



# **FlexSystem Holdings Limited**

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

**QUARTERLY RESULTS REPORT  
FOR THE NINE MONTHS ENDED  
31ST DECEMBER, 2002**

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

**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.**

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*This report, for which the directors (the “Directors”) of FlexSystem Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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:- (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.*

**QUARTERLY RESULTS FOR THE NINE MONTHS ENDED  
31ST DECEMBER, 2002**

The board of Directors (“Board”) is pleased to announce the unaudited consolidated results of the Company, together with its subsidiaries (the “Group”), for the nine months ended 31st December, 2002 with the unaudited combined comparative figures for the corresponding period in 2001 as follows:

	<i>Note</i>	<b>Three months ended 31st December,</b>		<b>Nine months ended 31st December,</b>	
		<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	13,651	15,520	41,340	44,483
Gross profit		10,697	13,456	32,469	36,073
Share of loss of an associated company		(197)	—	(604)	—
Share of profit/(loss) of a jointly controlled entity		(66)	(411)	21	(565)
Profit/(loss) before taxation		(283)	(2,824)	(2,124)	1,617
Taxation	3	(60)	356	(188)	(50)
Profit/(loss) after taxation		(343)	(2,468)	(2,312)	1,567
Minority interests		47	463	(6)	461
Profit/(loss) attributable to shareholders		(296)	(2,005)	(2,318)	2,028
Earnings/(loss) per share — Basic	4	(0.05) cent	(0.33) cent	(0.39) cent	0.34 cent
Dividend per share		—	—	0.50 cent	1.00 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 (the "Shares") on GEM, a group reorganisation was effected whereby the Company became the holding company of the Group on 10th July, 2000. The Shares were listed on GEM on 24th July, 2000.

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 nine months ended 31st December, 2002 with the unaudited combined figures for the corresponding period in 2001 are as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>31st December,</b>		<b>31st December,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Sale and lease of application software	8,944	11,685	26,243	29,754
Maintenance services	4,127	3,572	13,495	12,748
Sale of hardware	580	263	1,601	1,981
	<u>13,651</u>	<u>15,520</u>	<u>41,339</u>	<u>44,483</u>

3. **Taxation**

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the periods.

The PRC income tax has been calculated on the estimated assessable profits for the periods at the rates of taxation prevailing to the enterprises in the PRC (2001: Nil).

#### 4. **Earnings/(Loss) per share**

The calculation of the Group's basic earnings per share for the three months and nine months ended 31st December, 2002 is based on the Group's unaudited combined loss attributable to shareholders of approximately HK\$(296,000) and HK\$(2,318,000) respectively, and 600,000,000 shares in issue during the period.

The calculation of the Group's basic earnings/(loss) per share for the three months and nine months ended 31st December, 2001 is based on the Group's unaudited consolidated profit/(loss) attributable to shareholders of approximately HK\$(2,005,000) and HK\$2,028,000, respectively, and 600,000,000 shares in issue during the period.

There were no dilutive potential shares in issue during the periods ended 31st December, 2001 and 2002.

#### 5. **Reserves movement**

There was no movement in reserves during the period (2001: NIL).

### **INTERIM DIVIDEND**

On 12th November, 2002, the Directors declared an interim dividend for the six months ended 30th September, 2002 of HK0.50 cent for each share to its shareholders. Save for the above, the Directors do not recommend dividend payment for the nine months ended 31st December, 2002 (2001: Nil).

### **BUSINESS REVIEW AND PROSPECTS**

#### **Business Review**

##### *General*

During the nine months ended 31st December, 2002, the Group recorded an unaudited turnover of approximately HK\$41 million and an unaudited net loss of approximately HK\$2.3 million. The decrease in turnover of approximately 7% as compared with the corresponding period last year was principally due to the economic conditions pertaining the information technology industry during this period.

Comparing to the overall local market condition, the Group's business is relatively stable. Competition among the enterprise reserve planning vendors remains tough. Both local and international vendors are struggling for survival. Against such backdrop, the Group has been able to maintain its competitive position on the local ranking despite a drop in sales revenue. Such achievement is clearly related to the fact that the Group is among the few IT companies in Hong Kong in the same niche market which continue to invest in research and development ("R&D") in the local market. The Group is of the view that the R&D efforts would bring forth new and improved products and technologies to its customers. Ability to put in extra value to its applications and services is a critical factor for customers to look for new systems.

## **Enterprise Software**

The Group's development team had completed the first development stage of the V10 project, which covers various accounting applications. The Group is pushing ahead for the next stage, which is for the development of trading applications. The V10 trading suite will be built on top of the NET technology, which matches seamlessly with the Group's future development direction in adaptive enterprise programming framework.

## **Overseas Markets**

The Group's PRC operation is picking up growth momentum as the restructured PRC operations have been performing smoothly in promoting and acquiring new business. The Group has been able to obtain several cross-regional contracts including one with a major PRC banking institute. The later contract involves the Group's Ultra-thin Client solution, which is expected to be deployed across 15 provinces and 22 operation centers in the PRC, the data and application of which are all resided on a centralised server in Shanghai. On top of the monetary return, this operation model will assist the Group in demonstrating and benchmarking the full power of its technical capabilities.

## **Research and Development**

Being a Microsoft Certified Solution Partner since 1996, the Group has recently been upgraded as a Certified Gold Partner, which unquestionably acknowledges the Group's effort in R&D and technology innovation. The award is an honorable and a significant accomplishment for the Group since the Group is the first Hong Kong based software vendor qualified for this status. The Gold Partner status will further reinforce the Group's image as one of the leading enterprise solution vendors in the local market.

## **Outlook**

Following the completion of its ECSS and V10 accounting module development, the Group is allocating more resources to promote the new applications to its existing clients, as well as new customers. New technologies such as NET and the Group's proprietary Enterprise Adaptive Programming Framework will be deployed together with its future products to enrich the Group's application suite. As regards the China market, the Group will be gradually expanding its sales force and strengthening its technical team to prepare itself for the post-World Trade Organisation market.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the Directors and 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 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. 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, is regarded as an initial management shareholder (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 and are also considered to be the 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 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 31st December, 2002, none of the Directors, chief executives 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 nine months ended 31st December, 2002.

## **MANAGEMENT SHAREHOLDERS**

Save for the Directors and substantial shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31st December, 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

Other than the interest disclosed herein in respect of the Directors, chief executives of the Company and their respective associates, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinances shows that as at 31st December, 2002, the Company had 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> )	—	475,500,000	475,500,000	79.25%

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

## INTEREST OF SPONSOR

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 31st December, 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 of the Company) in the Company.

Save as disclosed above, neither the Sponsor nor its directors or employees or associates, as at 31st December, 2002, 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 February, 2003