

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Offer, this Composite Document or the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in FlexSystem Holdings Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance and Transfer to the purchaser(s) or transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

The Stock Exchange of Hong Kong Limited and Hong Kong Exchanges and Clearing Limited take no responsibility for the contents of this Composite Document, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document.

This Composite Document should be read in conjunction with the accompanying Form of Acceptance and Transfer, the contents of which form part of the terms and conditions of the Offer.

Happy On Holdings Limited **FlexSystem Holdings Limited**
(Incorporated in the British Virgin Islands) (Incorporated in the Cayman Islands
with limited liability) with limited liability)
(Stock code: 8050)

**COMPOSITE DOCUMENT IN RELATION TO
UNCONDITIONAL MANDATORY CASH OFFER BY
QUAM SECURITIES COMPANY LIMITED**



**ON BEHALF OF
HAPPY ON HOLDINGS LIMITED
FOR ALL THE ISSUED SHARES IN
FLEXSYSTEM HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED
BY HAPPY ON HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

Financial Adviser to Offeror



Independent Financial Adviser to the Independent Board Committee



博大資本國際有限公司
Partners Capital International Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

A letter from Quam Capital is set out on pages 6 to 13 of this Composite Document.

A letter from the Board is set out on pages 14 to 18 of this Composite Document.

A letter from the Independent Board Committee containing its recommendation in respect of the Offer to the Independent Shareholders is set out on pages 19 to 20 of this Composite Document.

A letter from Partners Capital containing its advice on the Offer to the Independent Board Committee is set out on pages 21 to 40 of this Composite Document.

The procedures for acceptance of the Offer and other related information are set out on pages I-1 to I-7 in appendix I to this Composite Document and in the accompanying Form of Acceptance and Transfer. Acceptances of the Offer should be received by the Registrar by no later than 4:00 p.m. on Friday, 17 February 2012 or such later time and/or date as the Offeror may decide and announce, with the consent of the Executive, in accordance with the Takeovers Code.

This Composite Document will remain on the GEM website at www.hkgem.com and on the website of the Company at <http://ir.sinodelta.com.hk/8050/> as long as the Offer remains open.

27 January 2012

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made as and when appropriate.

2012

Despatch date of this Composite Document and commencement date of the Offer (<i>Note 1</i>)	Friday, 27 January
Latest time and date for acceptance of the Offer (<i>Note 2</i>)	4:00 p.m. on Friday, 17 February
Closing Date (<i>Note 2</i>)	Friday, 17 February
Announcement of the results of the Offer to be posted on the website of the Stock Exchange (<i>Note 2</i>)	not later than 7:00 p.m. on Friday, 17 February
Latest date for posting of remittances in respect of valid acceptances received under the Offer (<i>Note 3</i>)	Monday, 27 February

Notes:

1. The Offer, which is unconditional, is made on the date of posting of this Composite Document, and is capable of acceptance on and from that date until the Closing Date.
2. The Offer, which is unconditional, will close on the Closing Date. The latest time for acceptance is at 4:00 p.m. on Friday, 17 February 2012 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. An announcement will be issued through the Stock Exchange website by 7:00 p.m. on Friday, 17 February 2012 stating whether the Offer has been revised or extended or has expired. In the event that the Offeror decides that the Offer will remain open until further notice, at least 14 days' notice by way of an announcement will be given before the Offer is closed to those Independent Shareholders who have not accepted the Offer.
3. Remittances in respect of the cash consideration payable for the Offer Shares tendered under the Offer will be despatched to the accepting holders of the Offer Shares by ordinary post at their own risk as soon as possible, but in any event within 10 days after the date of receipt by the Registrar of a duly completed acceptance in accordance with the Takeovers Code.

Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed "Right of withdrawal" in appendix I to this Composite Document.

Unless otherwise expressly stated, all time and date references contained in this Composite Document refer to Hong Kong time and dates.

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise.

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Closing Date”	17 February 2012, the closing date of the Offer, which is 21 days after the date on which this Composite Document is posted, or if the Offer are extended, any subsequent closing date of the Offer as extended and announced by the Offeror in accordance with the Takeovers Code
“Company”	FlexSystem Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on GEM
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	the date of the Sale and Purchase Agreement
“Composite Document”	this composite offer and response document jointly issued by the Offeror and the Company, which sets out, among others, details of the Offer
“Director(s)”	the director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Vendor” or “Mr. Pong”	Mr. Pong Wai San, Wilson, the beneficial owner of 14,598,000 Shares as at the date of the Joint Announcement and immediately after Completion and the ultimate beneficial owner of the Second Vendor

DEFINITIONS

“Form of Acceptance and Transfer”	the accompanying form of acceptance and transfer of Shares in respect of the Offer accompanying this Composite Document
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Pong, being the guarantor who has agreed to guarantee the due and punctual performance by the Second Vendor of all of the obligations, commitments, undertakings, warranties, indemnities and covenants expressed to be imposed on or assumed by it under the Sale and Purchase Agreement
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board (comprising all the three independent non-executive Directors namely Mr. Lung Hung Cheuk, Ms. Yeung Wing Yan, Wendy and Mr. Yip Tai Him) which has been established to give a recommendation to the Independent Shareholders in relation to the terms and conditions of the Offer
“Independent Financial Adviser” or “Partners Capital”	Partners Capital, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee in relation to the Offer
“Independent Shareholders”	Shareholders other than the Offeror, its ultimate beneficial owner, the Vendors and its ultimate beneficial owners and parties acting in concert with any of them
“Joint Announcement”	the announcement jointly published by the Company and the Offeror dated 6 January 2012 in relation to, among others, the Sale and Purchase Agreement and the Offer

