



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

**QUARTERLY RESULTS REPORT
FOR THE THREE MONTHS ENDED
30TH JUNE, 2001**

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

SUMMARY

- Achieved an unaudited consolidated net profit of approximately HK\$3 million for the three months ended 30th June, 2001 and maintained a gross profit margin of approximately 82%.
- Recorded unaudited consolidated turnover of approximately HK\$16 million during the quarter, representing a growth of approximately 8% compared to that of the corresponding quarter in 2000.

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH JUNE, 2001

The board of directors (“Board”) of FlexSystem Holdings Limited is pleased to announce the unaudited consolidated results of the Group for the three months ended 30th June, 2001 with the unaudited combined comparative figures for the corresponding period in 2000 are as follows.

		Three months ended 30th June,	
		2001	2000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	16,089	14,845
Gross profit		13,121	12,856
Profit before taxation		3,703	6,602
Taxation	3	(385)	(1,081)
Profit after taxation		3,318	5,521
Minority interests		(300)	—
Profit attributable to shareholders		3,018	5,521
Earnings per share - Basic	4	0.5 cent	1.15 cents

Notes:

1. Basis of presentation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8th May, 2000 under the Companies Law (2000 Revision) of the Cayman Islands. In preparation for the listing of the Company's shares on GEM, a group reorganization was effected whereby the Company became the holding company of the Group on 10th July, 2000. The shares of the Company (the “Shares”) were listed on GEM on 24th July, 2000 (the “Listing Date”).

The results of the Group have been prepared on a merger basis as if the current group structure had been in existence throughout the periods under review or since the respective dates of incorporation or establishment of the respective subsidiaries now comprising the Group, whichever is a shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

2. Turnover

The Group is principally engaged in the development, sale and lease of enterprise software products in Hong Kong, mainland China (the "PRC") and other Asian countries. The unaudited consolidated revenue for the three months ended 30th June, 2001 with the unaudited combined figures for the corresponding period in 2000 are as follows:

	Three months ended 30th June,	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Sale and lease of application software	8,600	10,978
Maintenance services	6,461	3,867
Sale of hardware	1,028	—
	<u>16,089</u>	<u>14,845</u>

3. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the periods.

No provision for overseas income tax has been made in the results as the Group has no assessable profits for the 3 months ended 30th June, 2001 (2000: Nil).

4. Earnings per share

The calculation of the Group's basic earnings per share for the three months ended 30th June, 2001 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$3,018,000 (unaudited combined profit attributable to shareholders for three months ended 30th June, 2000: approximately HK\$5,521,000) and the 600,000,000 shares (three months ended 30th June, 2000: approximately 480,000,000 shares) in issue during the period. In determining the weighted average number of shares, a total of 480,000,000 share issued after the incorporation of the Company and reorganization of the Group immediately but before the issue of new shares to the public pursuant to the listing of the Company's shares were deemed to have been issued since 1st April, 1999.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June, 2001 (three months ended 30th June, 2000: Nil).

BUSINESS REVIEW AND PROSPECTS

Business Review

General

During the first three months of the 2001 financial year, the Group devoted substantial resources to research and development for enhancing the functions of its existing products as well as introducing new applications to the Group's solution suite. It is expected the benefit of these efforts will only be reflected next year.

During the period under review, turnover increased by approximately 8.4% to approximately HK\$16 million as compared with the corresponding period last year. Net profit amounted to approximately HK\$3 million with increments in operating expenses, including research and development costs.

BUSINESS DEVELOPMENT

Enterprise Software

The Group continued to dedicate efforts in the development of enterprise solutions. The Group has introduced the latest version of its flagship product-FlexAccount ME and FlexAccount FION Ver.2.0 to the market last year and the products have been greeted with good response. The Group has already commenced the research and development of FlexAccount NV4 and FlexAccount FION Ver.3.0. The Group is now focusing on enhancing its products with more features-rich interface and with functions that will facilitate workflow. The Group is also making efforts to integrate its own products with those of its business partners, thus expanding the Group's solution suite both vertically and horizontally. Such efforts have resulted in the Group's newly developed virtual office suite and membership management solutions. The Group has also been devoting resources in developing solutions based on the Microsoft.Net framework and a new application server architecture.

ASP Business

The Group's Enterprise Data Centre, which forms the core of its ASP business, targets both SMEs and multi-national corporations. The existing subscribers to the services offered by the Group's Enterprise Data Center include many multi-national corporations which utilize the Group's services on a cross-border basis, thereby extending the Group's coverage to overseas markets. To date, the Group's ASP services have been offered to corporate clients in seven countries.

Geographic Expansion

PRC

The Group's research team in the PRC has reached the final stage of localization of the FlexAccount ME solution for the local market. The Group will continue the expansion of its programming team in the PRC to further strengthen its research and development capability.

