



# **FlexSystem Holdings Limited**

*(incorporated in the Cayman Islands with limited liability)*

**INTERIM RESULTS REPORT  
FOR THE SIX MONTHS ENDED  
30TH SEPTEMBER, 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

- Recorded unaudited consolidated turnover of approximately HK\$29 million during the half-year, representing a growth of approximately 18% compared to that of the corresponding half-year in 2000.
- Achieved an unaudited consolidated net profit of approximately HK\$4 million and a gross profit margin of approximately 78% for the six months ended 30th September, 2001.
- Interim dividend of HK1.00 cent recommended.

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2001

The board of directors ("Board") of FlexSystem Holdings Limited is pleased to announce the unaudited consolidated results of the Group for the six months ended 30th September, 2001 with the unaudited combined comparative figures for the corresponding period in 2000 as follows:—

		<b>Three months ended</b>		<b>Six months ended</b>	
		<b>30th September,</b>		<b>30th September,</b>	
		<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	12,874	9,653	28,963	24,498
Gross profit		9,496	9,354	22,617	22,210
Profit before taxation		734	3,658	4,441	10,260
Taxation	3	(20)	(108)	(406)	(1,189)
Profit after taxation		717	3,550	4,035	9,071
Minority interests		298	—	(2)	—
Profit attributable to shareholders		1,015	3,550	4,033	9,071
Earnings per share - Basic	4	0.17 cent	0.68 cents	0.67 cent	1.74 cents
Dividend per share		1.00 cent	1.50 cents	1.00 cent	1.50 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 six months ended 30th September, 2001 with the unaudited combined figures for the corresponding period in 2000 are as follows:

	Three months ended 30th September,		Six months ended 30th September,	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale and lease of application software	9,469	7,973	18,069	18,951
Maintenance services	2,715	1,555	9,176	5,422
Sale of hardware	690	125	1,718	125
	<u>12,874</u>	<u>9,653</u>	<u>28,963</u>	<u>24,498</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 periods (2000: Nil).

## 4. Earnings per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30 September, 2001 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$1,015,000 and HK\$4,033,000 respectively and 600,000,000 shares in issue during the period.

The calculation of the Group's basic earnings per share for the three months and six months ended 30 September 2000 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$ 3,550,000 and HK\$9,071,000 respectively and the weighted average number of approximately 520,000,000 shares in issue.

## **INTERIM DIVIDEND**

The Directors recommend the payment of an interim dividend of HK1.00 cent per share for the six months ended 30th September, 2001 (six months ended 30th September, 2000: HK1.50 cents). The dividend will be payable on 30th November, 2001 to shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 29th, November, 2001.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed between Monday, 26th November, 2001 and Thursday, 29th November, 2001, during which period no transfer of shares will be effected. To rank for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant shares certificates, must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at 2nd Floor, Vicwood Plaza, 199 Des Vouex Road, Central, Hong Kong for registration not later than 4:00 p.m. on Friday, 23rd November, 2001.

## **BUSINESS REVIEW AND PROSPECTS**

### **Business Review**

#### *General*

During the first half year of the 2002 financial year, turnover increased by approximately 18% to approximately HK\$29 million as compared with the corresponding period last year. However, net profit decreased by approximately 56% as compared with the corresponding period last year as a result of difficult economic conditions pertaining to the IT industry.

With the global economic recession, the IT department of many companies are facing a fall-back on their IT expenditures which weaken their purchasing power. Nevertheless, the Group sees this as an opportunity to consolidate its market position for the future years. The Group has completed several acquisitions during the year of 2000 and is now undergoing the stage of assimilating the technologies by leveraging on the collective knowledge as well as restructuring the companies acquired. The Group has re-allocated its resources on product development. While the pace of the overseas expansion plan has slowed down, the Group will dedicate more resources on the development of its existing markets.

## **Business development**

### *Enterprise Software*

The Group has continued to invest in the development of enterprise software according to its plan and has acquired interests in some application developers. During the six-month period, the Group has been allocating resources on the restructuring of the acquired companies, as well as making technology transfer among members of the Group. The Group is leveraging on the synergy to enhance the existing solutions and develop new products for the market. With the said strategy, the Group has successfully enlisted and developed a range of enterprise solutions offering different functions for different industries, including accounting suite, ERP suite, MRP suite, distribution and logistics suite, workflow and collaborative solution, office application and educational solution.