DEFINITIONS

“Last Trading Day”	28 December 2011, being the last full trading day of the Shares immediately prior to the suspension in trading of the Shares on GEM at 10:09 a.m. on 29 December 2011 pending the release of the Joint Announcement
“Latest Practicable Date”	20 January 2012, being the latest practicable date prior to the printing of this Composite Document for ascertaining certain information included in this Composite Document
“Mr. Chan”	Mr. Chan Foo Wing, being the sole shareholder and director of the Offeror
“Offer”	the unconditional mandatory cash offer to be made by Quam Securities on behalf of the Offeror for all the issued Shares (other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code
“Offer Price”	the price per Offer Share at which the Offer will be made in cash, being HK\$0.3167 per Offer Share
“Offer Share(s)”	issued Share(s) in respect of which the Offer is made, being Shares other than those already owned by or agreed to be acquired by the Offeror and parties acting in concert with it
“Offeror” or “Purchaser”	Happy On Holdings Limited, a company incorporated in the BVI with limited liability, and the entire issued share capital of which is legally and beneficially owned by Mr. Chan
“Overseas Shareholder(s)”	Independent Shareholder(s) whose address(es) as shown on the register of members of the Company is/(are) outside Hong Kong
“PRC”	the People’s Republic of China which, for the purpose of this Composite Document, shall exclude Hong Kong, Macau Special Administrative Regions of PRC and Taiwan

DEFINITIONS

“Quam Capital”	Quam Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and the financial adviser to the Offeror in respect of the Offer
“Quam Securities”	Quam Securities Company Limited, a licensed corporation to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO
“Registrar”	Tricor Secretaries Limited, the Hong Kong branch share registrar and transfer office of the Company
“Relevant Period”	the period commencing six months preceding 6 January 2012, being the date of the Joint Announcement, and ending on and including the Latest Practicable Date
“Sale and Purchase Agreement”	the sale and purchase agreement dated 29 December 2011 entered into among the Offeror, the First Vendor (also as the Guarantor) and the Second Vendor in relation to the sale and purchase of the Sale Shares
“Sale Shares”	an aggregate of 420,000,000 Shares (which were beneficially owned by (i) the First Vendor as to 114,000,000 Shares; and (ii) the Second Vendor as to 306,000,000 Shares), representing in aggregate, 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement and immediately before Completion, and each a “Sale Share”
“Second Vendor”	Excel Score Limited, a company incorporated in the BVI with limited liability and the entire issued share capital of which is legally and beneficially owned by the First Vendor
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Vendors”	the First Vendor and the Second Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.



Quam Capital Limited

A Member of The Quam Group

27 January 2012

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
QUAM SECURITIES COMPANY LIMITED
ON BEHALF OF
HAPPY ON HOLDINGS LIMITED
FOR ALL THE ISSUED SHARES IN
FLEXSYSTEM HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED
BY HAPPY ON HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

On 6 January 2012, the Offeror and the Company jointly announced that on 29 December 2011, the Offeror, the First Vendor (also acting as the Guarantor) and the Second Vendor entered into the Sale and Purchase Agreement pursuant to which the Offeror agreed to acquire and the Vendors agreed to sell the Sale Shares, being 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. The aggregate consideration for the Sale Shares is HK\$133,000,000.00 (equivalent to approximately HK\$0.3167 per Sale Share) which was agreed between the Offeror and the Vendors after arm's length negotiations and was paid by the Offeror to the Vendors in cash upon Completion. The First Vendor, being the ultimate beneficial owner of the Second Vendor, has agreed to guarantee the performance of the obligations of the Second Vendor under the Sale and Purchase Agreement. Completion took place immediately after the entering into of the Sale and Purchase Agreement on 29 December 2011. Immediately following the Completion, the Offeror was interested in a total of 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

LETTER FROM QUAM CAPITAL

This letter sets out, among others, the details of the Offer, information on the Offeror and the intention of the Offeror regarding the Group. The terms and procedures of acceptance of the Offer are set out in this letter, appendix I to this Composite Document of which this letter forms part, and the accompanying Form of Acceptance and Transfer. Terms used in this letter shall have the same meanings as defined in this Composite Document unless the context otherwise requires. The Independent Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Board", "Letter from the Independent Board Committee" and "Letter from Partners Capital" as set out in this Composite Document.

UNCONDITIONAL MANDATORY CASH OFFER

Immediately following Completion, the Offeror and parties acting in concert with it are interested in 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

As at the Latest Practicable Date, there are 600,000,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or other securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or other securities of the Company.

Principal terms of the Offer

Quam Securities will make the Offer, which is unconditional in all respects, on behalf of the Offeror, in compliance with the Takeovers Code on the following terms:

For every Offer Share HK\$0.3167 in cash

The Offer Price of HK\$0.3167 per Offer Share is the same as the price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

The Offer Shares to be acquired under the Offer shall be fully paid and free from all liens, charges, encumbrances together with all rights attaching thereto as at the Completion Date, including all rights to any dividend or other distribution declared, made or paid, if any, on or after the Completion Date.

Acceptance of the Offer shall be unconditional and irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code. The procedures for acceptance and further terms of the Offer are set out in appendix I to this Composite Document.

LETTER FROM QUAM CAPITAL

Comparison of value

The Offer Price of HK\$0.3167 per Offer Share is equal to the price per Sale Share paid by the Offeror under the Sale and Purchase Agreement and represents:

- (a) a discount of approximately 12.0% to the closing price of HK\$0.36 per Share, as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 10.5% to the average closing price of HK\$0.354 per Share, being the average closing price of the Shares for the 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (c) a discount of approximately 3.1% to the average closing price of HK\$0.327 per Share, being the average closing price of the Shares for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 2,495.9% over the Company's unaudited net asset value of approximately HK\$0.0122 per Share based on the Group's unaudited consolidated net asset value (excluding non-controlling interests) of approximately HK\$7.3 million as at 30 September 2011 as shown in the interim report of the Company for the six months ended 30 September 2011 and 600,000,000 Shares in issue as at the Latest Practicable Date; and
- (e) a discount of approximately 5.5% to the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Highest and lowest Share prices

The highest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$0.46 per Share on 15 July 2011 to 22 July 2011 and the lowest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$0.265 per Share on 26 September 2011 to 4 October 2011 and 7 October 2011 to 12 October 2011.

Value of the Offer

As at the Latest Practicable Date, the Company has 600,000,000 Shares in issue. Assuming that there is no change in the issued share capital of the Company prior to the making of the Offer, based on the Offer Price of HK\$0.3167 per Offer Share, the entire issued share capital of the Company is valued at approximately HK\$190,000,000. As the Offeror and parties acting in concert with it have already held 420,000,000 Shares after Completion, only 180,000,000 Shares will be subject to the Offer and the Offer is valued at HK\$57,006,000 based on the Offer Price.

