date of adoption of such scheme, or unless terminated earlier by resolution of the board of directors of the Company or by shareholders' resolution, after which period or resolution no further options will be granted but the provisions of the share option scheme shall remain in full force and effect in all other respects.

No share options were granted by the Company or outstanding at any time during the years ended 31 March, 2005 and 2006.

28 RESERVES

	Company			
	Share premium	**Available-for-sale financial assets revaluation reserve**	**Accumulated losses**	**Total reserves**
	HK'000	*HK'000*	*HK'000*	*HK'000*
As at 1 April, 2004	85,872	–	(105,020)	(19,148)
Loss for the year	–	–	(327)	(327)
Total income and expense for the year	–	–	(327)	(327)
As at 31 March, 2005	85,872	–	(105,347)	(19,475)
As at 1 April, 2005,				
As previously reported as equity	85,872	–	(105,347)	(19,475)
Opening adjustments for the adoption of HKAS 39 *(Note 2(ii))*	–	(397)	397	–
As restated	85,872	(397)	(104,950)	(19,475)
Changes in fair value of available-for-sale financial assets	–	204	–	204
Total income and expense recognised directly in equity	–	204	–	204
Profit for the year	–	–	47	47
Total income and expense for the year	–	204	47	251
As at 31 March, 2006	85,872	(193)	(104,903)	(19,224)

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006	**2005**
	HK$'000	*HK$'000*
Operating profit/(loss)	1,929	(1,780)
Depreciation	1,152	1,195
Net unrealised holding gains on other investments	–	(152)
Interest income	(943)	(162)
Dividend income	(81)	(45)
Interest expenses	5	–
Provision of impairment for amount due from investee companies	849	254
Provision of impairment for amount due from an associated company	1,107	298
Loss on disposal of a long term investment	–	17
Operating profit/(loss) before changes in working capital	4,018	(375)
Decrease/(increase) in inventories	184	(387)
Increase in trade and other receivables	(959)	(816)
(Decrease)/increase in trade and other payables	(208)	4,823
Cash from operations	3,035	3,245
Interest paid	(5)	–
Overseas taxation paid	(83)	(383)
Net cash generated from operating activities	2,947	2,862

(b) Disposal of subsidiaries

During the year ended 31 March, 2006, the Group disposed of its entire equity interests in Flexsunland Century Software Limited and Beijing Flexdigisuper Software Co., Ltd. During the year ended 31 March, 2005, the Group disposed of its entire equity interests in Norray Professional Computer (Australia) Pty Limited, Mega Wise Consultants Limited and Net-Accounting Services Limited. The results of the subsidiaries disposed of in the years ended 31 March, 2005 and 2006 had no significant impact on the Group's consolidated turnover or profit after tax for the years.

	2006	**2005**
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	151	61
Inventories	34	22
Trade and other receivables	1,131	64
Bank balances and cash	92	10
Exchange reserve	9	–
Trade and other payables	(1,369)	(120)
	48	37
Loss on disposal of subsidiaries	(48)	(37)
	–	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:		
Cash consideration	–	–
Cash and cash equivalents disposed of	(92)	(10)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(92)	(10)

30 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments under operating leases

As at 31 March, 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Not later than one year	2,424	2,998
Later than one year and not later than five years	1,039	2,006
	3,463	5,004

(b) As at 31 March, 2006, the Company had no significant capital commitment and commitment under operating lease.

(c) As at 31 March, 2006, the Group and the Company had no significant contingent liabilities.

31 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:

		Group	
		2006	**2005**
	Note	*HK$'000*	*HK$'000*
Software royalty expenses paid to Flex-Logic Limited	*(i) & (iii)*	1,129	1,738
Software royalty expenses paid to i-Global Solutions Limited	*(ii) & (iii)*	217	612
Commission and computer expenses paid to Global Information Technology Limited	*(ii) & (iii)*	12	19

Notes:

(i) Flex-Logic Limited is an associated company of the Group.

(ii) i-Global Solutions Limited and Global Information Technology Limited are investee companies of the Group.

(iii) In the opinion of the directors, the above related party transactions are conducted in the normal course of business at prices and terms comparable with those contracted with independent third party suppliers of the Group.

Compensation to key management personnel

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Short-term employee benefits	5,310	5,053
Post-employment benefits	171	169
	5,481	5,222

Further details of directors' emoluments are included in Note 12 to the financial statements.