### *ASP Business*

Since the Group was listed on GEM, it has continuously invested in its ASP business. The Group has dedicated efforts in educating its customers about current and emerging technologies and has successfully introduced the FlexSystem Data Center to the local and overseas markets. FlexSystem is well positioned to benefit from the ASP business as it is among the few on the market that deliver the best of breed technology and a feasible solution. The Group's ASP business is well-known for its flexibility and ability to cover the small and medium sized enterprise market (i.e. the SME Data Center) as well as the corporate users market (i.e. the Enterprise Data Center). In particular, the Group's Enterprise Data Center has received good market reception with an increasing subscription rate and a general acceptance of the Soma\*AI technology by corporate clients. This accelerated the Group's market momentum throughout the region, particularly in the PRC and Taiwan.

## **Geographical Expansion**

### *The PRC*

The Group's expansion in PRC has been remarkable. A solid foundation has been established in the market. While being diverse, the PRC markets exhibited certain attributes similar to that of the Hong Kong market. As such, the Group has focused on the sales of its enterprise software and provision of ASP services through its Enterprise Data Center in these markets. The use of the Soma\*AI technology has proved to be capable of lowering the cost of private communications links and extending the reach of corporate network to remote employees. At the same time, the overwhelming acceptance of the Soma\*AI technology in the market has helped the Group to extend beyond area in the vicinity of its Shanghai, Beijing and Guangzhou offices. The Group is consolidating its foothold in these cities and remains focused on promoting sales of its enterprise software and services of the Enterprise Data Center.

The Group has completed the first stage of its expansion in the Pacific Rim following the establishment of offices in Taiwan, Singapore and Australia. The Taiwan office is mainly focused on the sales of enterprise software and provision of ASP services in the market. The Group's Singapore office is working closely with the Group's Malaysian business partner to market the Group's enterprise software and to provide regional support for its Singaporean clients. The Group has also assigned R&D projects to its Singapore office, in which some of the products are undergoing the final testing stage. These products are expected to be launched by the end of 2002. In Australia, as the market for ASP services is relatively mature and Australians are generally more assent to the idea of pay-per-usage, the Group's Australian office has been concentrating on the marketing of the Group's SME Data Center. At the same time, the Australian office has been working on the localization of the Group's products.

### *Research and Development*

The Group distinguishes itself from other enterprise software developers as a forerunner in terms of technology. It has continued to dedicate resources to conducting research on new technology, and most importantly, implementing new technologies in its future applications. The Group's R&D team has been working on a new version of FlexAccount and FION. The new version will revolutionize the fundamental structure of FlexSystem's applications with some major enhancements on the system's functionality. The Group's Soma\*AI technology has become the framework for FlexSystem's application development and it sets the Group's standard for server centric computation on a low bandwidth environment. In the past few months, the Group has been studying various technologies and has commenced the development of the next generation of its Soma\*AI technology. The said technology is targeted to augment the performance and scalability of the Group's solutions. It will also help the Group to launch new enterprise solutions for corporate clients to handle transactions with massive data by providing an extremely stable environment.

## COMPARISON OF USE OF PROCEEDS

	Amount to be used up to 30th September, 2001 as disclosed in the prospectus dated 18th July, 2000 (HK\$m)	Actual approximate amount used up to 30th September, 2001 (HK\$m)
Strategic acquisition and investment	30	39
Geographic expansion	14	3
Research and development	12	11
ASP business	12	2
Marketing and promotional activities	5.5	4
	<u>73.5</u>	<u>59</u>

The under-utilization is mainly attributable to the fact that the Group has postponed the use of proceeds for its ASP business and geographic expansion due to the unfavourable market sentiment of the IT industry and slower than expected growth of the ASP business in Asia in general.

### Comparison of Business Objectives with Actual Business Progress

Principal Area	Business Plans	Actual Business Progress/ Change in Business Objective
<b>Research &amp; Development</b>		
Product Development	Continue to develop the next generation of FlexAccount products	The development of FlexAccount NV4 and FION Ver.3.0 is proceeding as scheduled
	Continue to enhance the functionality of FlexAccount products	The Group is continuing its effort to enhance the functionality of the FlexSystem Enterprise Solution Suite. New features include processing of value-added taxes, critical level alert and drill-down enabled reporting.
	Develop application for the catering and hotel industry	Given an overall unfavorable economic environment, the Group postponed the said application development at this stage.

**Principal Area****Business Plans****Actual Business Progress/ Change in Business Objective**

Complete development of membership management application

The product has been marketed to some potential customers. Positive feedbacks have been received.

Conclude research and explore the Linux application market

The Group completed the evaluation of the existing Linux technology and application market. The Group will utilize and apply the acquired skill-set for application development in the future.