LETTER FROM QUAM CAPITAL

Financial resources available to the Offeror

Quam Capital has been appointed as the financial adviser to the Offeror in respect of the Offer and is satisfied that there are sufficient financial resources available to the Offeror to satisfy the full acceptance of the Offer. The Offer will be financed by internal resources of the Offeror.

Stamp duty

In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Offer will be payable by relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to such person on acceptance of the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Independent Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror or its nominee free from all liens, claims and encumbrances and with all rights attached to them as at the Completion Date, including the right to receive all dividends paid, declared or made, if any, on or after the Completion Date.

Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event within 10 days of the date on which the relevant documents of title and duly completed acceptance(s) are received by the Offeror to render each such acceptance complete and valid pursuant to Note 1 to Rule 30.2 of the Takeovers Code.

Dealing and interests in the Company's securities

Save for the Sale Shares under the Sale and Purchase Agreement, none of the Offeror nor parties acting in concert with it has dealt in the Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period. As at the Latest Practicable Date, save for the Sale Shares under the Sale and Purchase Agreement, the Offeror and parties acting in concert with it do not hold, own or control any Shares, options, derivatives, warrants or other securities convertible into Shares.

As at the Latest Practicable Date:

- (i) there is no arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Shares and which might be material to the Offer;

LETTER FROM QUAM CAPITAL

- (ii) save for the Sale and Purchase Agreement, there is no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer;
- (iii) save for the Sale Shares, none of the Offeror nor parties acting in concert with it owned or had control or direction over any voting rights or rights over the Shares or convertible securities, options, warrants or derivatives of the Company;
- (iv) none of the Offeror nor parties acting in concert with it has received any irrevocable commitment to accept the Offer; and
- (v) none of the Offeror nor parties acting in concert with it has entered into any arrangements or contracts in relation to the outstanding derivatives in respect of securities in the Company nor has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

Overseas Shareholders

The Offer will be in respect of securities of a company incorporated in Cayman Islands and will be subject to the procedural and disclosure requirements of Hong Kong, which may be different from other jurisdictions. The Shareholders who wish to participate in the Offer but with registered address outside Hong Kong will also be subject to, and may be limited by, the laws and regulations of their respective jurisdictions in connection with their participation in the Offer.

The Shareholders who have registered addresses outside Hong Kong and wish to accept the Offer should satisfy themselves as to the full observance of the applicable laws and regulations of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer of other taxes due by such accepting Shareholders in respect of such jurisdiction).

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the BVI on 5 July 2011 with limited liability and is principally engaged in investment activities. The Offeror is wholly and ultimately beneficially owned by Mr. Chan. Mr. Chan is the sole director of the Offeror. Before the date of the Sale and Purchase Agreement, the Offeror has not conducted any business since its incorporation. Save for the cash used and to be used for the settlement of the consideration for the Sale Shares and the Offer, the Offeror does not have any material assets as at the Latest Practicable Date.

Mr. Chan, aged 62, is a merchant and investor who has pursued investments in areas of maritime related industries, real estate and international trading, among others. He is currently actively involved in various telecommunications endeavors in the PRC.

LETTER FROM QUAM CAPITAL

INFORMATION ON THE GROUP

The Group is principally engaged in provision of system integration services and other value-added technical consultation services and hardware-related business.

The Group recorded audited revenues of approximately HK\$89.1 million and approximately HK\$102.0 million for the years ended 31 March 2010 and 31 March 2011 respectively. The audited gross profits of the Group for the years ended 31 March 2010 and 31 March 2011 were approximately HK\$53.8 million and approximately HK\$67.3 million respectively. Loss attributable to equity holders (excluding non-controlling interests) were approximately HK\$12.8 million and approximately HK\$6.8 million for the years ended 31 March 2010 and 31 March 2011 respectively. The audited consolidated net asset value (excluding non-controlling interests) of the Group recorded approximately HK\$46.8 million and approximately HK\$41.2 million as at 31 March 2010 and 31 March 2011 respectively.

THE OFFEROR'S INTENTION ON THE GROUP

It is the intention of the Offeror that the Group will continue its existing principal activities and existing business. As at the Latest Practicable Date, the Offeror does not intend to introduce any major changes to the existing operation and business of the Company and has no intention or plan (i) for any acquisition or disposal of assets and/or business by the Group; (ii) to redeploy the fixed assets of the Company; and (iii) to discontinue the employment of the Group's employees as a result of the Offer. Immediately after the close of the Offer, the Offeror will conduct a more detailed review on the operations of the Group with a view to develop a comprehensive corporate strategy to broaden the revenue base of the Group. The Offeror will evaluate all available opportunities to consider whether there are any assets and/or business acquisitions suitable for enhancing the overall growth of the Group and may consider further acquisition in such assets and/or business if there will be suitable opportunity. Should such opportunity(ies) materialize, further announcement(s) will be made by the Company as and when required by the GEM Listing Rules. The Offeror considers that the acquisition of the Sale Shares and the Offer represent an opportunity to invest in a majority stake in a listed vehicle which may serve as a platform for it to develop business opportunities it identifies from time to time. The Offeror therefore considers that the acquisition of the Sale Shares and the Offer are in its long-term commercial interest.

Pursuant to the Sale and Purchase Agreement, the Offeror has irrevocably and unconditionally undertaken to procure the change of the name of the Company from its present name to a new name that does not contain the words or expressions "Flex System" or any other similar words or expressions or any colourable intimation thereof, such change to be effective as soon as practicable after Completion but in any event within 120 days from Completion.

PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

The Board is currently made up of five Directors, comprising two executive Directors and three independent non-executive Directors.

LETTER FROM QUAM CAPITAL

The Offeror intends to nominate new Directors to the Board with effect from the day immediately after the date of despatch of this Composite Document. Any changes to the Board will be made in compliance with the Takeovers Code and the GEM Listing Rules and further announcement will be made accordingly.

MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on GEM after the close of the Offer. The sole director of the Offeror and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

If, upon the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it under the provisions of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) to compulsorily acquire any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

GENERAL

Acceptance of the Offer by the Independent Shareholder(s) will be deemed to constitute a warranty by such person to the Offeror that such Offer Share(s) acquired under the Offer are sold by the Independent Shareholders free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on or after the Completion Date or subsequently becoming attached to it, including, without limitation, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the Completion Date.