(B) INDEBTEDNESS

Borrowings and contingent liabilities

As at the close of business on 30 June 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group did not have any outstanding borrowings or contingent liabilities.

Operating lease commitments

As at 30 June 2006, the Group had commitments for future minimum lease payments under non-cancelable operating leases in respect of rented office premises amounting to approximately HK$2,600,000, of which approximately HK$1,839,000 will fall due within one year, approximately HK$713,000 will fall due in more than one year but not exceeding two years and approximately HK$48,000 will fall due in more than two years but not exceeding five years.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have outstanding indebtedness as at the close of business on 30 June 2006 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

No material change

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 30 June 2006.

(C) WORKING CAPITAL

The Directors are of the opinion that, in the absence of unforeseen circumstances and after taking into account the financial resources including its internally generated funds, the Group will have sufficient working capital to satisfy its present requirements and the requirements in the next 12 months.

(D) FINANCIAL AND TRADING PROSPECTS OF THE GROUP

FINANCIAL REVIEW

During the year 31 March, 2006, turnover of approximately HK$71 million and profit attributable to shareholders of approximately HK$2.5 million were recorded. The increase in turnover of 12% as compared with the previous year was principally due to the contribution from the increment of turnover.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 March, 2006, the shareholders' funds of the Group amounted to approximately HK$37 million. Current assets were approximately HK$56 million, mainly comprising bank balances and cash of approximately HK$41 million, inventories of approximately HK$1 million and trade and other receivables of approximately HK$14 million. Current liabilities were approximately HK$24 million, mainly comprising trade and other payables of approximately HK$20 million and taxation payable of approximately HK$4 million. The net asset value per share was HK$0.06. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31 March, 2006, 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 FLUCTUATION

During the year ended 31 March, 2006, 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 currency. 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 AND DISPOSAL

During the year ended 31 March, 2006, the Group disposed of its entire equity interests in Flexsunland Century Software Limited and Beijing Flexdigisuper Software Co., Ltd. The results of the subsidiaries disposed of in the year ended 31 March, 2006 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

The gain and loss on the disposals of the said subsidiaries have been dealt with in the consolidated income statement.

Save as disclosed above, there was no other material acquisitions or disposal of subsidiaries and affiliated companies for the year ended 31 March, 2006.

CAPITAL COMMITMENTS

As at 31 March, 2006, the Group had operating lease commitments in respect of rented office premises of approximately HK$3.5 million (2005: HK$5 million). As at 31 March, 2006 and 2005, the Group had no significant capital commitment and has no future plans for material investment.

CONTINGENT LIABILITIES

As at 31 March, 2006, and 2005, the Group had no material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 31 March, 2006 and 2005, the Group had no charges on the Group's assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March, 2006, the Group had 263 employees (2005: 237). The total remuneration to employees, including that to the directors, for the year ended 31 March, 2006 amounted to approximately HK$35.5 million (2005: HK$31.8 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 segments

During the year under review, the turnover of maintenance services has increased by approximately 11.6% as the number of customers have increased as compared with that for the previous year. Moreover, the turnover of software sales has also increased by approximately 25.5% 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 75% of the total turnover (2005: 77%). 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 slightly increased by approximately 7.8% to approximately HK$9.4 million as compared with the previous year as our Group also deploys more sales efforts on the PRC market.

1. UNAUDITED PROFIT AND LOSS STATEMENT OF THE PROPERTY

	Year ended 31 March		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
Rental income	405,600	405,600	405,600
Government rates	54,144	54,144	54,144
Management fees	292,692	292,692	292,692

As the Company is unable to gain access to the underlying books and records of the Vendor relating to the Property, the above statement has been prepared by the Company by reference to limited information available to the Company and on the basis and assumption as discussed in the notes below. Accordingly, the above statement may not give a true and correct picture of the financial results attributable to the Property for the three financial years ended 31 March 2006.

Notes:

(i) The rental income included in the above statement has been complied based on copies of the tenancy agreements of the Property for the period from 10 December 2003 to 30 April 2006 furnished by the Vendor. No information regarding any tenancy for the Property from the period between 1 April 2003 to 9 December 2003 is available. However, the Directors stress that the Company has no access to the original full sets of the tenancy agreements, there is no assurance as to the genuineness of the copies made available to the Company and there is no assurance as to its accuracy or completeness.