Commence the development of Linux version of FlexSystem products

The Group has commenced the development of new applications with Linux, including a workflow solution and is continuing with the final testing of its virtual desktop application.

Complete localization of FlexSystem products for the Taiwanese and Japanese market

Given the recent economic conditions of the region, the Group has put its plan to enter the Japanese market on hold.

Commence the localization of FlexSystem products for the Malaysian and Singaporean market

The Group has outsourced the Malaysia related localization project to its Malaysian partner and will continue the localization for the Singaporean market.

**Principal Area****Business Plans****Actual Business Progress/ Change in Business Objective**

Research

Continue to conduct research and implement new technology on FlexAccount products

The Group has allocated resources for the studying of new technologies like Microsoft.net framework and C++. This aims to enhance the performance of FlexSystem products, and significantly lower the development cost.

Continue to develop solutions to enable wireless application on platforms such as WAP

After studying the WAP market in the region, the Group has come to the conclusion that the market is not mature yet and thus has put the development plan on hold.

Commence the development of new Internet enabling technologies for deployment on the next generation of Soma\*AI

The Group has commenced the utilization of the Microsoft.net framework and C++ for the development of the next generation of the Soma\*AI technology.

Commence the enhancement of the functionality of FlexAccount Data Center

The Group has commenced the development of the next generation of the Soma\*AI technology for improving the performance and resources management of the FlexAccount Data Center.

Commence the research and implementation of new technology for the ASP business

The Group has commenced studying new Internet technology.

Principal Area	Business Plans	Actual Business Progress/ Change in Business Objective
<b>ASP Business</b>		
PRC	Continue to recruit business partner in various major cities in the PRC for the ASP business	The Group continued to recruit business partners in the PRC for its ASP business.
	Continue to set up and launch data centers in various major cities in the PRC	The Group continued to put emphasis on the Enterprise Data Center sector. The Group has slowed down its plan for setting up additional data centers as the services do not require data centres operated by the Group.
	Establish 5 ~10 call centers for its ASP clients in the PRC	Given the slowing down of setting up data centres, the pace of setting up call centres has also been slowed down.
Hong Kong	Continue to promote ASP business by direct marketing to existing corporate users of FlexAccount products in Hong Kong	The Group continued to promote its ASP business through direct marketing efforts, and particularly towards existing corporate users of FlexSystem's products.
	Continue to recruit international accounting firms and ISP as value-added partners.	The Group continued to seek business partnership with international accounting firms and ISP in Hong Kong and other Asian countries.

Principal Area	Business Plans	Actual Business Progress/ Change in Business Objective
Other Asian markets	Continue to expand the ASP business in selected Asian markets, including Taiwan and Japan	The Group continued its ASP business expansion in Taiwan.
	Continue to recruit business partners in selected markets in the other Asian markets for the ASP business	The Group continued to seek business partnership opportunities in certain Asian countries.
<b>Enterprise Application Business</b>	Continue to promote FlexAccount Products by direct and Internet-based marketing to the general business sector in selected Asian markets	The Group continued its direct marketing approach to introduce FlexSystem products to overseas markets through the regional offices and business partners.
	<b>Resources Deployment</b>	Set up research and development center in Malaysia
Expand research and development team		The Group is expanding its research and development operation in Hong Kong by increasing the total number of technical personnel by about 30%
Set up new overseas offices in Japan		Given the unfavorable economic condition in Asia, the Group has put its development plan for the Japanese market on hold.

## DIRECTORS' INTERESTS IN SECURITIES

At 30th September, 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
<i>Mr. Chow Chi Ming, Daniel (note 1)</i>	<i>2,000</i>	<i>3,600,000</i> ( <i>note 2</i> )	<i>3,602,000</i>
Mr. Leung Wai Cheung ( <i>note 1</i> )	Nil	1,000,000 ( <i>note 2</i> )	1,000,000

- 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 and Mr. Leung Wai Cheung are executive directors of the Company and are also considered to be initial management shareholders of the Company.
- The 475,500,000 shares were held by SomaFlex Holdings Inc. a private company beneficially owned by Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel and Mr. Leung Wai Cheung. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holdings Inc., he is deemed, by virtue of the 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 the corresponding number of shares held by SomaFlex Holdings Inc. by reference to their respective shareholding in SomaFlex Holdings Inc..

Save as disclosed above, as at 30th September, 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 September, 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 September, 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 September, 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 share capital
	Personal interests	Corporate Interests	Total	
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 September, 2001, one of its fellow subsidiaries, DBS Vickers (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 September, 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, 12th November, 2001