The Group has commenced its expansion to the southern region and intends to appoint a sales agent in Dongguan within the next quarter for distribution of the Group's manufacturing and human resources management solution. The Group has also formed business partnerships with two IT companies, namely Bamboo Networks Guangzhou and TEC Dongguan. The Group intends to leverage on the well-established market position of these two companies for expanding into the region.

The Group's application for the ISO 9001 certification is in the final stage. The final testing has been scheduled in the third quarter of this financial year.

Taiwan

On top of a steady growth of its ASP and ERP business, the Group's Taiwan office has been working with MRC Holding Limited ("MRC") (Stock Code: 8070), one of the Group's investee companies, to introduce human resources management solutions developed by MRC to corporate clients in Taiwan.

Other Asian countries

The Group's business partner in Malaysia and the Group's Singapore office have been collaborating on cross-border projects targeted at the manufacturing industry in those two countries. The two offices have been promoting the Group's products within the region and have also participated in the implementation of the Group's solutions for its customers. The Group has introduced the supply chain management solution developed by its office in Singapore market to the Hong Kong market, whereas the Malaysian partner has been working closely with the Group's research team to develop a Linux-based virtual office suite.

Localization work of the FlexAccount products for the Australian market is close to completion. The Group's Australian office will commence a feasibility study on the development of a payroll system for the local market, which will provide an application interface between FlexSystem's products and some local banking/payroll system currently available in the Australian market.

In line with the market trend of the ASP market in Australia, the Group has been promoting its SME Data Center in that region. Its office in Australia has already set up two data centers and has successfully recruited ASP business partners in Sydney and Melbourne respectively.

Outlook

We will continue to dedicate efforts on research and development with an aim to enhance existing products as well as to expand our product suite. Looking forward in the remaining quarters of this financial year, we expect to face a more challenging operating environment given the unfavorable sentiment prevailing in the IT market.

COMPETING INTERESTS

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

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2001, the interests of the directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of shares		
	Personal interests	Corporate interests	Total
Mr. Lok Wai Man (<i>note 1</i>)	3,414,000	475,500,000 (<i>note 2</i>)	478,914,000
Mr. So Yiu King (<i>note 1</i>)	2,000	3,600,000 (<i>note 2</i>)	3,602,000
Mr. Chow Chi Ming, Daniel (<i>note 1</i>)	2,000	3,600,000 (<i>note 2</i>)	3,602,000
Mr. Tam Wing Yuen (<i>note 1</i>)	Nil	3,600,000 (<i>note 2</i>)	3,600,000
Mr. Leung Wai Cheung (<i>note 1</i>)	Nil	1,000,000 (<i>note 2</i>)	1,000,000

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 are regarded as initial management shareholders (as defined in the GEM Listing Rules) of the Company, Mr. So Yiu King, Mr. Chow Ching Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung are executive directors of the Company and are also considered to be initial management shareholders of the Company.
2. The 475,500,000 shares were held by SomaFlex Holdings Inc. a private company beneficially owned by Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holdings Inc., he is deemed, by virtue of the SDI Ordinance, to be interested in the same 475,500,000 shares held by SomaFlex Holdings Inc.. The indirect interest of the other remaining Directors are calculation of the corresponding number of shares held by SomaFlex Holdings Inc. by reference to their respective shareholding in SomaFlex Holdings Inc..

Save as disclosed above, as at 30th June, 2001, none of the Directors, chief executive of the Company or their associates had any interests in or rights to subscribe for any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

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

No share options were granted by the Company during the period from the Listing Date to 30th June, 2001.

MANAGEMENT SHAREHOLDERS

Save for the Directors and substantial shareholders as herein disclosed, the Directors are not aware of any persons who as at 30th June, 2001 were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

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

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

SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed herein in respect of the Directors, chief executives and their respective Directors, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 30th June, 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

	Number of shares			Percentage of issued Total share capital
	Personal interests	Corporate Interests		
SomaFlex Holdings Inc. <i>(note)</i>	Nil	475,500,000	475,500,000	79.25%

Note: SomaFlex Holdings Inc. is beneficially owned as to 97.51% by Mr. Lok Wai Man, 0.76% by Mr. So Yiu King, 0.76% by Mr. Chow Chi Ming, Daniel, 0.76% by Mr. Tam Wing Yuen and 0.21% by Mr. Leung Wai Cheung.

INTEREST OF SPONSOR

Vickers Ballas Capital Limited (the "Sponsor") has entered into a sponsorship agreement with the Company whereby, for a fee, the Sponsor will act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the remaining period up to 31st March, 2003.

As updated and notified by the Sponsor, as at 30th June, 2001, one of its fellow subsidiaries, Vickers Ballas Hong Kong Limited, and one of the directors of the Sponsor beneficially held 19,834,000 Shares (approximately 3.3% of the issued share capital) and 220,000 Shares respectively in the Company.

Saved as disclosed above, neither the Sponsor nor its directors or employees or associates, as at 30th June, 2001, had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

By order of the Board
Lok Wai Man
Chairman

Hong Kong, 13th August, 2001