The rental income included in the above statement has been compiled based on the assumption that: (i) rentals for the period between 1 April 2003 to 9 December 2003 were the same as the tenancy for the period from 10 December 2003 to 30 April 2006; (ii) rentals had been collected by the Vendor in accordance with the terms of the tenancy agreements; and (iii) there were no uncollectible debts.

Due to the limitation of information available to the Company and subject to the assumption as discussed above, the rental income stated in the above statement may not be true, correct and complete.

(ii) While the Company has no access to the books and records of the Vendor relating to the Property, only information regarding the government rates for July 2004 to September 2004 and the management fees for June 2005 has been made available from the Vendor to the Company. Accordingly, the government rates and the management fees included in the above statement are annualised based on the limited information available to the Company which may not be true, correct and complete.

(iii) Save for the rental income, government rates and management fees, no further information that may include, inter alias, finance costs and tax expenses incurred by the Vendor on the Property have been made available to the Company. Accordingly, no finance costs or tax or other possible expenses on the Property have been provided in the above statement.

2. REPORT OF FACTUAL FINDINGS ON AGREED-UPON PROCEDURES ON THE UNAUDITED PROFIT AND LOSS STATEMENT OF THE PROPERTY

The following is the text of a report received from the auditors of the Company, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, addressed to the directors of the Company and prepared for the sole purpose of inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 July 2006

The Directors
FlexSystem Holdings Limited

Dear Sirs,

REPORT OF FACTUAL FINDINGS ON AGREED-UPON PROCEDURES ON THE UNAUDITED PROFIT AND LOSS STATEMENT OF THE PROPERTY

Introduction

In accordance with the instructions of the directors of FlexSystem Holdings Limited (the "Company"), we have performed the procedures agreed with you and enumerated below with respect to the unaudited profit and loss statement of the Property (as defined in the Circular) (the "Profit and Loss Statement"), as set out in Section 1 of Appendix II of the Company's circular dated 27 July 2006 (the "Circular").

Procedures

Our engagement was undertaken in accordance with Hong Kong Standard on Related Services 4400, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The procedures were performed solely to assist the directors of the Company to evaluate and consider whether the Profit and Loss Statement, which was prepared by the directors of the Company, is mathematically accurate.

Accordingly, we have performed the following procedures:

1. The rental income as shown in the Profit and Loss Statement was calculated by multiplying the rental amount as shown in the tenancy agreements of the Property for the period from 10 December 2003 to 30 April 2006, by 12 months in respect of each of the three years ended 31 March 2006. We have obtained from the Company copies of the tenancy agreements of the Property for the period from 10 December 2003 to 30 April 2006, and checked the mathematical accuracy of the rental income which has been calculated on the aforesaid basis.

2. The government rates as shown in the Profit and Loss Statement were calculated by multiplying the amount as shown in the "July to September Quarter 2004 demand for rates and/or government rent", by 4 quarters in respect of each of the three years ended 31 March 2006. We have obtained from the Company copies of the "July to September Quarter 2004 demand for rates and/or government rent" in respect of the Property, and checked the mathematical accuracy of the government rates which have been calculated on the aforesaid basis.

3. The management fees as shown in the Profit and Loss Statement were calculated by multiplying the amount as shown in the "Payment/receipt advice" for the month of June 2005, by 12 months in respect of each of the three years ended 31 March 2006. We have obtained from the Company a copy of the "Payment/receipt advice" for the month of June 2005 in respect of the Property, and checked the mathematical accuracy of the management fees which have been calculated on the aforesaid basis.

We report our findings below:

(a) With respect to item 1 we found the rental income as shown in the Profit and Loss Statement, which has been calculated on the aforesaid basis, was mathematically accurate.

(b) With respect to item 2 we found the government rates as shown in the Profit and Loss Statement, which have been calculated on the aforesaid basis, were mathematically accurate.

(c) With respect to item 3 we found the management fees as shown in the Profit and Loss Statement, which have been calculated on the aforesaid basis, were mathematically accurate.

We have been advised by the directors of the Company that the Company has no access to the books and records of the Vendor (as defined in the Circular) relating to the Property, and consequently there is no assurance as to the genuineness, accuracy and completeness of the amounts shown in the Profit and Loss Statement. Further, we make no comment as to the appropriateness of the assumptions and methods of calculations adopted by the Company in arriving at the amounts shown in the Profit and Loss Statement. Premised on the foregoing, we consider that the Profit and Loss Statement has been prepared by the directors of the Company using accounting policies which are materially consistent with those of the Company.

