



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

**QUARTERLY REPORT
FOR THE THREE MONTHS ENDED
30TH JUNE, 2003**

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.

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 in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

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, 2003

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, 2003 with the unaudited consolidated comparative figures for the corresponding period in 2002 as follows:

	<i>Note</i>	Three months ended	
		30th June,	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	11,674	14,156
Gross profit		8,496	11,267
Share of loss of a jointly controlled entity		(82)	—
Loss before taxation		(1,556)	(1,035)
Taxation	3	(38)	(63)
Loss after taxation		(1,594)	(1,098)
Minority interests		(5)	(1)
Loss attributable to shareholders		(1,599)	(1,099)
Loss per share			
— Basic	4	(0.27) cent	(0.18) cent

Notes:

1. **Basis of presentation**

The Company was incorporated in the Cayman Islands on 8th May, 2000 as an exempted company with limited liability under the Companies Law (2000 Revised) of the Cayman Islands. The shares of the Company (the "Shares") are listed on GEM of the Exchange.

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, 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 the GEM of the Exchange. The financial statements have been prepared under the historical cost convention except that certain property and investments in securities are stated at fair value.

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, 2003 with the unaudited consolidated figures for the corresponding period in 2002 are as follows:

	Three months ended	
	30th June,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Sale and lease of application software	7,151	8,647
Maintenance services	4,142	4,893
Sale of hardware	381	616
	<hr/>	<hr/>
	11,674	14,156
	<hr/> <hr/>	<hr/> <hr/>

3. **Taxation**

Hong Kong profits tax has been provided for at the rate of 16% (2002: 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 per share**

The calculation of the basic loss per share for the three months ended 30th June, 2003 is based on the Group's unaudited consolidated loss attributable to shareholders of HK\$1,599,000 (2002: HK\$1,099,000) and the weighted average number of 600,000,000 (2002: 600,000,000) ordinary shares in issue during the period.

There is no diluted loss 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, 2003 (three months ended 30th June, 2002: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial Performance

For the three months ended 30 June 2003, turnover decreased by approximately 18% to approximately HK\$11,674,000 as compared with the corresponding period of last year. The Group's revenue fell short of the previous quarter as a result of difficult economic condition in the computer industry, the Group recorded a net loss of HK\$1,599,000 this three months. Our group still maintains a non-gearing capital structure.

Business Review

Despite the market sentiments is not good, the Group is still deploying resources in research and development in ERP application software to enrich the Group's application suite. The deployment of resources in research and development is the right direction for the maintenance of the competitive advantage in the market.

The Group will introduce latest version of its flagship products — FlexAccount NV5 to the market in this year. By enhancing the new product with more features-rich interface and with functions, it is expected that the product will be greeted with good response.

Outlook

The current crisis in Hong Kong will be challenging to all business, given the already difficult market environment. 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 to the remaining quarters of this financial year. We believe that our Group will weather the difficult commercial conditions.

COMPETING INTERESTS

During the period under review, none of the directors or the 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, 2003, the interests or short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were as follows:

	Number of shares		Total
	Personal interests	Corporate interests	
Mr. Lok Wai Man (<i>note 1</i>)	3,614,000	475,500,000 (<i>note 2</i>)	479,114,000
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 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 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 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 shareholding in SomaFlex Holdings Inc..

Save as disclosed above, as at 30th June, 2003, none of the directors or their associates as well as the chief executive of the Group had any interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules. During the reporting period, there was no debt securities issued by the Group at any time.

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, 2003.

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

As at 30th June, 2003, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interests in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

	Number of shares			Percentage of issued share capital
	Personal interests	Corporate interests	Total	
SomaFlex Holdings Inc. (Note 1)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (Note 2)	3,614,000	475,500,000	479,114,000	79.85%

Notes:

1. 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.
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 SFO, to be interested in the same 475,500,000 shares held by SomaFlex Holdings Inc..

Save as disclosed above, as at 30th June, 2003, there was no person (other than a director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

By order of the Board

Lok Wai Man

Chairman

Hong Kong, 12th August, 2003