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold any Offer Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Offer Shares whose investments are registered in the names of nominees to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer. The attention of the Independent Shareholders with registered addresses in jurisdictions outside Hong Kong is drawn to the section headed "Overseas Shareholders" in appendix I to this Composite Document.

LETTER FROM QUAM CAPITAL

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully,
For and on behalf of
Quam Capital Limited
Gary Mui
Executive Director

LETTER FROM THE BOARD

FlexSystem Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8050)

Executive Directors:

Mr. Lau Wai Shu
Mr. Sit Hon Cheong

Independent non-executive Directors:

Mr. Lung Hung Cheuk
Ms. Yeung Wing Yan, Wendy
Mr. Yip Tai Him

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal place of business

in Hong Kong:
Unit A, 6/F.
Nine Queen's Road Central
Hong Kong

27 January 2012

To the Independent Shareholders

Dear Sir and Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
QUAM SECURITIES COMPANY LIMITED
ON BEHALF OF
HAPPY ON HOLDINGS LIMITED
FOR ALL THE ISSUED SHARES IN
FLEXSYSTEM HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED
BY HAPPY ON HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

On 6 January 2012, the Offeror and the Company jointly announced that on 29 December 2011, the Offeror, the First Vendor (also acting as the Guarantor) and the Second Vendor entered into the Sale and Purchase Agreement pursuant to which the Offeror agreed to acquire and the Vendors agreed to sell the Sale Shares, being 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. The aggregate consideration for the Sale Shares is HK\$133,000,000.00 (equivalent to approximately HK\$0.3167 per Sale Share) which was agreed between the Offeror and the Vendors after arm's length negotiations and was paid by the Offeror to the Vendors in cash upon Completion. The First Vendor, being the ultimate beneficial owner of the Second Vendor, has agreed to guarantee the performance of the obligations of the Second Vendor under the Sale and Purchase Agreement. Completion took place immediately after the entering into of the Sale and Purchase

LETTER FROM THE BOARD

Agreement on 29 December 2011. Immediately following the Completion, the Offeror was interested in a total of 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

The purpose of this Composite Document is to provide you with, among others, information relating to the Company, the Offeror and the Offer as well as to set out the "Letter from the Independent Board Committee" containing its recommendation to the Independent Shareholders in respect of the Offer and the "Letter from Partners Capital" containing its advice to the Independent Board Committee in respect of the Offer.

UNCONDITIONAL MANDATORY CASH OFFER

Immediately following Completion, the Offeror and parties acting in concert with it are interested in 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

As at the Latest Practicable Date, there are 600,000,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or other securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or other securities of the Company.

Principal terms of the Offer

Quam Securities will make the Offer, which is unconditional in all respects, on behalf of the Offeror, in compliance with the Takeovers Code on the following terms:

For every Offer Share HK\$0.3167 in cash

The Offer Price of HK\$0.3167 per Offer Share is the same as the price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

The Offer Shares to be acquired under the Offer shall be fully paid and free from all liens, charges, encumbrances together with all rights attaching thereto as at the Completion Date, including all rights to any dividend or other distribution declared, made or paid, if any, on or after the Completion Date.

LETTER FROM THE BOARD

Acceptance of the Offer shall be unconditional and irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code. The procedures for acceptance and further terms of the Offer are set out in appendix I to this Composite Document.

Further details of the Offer

Further details of the Offer including, among others, the terms and conditions and the procedures for acceptance and settlement are set out in the “Letter from Quam Capital”, appendix I to this Composite Document and the accompanying Form of Acceptance and Transfer.

INFORMATION ON THE GROUP

The Group is principally engaged in provision of system integration services and other value-added technical consultation services and hardware-related business.

The Group recorded audited revenues of approximately HK\$89.1 million and approximately HK\$102.0 million for the years ended 31 March 2010 and 31 March 2011 respectively. The audited gross profits of the Group for the years ended 31 March 2010 and 31 March 2011 were approximately HK\$53.8 million and approximately HK\$67.3 million respectively. Loss attributable to equity holders (excluding non-controlling interests) were approximately HK\$12.8 million and approximately HK\$6.8 million for the years ended 31 March 2010 and 31 March 2011 respectively. The audited consolidated net asset value (excluding non-controlling interests) of the Group recorded approximately HK\$46.8 million and approximately HK\$41.2 million as at 31 March 2010 and 31 March 2011 respectively.

Further information in relation to the Group is set out in appendices II and III to this Composite Document.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) immediately before Completion; and (ii) immediately after Completion and as at the Latest Practicable Date:

Shareholders	Immediately before Completion		Immediately after Completion and as at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
The First Vendor (<i>Note 1</i>)	128,598,000	21.43	14,598,000	2.43
The Second Vendor (<i>Note 2</i>)	306,000,000	51.00	–	–
The Offeror and parties acting in concert with it	–	–	420,000,000	70.00
Public Shareholders	165,402,000	27.57	165,402,000	27.57
Total	600,000,000	100.00%	600,000,000	100.00%

Notes:

1. Mr. Pong Wai San, Wilson.
2. The Second Vendor is a company wholly-owned by the First Vendor.

INFORMATION ON THE OFFEROR

Your attention is drawn to the section headed “Information on the Offeror” in the “Letter from Quam Capital” on page 10 of this Composite Document.

THE OFFEROR’S INTENTION ON THE GROUP

It is the intention of the Offeror that the Group will continue its existing principal activities. As at the Latest Practicable Date, the Offeror does not intend to introduce any major changes to the existing operation and business of the Company and has no intention or plan for any acquisition or disposal of assets and/or business by the Group. The Board has noted the intention of the Offeror in respect of the Group and its employees and is willing to render cooperation and support to the Offeror as regards to the Offeror’s intention on the Group which are in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the section headed “The Offeror’s intention on the Group” in the “Letter from Quam Capital” on page 11 of this Composite Document.

LETTER FROM THE BOARD

MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on GEM after the close of the Offer. The director of the Offeror and the new directors to be appointed to the Board will undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

If, upon the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares.

RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee and Partners Capital, respectively, which set out their recommendations and opinions in relation to the Offer and the principal factors considered by them before arriving at their recommendations.

