



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

**QUARTERLY RESULTS REPORT
FOR THE THREE MONTHS ENDED
30TH JUNE, 2002**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30TH JUNE, 2002

The board (“Board”) of directors (“Directors”) of Flexsystem Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the “Group”) for the three months ended 30th June, 2002 with the unaudited combined comparative figures for the corresponding period in 2001 as follows:

		Three months ended	
		30th June,	
		2002	2001
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	14,156	16,089
Gross profit		11,267	13,121
(Loss)/profit before taxation		(1,035)	3,703
Taxation	3	(63)	(385)
(Loss)/profit after taxation		(1,098)	3,318
Minority interests		(1)	(300)
(Loss)/profit attributable to shareholders		(1,099)	3,018
(Loss)/Earnings per share			
- Basic	4	(0.18) cent	0.5 cent

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 reorganisation 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, 2002 with the unaudited combined figures for the corresponding period in 2001 are as follows:

	Three months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sale and lease of application software	8,647	8,600
Maintenance services	4,893	6,461
Sale of hardware	616	1,028
	<u>14,156</u>	<u>16,089</u>

3. Taxation

Hong Kong profits tax has been provided for at the rate of 16% (2001: 16%) on the estimated assessable profit for the period. PRC income tax has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing to the enterprises in the PRC.

4. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share for the three months ended 30th June, 2002 is based on the Group's unaudited consolidated loss attributable to shareholders of HK\$1,099,000 (2001: profit of HK\$3,018,000) and the weighted average number of 600,000,000 (2001: 600,000,000) ordinary shares in issue during the period.

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

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30th June, 2002 (three months ended 30th June, 2001: Nil).

BUSINESS REVIEW AND PROSPECTS

General

Three months has passed since the Group has re-formulated its expansion strategy and re-positioned its ASP business model within the Pacific Rim market, in order to have a tighter control upon its operation costs. The Group has continued to invest in products and technologies development, thus enriching its product suite with more vertical and horizontal applications, and offering a broader choice of top-notch enterprise management solutions to its customers. While there are many enterprise solution developers withdrawing their capital investment on research and development (“R&D”), the Group has taken the initiatives to fortify its leading position on technology innovation and to fulfill its vision of making its solution the standard on the market.

Business Development

Enterprise Software

The Group’s effort on R&D will generate return as there are two new products scheduled to be launched later this year — FlexAccount Ver 10 and ECSS.

FlexAccount Ver 10 is the latest edition of the Group’s Financial Management Suite. The product is built on top of a new system framework with many advanced features embedded into it, including innovative reporting options, intelligent account code design and workflow. ECSS is an executive computing support tool, which helps causal users to retrieve quality information out of their data warehouse on their own, without over-reliance on the technical division. These two products target middle to large corporations. The Group is expecting to further expand its market share with the new products.

The Group’s efforts to strike for technology excellence are being assured as the Group was being honored the 2002 Most Innovative Independent Software Vendor Award by Microsoft HK.

ASP Business

The Group’s ASP business stays focused on the enterprise sector, to which resources have been continuously allocated. The Group has invested on its thin-client server technology. New and refined technology has been deployed on top of the Group’s data center to enhance its overall competitiveness.

Geographic Expansion

PRC

The Group's Beijing, Guangzhou and Shanghai offices provide direct sales and support to the Group's regional customers. On top of the accounting suite, additional effort has been put on the sales and marketing of its enterprise management solutions, including workflow and executive computing suite. Though it has ceased setting up new offices, the Group has persisted to identify potential business partners and to leverage on their network in exploring the market in a more cost effective way.

Taiwan

Northern district remains the Group's primary market in Taiwan. The Group's joint-marketing efforts with Deloitte Taiwan continue to be an effective way to help introduce FlexSystem Enterprise Solutions to the local corporations. This brings forth new business in the distribution of enterprise solution and the offering of enterprise data center services.

Other Asian Countries

In view of the poor economic conditions, the Group has placed tighter control on its Pacific Rim operations and has restructured its local offices. In view of the exploration of the said market, the Group has ceased its regional offices expansion but has devoted resources on cooperation with its regional partners in Australia, Malaysia and Singapore instead, thus lowering the Group's running cost significantly.

Outlook

While the tough economic hardship is lingering and many companies are struggling merely to stay in business, the Group remains focused on, and continues to invest in, areas which help enhancing the quality of its products and services.

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 EQUITY AND EXECUTIVES' INTEREST IN SECURITIES

As at 30th June, 2002, the interests of the Directors and the chief executives of the Company 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 Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

	Number of shares		Total
	Personal interests	Corporate interests	
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. Leung Wai Cheung (<i>note 1</i>)	Nil	1,000,000 (<i>note 2</i>)	1,000,000

Notes:

1. Mr. Lok Wai Man, being a substantial shareholder of the Company who is 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 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.
2. The 475,500,000 shares were held by SomaFlex Holdings Inc. ("SHI"), 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 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, 2002, none of the Directors, chief executives of the Company or their associates had any interests in, or had been granted, or exercised, any 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 ended 30th June, 2002.

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, 2002 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

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 30th June, 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

	Number of shares			Percentage of issued share capital
	Personal interests	Corporate interests	Total	
SHI (<i>note 1</i>)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (<i>note 2</i>)	3,414,000	475,500,000	478,914,000	79.82%

Notes:

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

SPONSOR'S INTERESTS

DBS Asia Capital Limited (the "Sponsor") has been appointed as the continuing sponsor to the Company. Pursuant to the appointment, 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, 2002, one of its fellow subsidiaries, DBS Vickers (Hong Kong) Limited, beneficially held 19,834,000 shares (approximately 3.3% of the issued share capital) in the Company.

Saved as disclosed above, neither the Sponsor nor its Directors or employees or associates, as at 30th June, 2002, had any interest 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 August, 2002