Because the above procedures do not constitute an assurance engagement made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements, we do not express any assurance on the Profit and Loss Statement.

Had we performed additional procedures or had we performed an assurance engagement of the financial statements in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, other matters might have come to our attention that would have been reported to you.

We consent to a copy of this report being made available to The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). However, for the avoidance of doubt, all duties and liabilities (including without limitation, those arising from negligence) to third parties, including the Stock Exchange, are specifically disclaimed. Our report is solely for the purpose set forth in the second paragraph under the section headed "Procedures" in this report and for your information and is not to be used for any other purpose or (subject to the foregoing) to be distributed to any other parties without our prior written consent. This report relates only to the matters specified above and does not extend to any financial statements of the Company, taken as a whole.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

The following is the unaudited pro forma statement of assets and liabilities of the Group (the "Unaudited Pro Forma Financial Information") which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules, for illustrative purposes only, to provide information about how the acquisition of real property under the Sale and Purchase Agreement (the "Acquisition") might have affected the net assets of the Group as if the Acquisition had taken place on 31 March 2006.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2006 or any future date.

	The Group as at 31 March 2006 *HK$'000* *(Note 1)*	**Pro forma adjustment** *HK$'000* *(Note 2)*	**Adjusted balances** *HK$'000*
Non-current assets			
Property, plant and equipment	3,386	7,796	11,182
Prepaid land lease payments	–	12,900	12,900
Intangible assets	–		–
Interest in an associated company	–		–
Investments			
– Available-for-sale financial assets	1,779		1,779
– Loans and receivables	13		13
	5,178		25,874
Current assets			
Inventories	1,094		1,094
Trade and other receivables	13,984		13,984
Bank balances and cash	40,619	(20,696)	19,923
	55,697		35,001
Total assets	60,875		60,875
Less: Current liabilities			
Trade and other payables	19,790		19,790
Income tax payable	4,295		4,295
	24,085		24,085
Net current assets	31,612		10,916
Net assets	36,790		36,790
Capital and reserves			
Equity attributable to equity holders of the Company			
Share capital	60,000		60,000
Reserves	(24,052)		(24,052)
	35,948		35,948
Minority interests	842		842
Total equity	36,790		36,790

Notes:

1. The figures have been extracted from the audited consolidated balance sheet of the Group as at 31 March 2006 as disclosed in the published annual report of the Company for the year ended 31 March 2006.

2. The total costs of the Acquisition of approximately HK$20,696,000, comprising purchase consideration of HK$19,500,000, stamp duty of approximately HK$731,000, purchase commission payable to agent of HK$195,000 and other professional fees of approximately HK$270,000, will be settled through internal resources of the Group. The split of value between the land and building elements of the Property for accounting purpose is based on the addendum to the valuation report set out in Appendix IV to this circular.

2. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

The following is the text of a report received from the auditors of the Company, HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants, Hong Kong, addressed to the directors of the Company and prepared for the sole purpose of inclusion in this circular.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 July 2006

The Directors
FlexSystem Holdings Limited

Dear Sirs,

ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

Introduction

We report on the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information") of FlexSystem Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition of real property under the Sale and Purchase Agreement (as defined in the Circular) (the "Acquisition") might have affected the net assets of the Group as if the Acquisition had taken place at 31 March 2006, for inclusion in the Company's circular dated 27 July 2006 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section 1 of Appendix III of the Circular.

Respective responsibilities of the directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by Rule 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 March 2006 or any future date.

Opinion

In our opinion:

a. the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b. such basis is consistent with the accounting policies of the Group; and

c. the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
Hong Kong

The following are the text of the letters and valuation certificates received from DTZ Debenham Tie Leung Limited and addressed to the Directors in connection with its valuation as at 5th July 2006 of the Property:

DTZ Debenham Tie Leung 戴德梁行
International Property Advisers
National Grade A Real Estate Valuation Company in China
National Land Valuation Company in China

DTZ Debenham Tie Leung Limited
10th Floor,
Jardine House,
1 Connaught Place,
Central,
Hong Kong

27th July, 2006

The Directors
FlexSystem Holdings Limited
12th Floor, North Block
Skyway House
No. 3 Sham Mong Road
Tai Kok Tsui
Kowloon
Hong Kong

Dear Sirs,

RE: UNIT A ON 4TH FLOOR AND PARKING SPACE NO. 45 ON GROUND FLOOR, EASTERN SEA INDUSTRIAL BUILDING, 29-39 KWAI CHEONG ROAD, 48-56 TAI LIN PAI ROAD, KWAI CHUNG, NEW TERRITORIES.