ADDITIONAL INFORMATION

You are also advised to read this Composite Document together with the accompanying Form of Acceptance and Transfer in respect of the acceptance and settlement procedures of the Offer. Your attention is also drawn to the additional information contained in the appendices to this Composite Document.

Yours faithfully,
By order of the Board of
FlexSystem Holdings Limited
Lau Wai Shu
Chairman

FlexSystem Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8050)

27 January 2012

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
QUAM SECURITIES COMPANY LIMITED
ON BEHALF OF
HAPPY ON HOLDINGS LIMITED
FOR ALL THE ISSUED SHARES IN
FLEXSYSTEM HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED
BY HAPPY ON HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to the composite offer and response document (the “Composite Document”) dated 27 January 2012 jointly issued by the Offeror and the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and as to acceptance.

Partners Capital has been appointed as the independent financial adviser to the Independent Board Committee to advise us in respect of the terms of the Offer and as to acceptance. Details of its advice and principal factors taken into consideration in arriving at its recommendation are set out in the “Letter from Partners Capital” on pages 21 to 40 of this Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Having taken into account the terms of the Offer and the advice of Partners Capital, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and, accordingly, we recommend the Independent Shareholders to accept the Offer.

Yours faithfully,
for and on behalf of the
Independent Board Committee

Mr. Lung Hung Cheuk
Independent
non-executive Director

Ms. Yeung Wing Yan, Wendy
Independent
non-executive Director

Mr. Yip Tai Him
Independent
non-executive Director

LETTER FROM PARTNERS CAPITAL



博大資本國際有限公司
Partners Capital International Limited

Partners Capital International Limited
Unit 3906, 39/F, COSCO Tower
183 Queen's Road Central
Hong Kong

To the Independent Board Committee

27 January 2012

Dear Sirs,

UNCONDITIONAL MANDATORY CASH OFFER

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee in respect of the terms of the Offer, particulars of which are set out in a composite offer document (the "Document") despatched to the Independent Shareholders dated 27 January 2012, in which this letter is reproduced. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as ascribed to them under the section headed "Definitions" in the Document.

As set out in the letter from the Board (the "Letter from the Board"), the Offeror, the First Vendors (also acting as the Guarantor) and the Second Vendor entered into the Agreement on 29 December 2011, pursuant to which the Offeror conditionally agreed to acquire and the Vendors agreed to sell the Sale Shares, being 420,000,000 Shares at an aggregate consideration of HK\$133,000,000 (equivalent to approximately HK\$0.3167 per Sale Share). Completion of the Agreement took place immediately after the entering into of the Sale and Purchase Agreement on the same day and the consideration was paid by the Offeror to the Vendors in cash upon Completion.

As at the date of the Agreement, the Sale Shares represented approximately 70.0% of the entire issued share capital of the Company. Upon Completion, the Offeror became interested in approximately 70.0% of the entire issued share capital of the Company. In compliance with Rule 26 of the Takeovers Code, the Offeror would upon Completion be required to make an unconditional mandatory cash offer for all the Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

LETTER FROM PARTNERS CAPITAL

Quam Securities, on behalf of the Offeror, is making the Offer on the following basis:

For each Share HK\$0.3167 in cash

Further terms and conditions of the Offer, including the procedures for acceptance, are set out in the Document.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Document and have assumed that all information and representations made or referred to in the Document as provided by the Directors and/or the Offeror were true at the time they were made and continue to be true as at the date of the Document. We have also relied on our discussion with the Directors regarding the Group and the Offer, including the information and representations contained in the Document. We have also assumed that all statements of belief, opinion and intention made by the Directors and the Offeror respectively in the Document were reasonably made after due enquiry. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Document nor to doubt the truth, accuracy and completeness of the information and representations provided by the Directors and the Offeror. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, the Offeror and their respective associates nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications on the Independent Shareholders of their acceptances or non-acceptances of the Offer since these are particular to their own individual circumstances. In particular, the Independent Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offer and, if in any doubt, should consult their own professional advisers.

LETTER FROM PARTNERS CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED ON THE OFFER

In arriving at our opinion regarding the terms of the Offer, we have considered the following principal factors and reasons:

(i) Review of financial position/performance of the Group

The Group is principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services. The Group had been loss-making since the financial year ended 31 March 2010. The Group incurred a profit of approximately HK\$7,775,000 for the six months ended 30 September 2011 after recognition of a gain from disposal of subsidiaries of approximately HK\$10,822,000. We summarise the audited/unaudited consolidated results of the Group for the most recent three financial years and the most recent interim period as follows:

Expressed in HK\$'000	Year ended 31 March			Six months ended	
	2009	2010	2011	2010	2011
		(audited)		(unaudited)	
Hardware Sales	8,642	12,533	12,807	5,950	6,084
Software Sales	56,565	41,864	51,846	23,950	1,645
Maintenance Services	31,942	34,709	37,380	16,927	1,847
Total revenue	97,149	89,106	102,033	46,827	9,576
Cost of sales	(30,879)	(35,276)	(34,755)	(16,506)	(5,577)
Gross profit	66,270	53,830	67,278	30,321	3,999
Other income	706	347	2,066	137	34
Gain on disposal of subsidiaries	-	-	-	-	10,822
Distribution, administrative & other operating expenses	(63,799)	(67,044)	(76,106)	(34,491)	(5,585)
Profit/(loss) before tax	3,177	(12,867)	(6,762)	(4,033)	9,270
Income Tax credit/(expenses)	202	35	(1)	-	-
Other comprehensive income/(expenses)	(318)	993	1,177	140	(1,495)
Total comprehensive income/(loss) for the year/period	<u>3,061</u>	<u>(11,839)</u>	<u>(5,586)</u>	<u>(3,893)</u>	<u>7,775</u>

Source: Annual and interim reports of the Company

LETTER FROM PARTNERS CAPITAL

For the year ended 31 March 2010

As disclosed in the annual report of the Company, 2009/10 is one of the most challenging years for the Group's business operations. Although uncertainties of a long period of recession were dispelled by the optimistic signs of economy recovery, the operating environment for the enterprise software industry remained difficult with intense market competition.

During the year ended 31 March 2010, revenue from hardware sales and provision of maintenance services has increased by approximately 45.0% and 8.7% respectively as the number of customers has increased as compared with that for the previous year. However, revenue from software sales has decreased by approximately 26.0% as the operating environment for the enterprise software industry remained difficult with intense market competition. The major contribution of revenue for the year was from Hong Kong, representing approximately 80.0% of the total revenue (2009: 78%). The total revenue of approximately HK\$89.1 million and loss attributable to shareholders of approximately HK\$12.8 million were recorded for the year ended 31 March 2010. The decrease in revenue of 8.3% as compared with the previous year was principally due to the economic conditions pertaining to the IT industry. The Company recorded a loss before tax and total comprehensive loss of approximately HK\$12,867,000 and approximately HK\$11,839,000 respectively during the year ended 31 March 2010.

The Group has been undergoing an upgrade of certain software products from time to time to consolidate its market position. The Group's various software businesses recorded creditable performance. The Group's effort in developing new version of Human Resources Management System reaped returns gradually. The Group also managed to secure a few new clients in the second half of last year and expected the human resources management system would gain further popularity.

The Group had also started development of new version of its flagship products, FlexAccount Financial Management System.

For the year ended 31 March 2011

As disclosed in the annual report of the Company, the challenging business environment in Hong Kong continued during the year 2010/11. Overall economic conditions were improved and business activities started to pick up gradually. Demand for larger-scale IT projects were increased with more business opportunities in the market. To seize on these opportunities, the Group reinforced its sales efforts and deployed more resources to enhance product offerings. However, intense competition and heavy inflationary pressure constituted the difficulties and challenges for the Group to continue to grow and improve profits.

LETTER FROM PARTNERS CAPITAL

During the year ended 31 March 2011, revenue from the provision of maintenance services has increased by approximately 7.7% as the number of customers has increased as compared with that of the previous year. Moreover, revenue from software sales has also increased by approximately 23.8% as the market sentiment of the enterprise software industry has recovered. Hardware sales were relatively stable during the year and showed a mild increase of approximately 2.2% as compared to the previous year. Hong Kong remained as the major market of the Company where approximately 79% of the total revenue was generated (2010: 80%). Total revenue of approximately HK\$102.0 million and loss attributable to shareholder of approximately HK\$6.8 million were recorded for the year ended 31 March 2011. The increase in revenue of 14.5% as compared with the previous year was principally due to broadening of customer bases. The Company's performance was improved and loss was also reduced during the year ended 31 March 2011. The Company recorded a loss before tax and total comprehensive loss of approximately HK\$6,762,000 and approximately HK\$5,586,000 respectively during the year ended 31 March 2011.

For the six months ended 30 September 2011

In view of the challenging environment, the Group, in April 2011, disposed of the business of development and sale of enterprise software and provision of maintenance services which have been loss-making for over a year and directed its resources towards the business of provision of system integration services and other value-added technical consultation services and hardware-related business. The Company then has been directing its resources towards the business of provision of system integration services and other value-added technical consultation services and hardware-related business.

During the six months ended 30 September 2011, the Group recorded revenue of approximately HK\$9,576,000, representing a decrease of approximately 79.6% compared with the corresponding period last year of approximately HK\$46,827,000. The decrease in revenue was mainly attributed to the disposal of subsidiaries engaged in development and sale of enterprise software and relevant provision of the maintenance services (the "Disposal"). The disposal was completed on 13 April 2011. The disposal would allow the Group to streamline its business and direct its focus and resources towards the business of provision of system integration services and other value-added technical consultation services and hardware-related business.

After the completion of the Disposal, the revenues from maintenance services segment and software sales segment decreased significantly as compared to the corresponding period in the previous year. In the contrast, revenue from the hardware sales segment increased by approximately 2.3% as compared to the corresponding period in the previous year. Hardware sales segment has become the major source of revenue to the Company as to approximately 63.5% of the total revenue for the six months ended 30

LETTER FROM PARTNERS CAPITAL

September 2011 as compared to approximately 12.7% for the corresponding period in the previous year.

Profit before tax of the Group for the six months ended 30 September 2011 was approximately HK\$9,270,000 (including profit from the Disposal of approximately HK\$10,822,000), compared with loss before tax of approximately HK\$4,033,000 for corresponding period in the previous year. Total comprehensive income was approximately HK\$7,775,000 due to a reclassification adjustment relating to the Disposal. The Group would otherwise record a loss of before tax of approximately HK\$1,552,000 if such profit from the Disposal is excluded.

We further summarise below the audited/unaudited consolidated balance sheets of the Group as at the most recent financial year-end and as at 30 September 2011:

Expressed in HK\$'000	As at 31 March 2011 (audited)	As at 30 September 2011 (unaudited)
Non-current assets	21,185	20
Property, plant and equipment	20,181	20
Interests in associates	989	–
Available-for-sale investments	15	–
Current assets	49,438	11,638
Inventories	525	–
Trade and other receivables	21,440	3,218
Current income tax assets	899	–
Cash and cash equivalents	26,574	8,420
Current liabilities		
Trade and other payables	<u>28,552</u>	<u>4,264</u>
Net assets	<u><u>42,071</u></u>	<u><u>7,394</u></u>