We refer to your instructions for us to carry out a market valuation of the captioned property which is to be acquired by FlexSystem Holdings Limited. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property as at 5th July, 2006 (the "date of valuation").

Our valuation of the property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

We have valued the property by direct comparison approach assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

We have relied to a very considerable extent on the information given by your company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, floor areas and all other relevant matters. Dimensions and measurements are based on the copies of documents or other information provided to us by your company and are therefore only approximations. No on-site measurement has been carried out.

In valuing the property, the Government Lease of which expired before 30th June, 1997, we have taken into account that under the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance, such lease has been extended without premium until 30th June, 2047 and that a rent of three per cent. of the rateable value is charged per annum from the date of extension.

We have not been provided with copies of the title documents relating to the property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior, and wherever possible the interior, of the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Our valuation is prepared in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors and in compliance with Chapter 5 of the Listing Rules published by the Stock Exchange of Hong Kong Limited.

Our valuation certificate is hereby enclosed for your attention.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Edwin C.W. Ng
Registered Professional Surveyor
(General Practice Division)
M.R.I.C.S., M.H.K.I.S.
Associate Director

Note: Mr. Edwin C.W. Ng is a Chartered Surveyor who has 12 years of experience in valuation of properties in Hong Kong.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 5th July, 2006
Unit A on 4th Floor and Parking Space No. 45 on Ground Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, 48-56 Tai Lin Pai Road, Kwai Chung, New Territories 23/467th shares of and in Kwai Chung Town Lot No. 143	The property comprises an industrial unit on the 4th floor and a parking space on the ground floor of an 8-storey godown/industrial building. The ground floor of the building is devoted to loading/unloading areas and car parking purposes and its upper floors accommodate godown/industrial units. The property was completed in 1975. The property has a gross floor area approximately 2,849.03 sq.m. (30,667 sq.ft.), excluding the area of car parking space. The property is held from the Government for a term of 99 years from 1st July, 1898 which has been statutorily extended until 30th June, 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently vacant.	HK$19,500,000

Notes:

(1) The registered owner of the property is Tai Wah Television Industries Limited.

(2) The property is subject to a mortgage dated 16th October, 1980 and three further legal charges dated 9th December, 1987, 8th August, 1988 and 8th April, 1989 respectively in favour of Hang Seng Bank Limited.

(3) The property is subject to a Charging Order: Notice to Show Cause dated 27th May, 1999 in connection with The Kwangtung Provincial Bank as "Plaintiff' and Tai Wah Television Industries Ltd. as "1st Defendant", Wong Hip Wo as "2nd Defendant" and Wong Kwan Hon Benson as "3rd Defendant" in High Court Action No. 1034 of 1999. However, for the purpose of our valuation, we have disregarded the effect of the Orders and assumed that the property is transferable free from any encumbrances and restrictions.

(4) The property is subject to a Sealed Copy Charging Order Absolute dated 24th June, 1999 in connection with Kincheng Banking Corporation as "Plaintiff' and Tai Wah Television Industries Ltd. as "1st Defendant", Wong Hip Wo as "2nd Defendant" and Wong Kwan Hon Benson as "3rd Defendant" in High Court Action No. 1034 of 1999. However, for the purpose of our valuation, we have disregarded the effect of the Orders and assumed that the property is transferable free from any encumbrances and restrictions.

(5) The property is currently zoned for "Other Specified Uses (Business)" purpose under Kwai Chung Outline Zoning Plan No. S/KC/21 dated 29th June 2004.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this circular is accurate and complete in all material respects and is not misleading;

(b) there are no other matters the omission of which would make any statement in this circular misleading; and

(c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long positions in Shares

	Number of Shares held			
Name of Director	**Personal interests**	**Corporate interests**	**Total**	**Approximate Percentage of interests**
Mr. Lok Wai Man *(Note 1)*	3,798,000	475,500,000	479,298,000 *(Note 2)*	79.88%
Mr. So Yiu King *(Note 1)*	2,000	3,600,000	3,602,000 *(Note 2)*	0.60%
Mr. Chow Chi Ming, Daniel *(Note 1)*	2,000	3,600,000	3,602,000 *(Note 2)*	0.60%
Mr. Leung Wai Cheung *(Note 1)*	–	1,000,000	1,000,000 *(Note 2)*	0.17%

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 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.