Source: Annual and interim reports of the Company

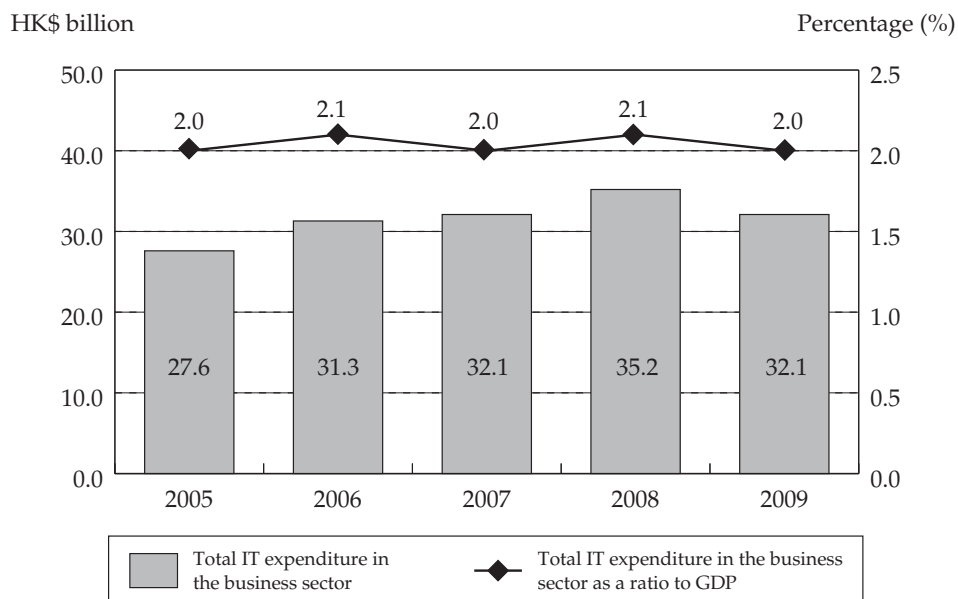
LETTER FROM PARTNERS CAPITAL

We note that, after the Disposal, the consolidated net asset value of the Group decreased from approximately HK\$42.1 million (audited) as at 31 March 2011 to approximately HK\$7.4 million (unaudited) as at 30 September 2011, out of which nearly 100% was current assets in nature. We have also obtained and reviewed the aging analysis of the trade receivables of the Group as at 30 September 2011 and noted that a majority of which was due within a month. On the other hand, the Group had no bank borrowing and had current liabilities as at 30 September 2011 mainly comprised of trade payables in relation to the purchases of IT products, such as servers and related hardware for trading purpose.

As stated in the letter from Quam Capital (the “Letter from Quam Capital”), the Offeror intends to continue the existing principal activities and existing business of the Group which includes development and sale of enterprise software and hardware products and the provision of maintenance services. As advised by the Company, the assets in relation to the Disposal are principally land and building which do not materially affect the existing business. On the other hand, we note from the circular dated 16 March 2011 of the Company in relation to, among other things, the Disposal that (i) businesses engaged by the Group and the disposed group are neither complementary nor inter-dependent upon each other; (ii) the business of the Group and disposed group had been operating independently in different office locations with different management teams and different operation staff according to different operation system of each of the Group and the disposed group; and (iii) the Group and the disposed group have different customer groups. In addition, we have reviewed the sales generated from the Group’s major customers since the Disposal and we noted that the some of them have continued to place orders during the three months from October to December 2011. According to the information provided by the Company, we noted that the Company has maintained its total revenue for the nine months ended 31 December 2011 at the level comparable to that of the existing business of the Group for the same period in the previous year. Based on the above, we consider that the Company has the ability to continue its existing businesses after the Disposal.

LETTER FROM PARTNERS CAPITAL

Total information technology expenditure in the business sector as a ratio to GDP of Hong Kong



Source: Research report issued by Census and Statistics Department, Hong Kong in September 2011

According to the Census and Statistics Department of Hong Kong, the total IT expenditure in business sector was approximately HK\$27.6 billion in 2005 and increased to the approximately HK\$35.2 billion in 2008. As illustrated in the chart above, the total IT expenditure in business sector was stable at the level of over HK\$30 billion between 2006 and 2009. On the other hand, the percentage of gross domestic product (GDP) represented by the total IT expenditure in business sector was also stable at the level between 2.0% and 2.1%. These figures suggest that the growth in local IT industry from 2005 and 2009 was slim. In view of the scale of the Company's business operation and its business focus on local market, we consider that the business environment of the Group is expected to be challenging as demonstrated by the continuous loss-making results of the Company.

As advised by the Company, the business of hardware sale has been playing a more important role and the contribution of the Company's total revenue was mainly derived from the hardware sale. We were also advised by the Company that customers (including some major customers) who have purchased IT hardware and/or software for major upgrade may not place orders in comparable amount to the Group again after the upgrade. On the other hand, due to the fast advancement of information technology and the frequent launch of new IT products, customer's preference and requirements also vary from time to time.

LETTER FROM PARTNERS CAPITAL

(ii) Share price performance and trading liquidity

The consideration for the Sale Shares is HK\$133,000,000. We note that the Offer Price of approximately HK\$0.3167 per Share is the rounded up figure of the said aggregate consideration of HK\$133,000,000 as divided by a total of 420,000,000 Sale Shares, representing approximately 70.0% of the entire issue capital of the Company as at the date of the Agreement. The Offer Price represents:

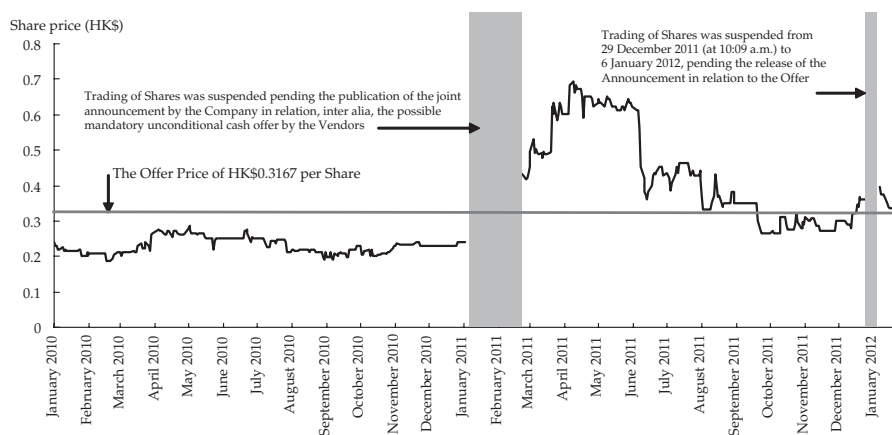
- (i) a discount of approximately 12.0% against the closing price of HK\$0.36 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 10.5% against the average of the closing prices of HK\$0.354 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 3.1% against the average of the closing prices of HK\$0.327 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 6.4% over the average of the closing prices of HK\$0.298 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day;
- (v) a premium of approximately 2.9% over the average of the closing prices of HK\$0.308 per Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Day;
- (vi) a discount of approximately 23.1% against the average of the closing prices of HK\$0.412 per Share as quoted on the Stock Exchange for the last 180 trading days up to and including the Last Trading Day;
- (vii) a discount of approximately 20.2% against the average of the closing prices of HK\$0.397 per Share as quoted on the Stock Exchange for the last 250 trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 352.43% over the audited consolidated net asset value of approximately HK\$0.07 per Share as at 31 March 2011, being the date of which the latest audited consolidated financial statements of the Company were made up;
- (ix) a premium of approximately 2,495.9% over the unaudited consolidated net asset value of approximately HK\$0.0122 per Share as at 30 September 2011, being the date of which the latest published interim consolidated balance sheet of the Company were made up; and