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 and Mr. Chow Chi Ming, Daniel and Mr. Leung Wai Chung. 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 shareholdings in SomaFlex Holding Inc..

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long positions in Shares

Name of Shareholders	Number of Shares	Approximate percentage of interests
SomaFlex Holdings Inc. *(Note 1)*	475,500,000	79.25%

Note:

1. SomaFlex Holdings Inc. is beneficially owned as to 98.27% by Mr. Lok Wai Man, as to 0.76% by Mr. So Yiu King, as to 0.76% by Mr. Chow Chi Ming, Daniel and as to 0.21% by Mr. Leung Wai Cheung.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2006, being the date to which the latest published audited financial statements of the Company were made up.

There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006, being the date to which the latest audited financial statements of the Company were made up.

6. EXPERTS

Each of HLB Hodgson Impey Cheng and DTZ Debenham Tie Leung Limited has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters and/or references to their respective names in the form and context in which they respectively appear.

The following are the qualifications of the experts who have provided their advice and reports (as the case may be) contained in this circular:

Name	Qualification
HLB Hodgson Impey Cheng	Chartered Accountants, Certified Public Accountants
DTZ Debenham Tie Leung Limited	Property valuer

As at the Latest Practicable Date, each of HLB Hodgson Impey Cheng and DTZ Debenham Tie Leung Limited was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

9. GENERAL

(a) The registered office of the Company is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies, and its head office and principal place of business in Hong Kong is at 12th Floor, North Block, Skyway House, 3 Sham Mong Road, Tai Kok Tsui, Kowloon, Hong Kong.

(b) The compliance officer of the Company is Mr. So Yiu King.

(c) The company secretary and qualified accountant of the Company is Mr. Leung Wai Cheung. He is a member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

(d) The Hong Kong branch share registrar of the Company is Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(e) The audit committee of the Company 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:

(1) Mr. Tse Lin Chung, aged 45, 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. 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. Tse does not have any directorship in other public listed company in the past three years.

(2) Mr. Lee Kar Wai, aged 57, is the financial operation director for Kangong 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 Institute of Certified Public 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. He is also an independent non-executive director of Prosticks International Holdings Limited, a listed company in Hong Kong. Saved as disclosed about, he does not have any directorship in other public listed company in the past three years.

(3) Mr. Mak Wing Kwong, David, aged 43, is currently the managing director of Above Technology Ltd. He has 19 years of experiences in managing international sales and marketing especially in information technology and electronics industries. He holds a Master of Science degree in International Marketing from Strathclyde University (MSc IM), Diploma in Management Studies from Hong Kong Polytechnic University (DMS) and Diploma in Company Direction from The Hong Kong Institute of Directors (DipCD). He is the fellow member of the Hong Kong Institute of directors (FHKIoD) and member of Chartered Institute of Marketing (MCIM). Apart from his professional qualification, he also serves as director of The Hong Kong Economic & Trade Association. He is the Member of the GuiZhou Provincial Committee of the Chinese People's Political Consultative Conference. He is also serving as Consultant of the ChengDu Overseas Friendship Association and Director of the GuiZhou Province/ChongQing/Tianjian Overseas Friendship Associations. Mr. Mak joined the Group in September, 2004.

(f) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

11. MATERIAL CONTRACT

The following contract (not being contracts in the ordinary course of business) has been entered into by members of the Group within the two years preceding the Latest Practicable Date which is or may be material: Sale and Purchase Agreement.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to 10 August 2006:

(a) copy of the material contract referred to in the paragraph headed "Material contract" in this Appendix;

(b) the reports from HLB Hodgson Impey Cheng in respect of the factual findings on agreed-upon procedures on the unaudited profit and loss statement of the Property, and the unaudited pro forma financial information of the Enlarged Group, the texts of which are set out in Appendix II and Appendix III to this circular respectively;

(c) the valuation report of the Property prepared by DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix IV to this circular;

(d) the annual reports of the Company for the two financial years ended 31 March 2006;

(e) the written consents referred to in the paragraph headed "Experts" above; and

(f) the memorandum and articles of association of the Company.