LETTER FROM PARTNERS CAPITAL

(x) a discount of approximately 5.5% against the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

(a) *Historical Share price performance*

For the purpose of further comparing the Offer Price of HK\$0.3167 per Share with the market price of the Shares, we plot the closing price level of the Shares traded on the Stock Exchange from 1 January 2010 to 28 December 2011 (being the Last Trading Day) and further up to the Latest Practicable Date (the “Review Period”) as follows:



Source: *Infocast*

Note:

1. Trading of Shares was suspended from 6 January 2011 to 18 February 2011, pending the release of an announcement by the Company in relation to the possible mandatory unconditional cash offer by the Vendors.
2. Trading of Shares was suspended from 29 December 2011 (at 10:09 a.m.) to 6 January 2012, pending the release of the Announcement in relation to the Offer.

The closing price of the Shares during the year 2010 ranged from the lowest of HK\$0.188 per Share recorded on 19 February 2010 and 22 February 2010 to the highest of HK\$0.285 per Share recorded on 4 May 2010 and was therefore generally below the Offer Price.

During the year 2011, the closing price of the Shares ranged from the lowest of HK\$0.239 per Share recorded on 5 January 2011 to the highest of HK\$0.69 per Share recorded on 11 April 2011. The Offer Price represents a premium of approximately 32.5% over the lowest closing price per Share and a discount of approximately 54.1% over the highest closing price per Share during the year 2011. The Offer Price also represents a discount of approximately 5.5% against the closing price per Share of HK\$0.335 on the Latest Practicable Date.

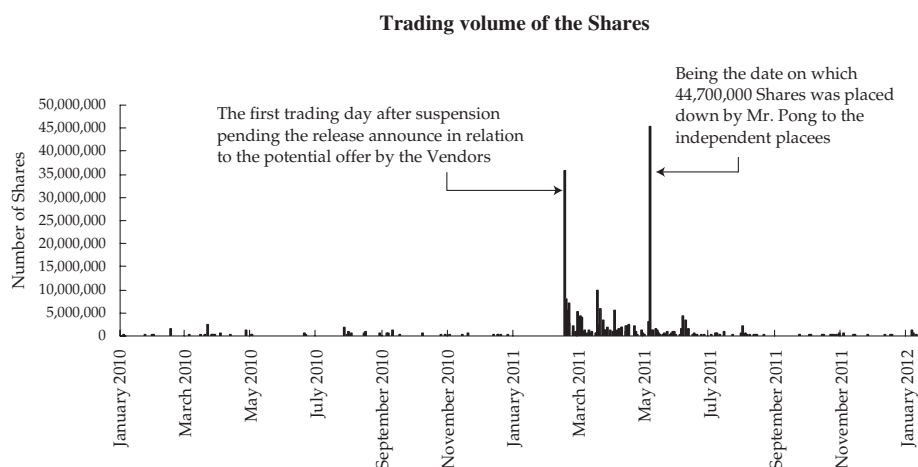
LETTER FROM PARTNERS CAPITAL

We also noted that the closing prices of Shares increased substantially on 21 February 2011, which was incidental to the Company's announcement of the possible mandatory unconditional cash offer by the Vendors. Upon resumption of trading of the Shares on 21 February 2011, the closing price of the Company advanced to HK\$0.59 per Share. We consider the surge in the price of the Shares might reflect the market response to the previous offer by the Vendors. The closing prices of the Shares were between HK\$0.59 per Share and HK\$0.67 per Share during the period of the abovementioned mandatory unconditional cash offer commenced on 15 April 2011 and ended on 6 May 2011. The closing prices of the Shares were not sustainable and fell to the level of HK\$0.63 per Share after the close of the mandatory unconditional cash offer by the Vendors and further hit the lowest of HK\$0.265 on 26 September 2011. Closing prices of the Shares were fluctuating at the levels lower than the Offer Price starting from October 2011 and rarely reached the levels higher than the Offer Price for the few trading days prior to the Last Trading Day.

Therefore, the Offer Price represents a premium over the closing prices of the Shares for most of the time during the Review Period.

(b) *Liquidity*

For the purpose of assessing the trading liquidity of the Shares, the following chart shows the daily trading volume of the Shares during the Review Period:



Source: *Infocast*

LETTER FROM PARTNERS CAPITAL

Month	Highest daily turnover <i>(number of Shares)</i>	Lowest daily turnover <i>(number of Shares)</i>	Average daily turnover <i>(number of Shares)</i>	Number of trading days with no turnover <i>(days)</i>	Percentage of average daily turnover to total number of Shares in issue <i>(%) (Note 1)</i>	Percentage of average daily turnover to total number of Shares held by Independent Shareholders <i>(%) (Note 2)</i>
2010	2,336,000	0	112,353	123	0.019	0.019
2011						
January <i>(Note 3)</i>	0	0	0	3	0	0
February	35,742,000	2,194,000	10,264,333	0	1.71	8.50
March	9,796,000	102,000	2,139,652	0	0.36	1.77
April	5,664,000	138,000	1,602,667	0	0.27	1.33
May	45,392,000	42,000	3,014,800	0	0.50	1.82
June	4,302,000	0	763,333	2	0.13	0.46
July	834,000	0	170,600	6	0.03	0.10
August	2,180,000	0	250,087	7	0.04	0.15
September	404,000	0	50,522	14	0.01	0.03
October	424,000	0	115,500	8	0.02	0.07
November	508,000	0	92,000	12	0.02	0.06
December <i>(Note 4)</i>	314,000	0	58,316	11	0.01	0.04
2012						
January (from 1 January to the Latest Practicable Date)	1,130,000	0	261,000	2	0.04	0.16

Source: *Infocast*

Notes:

1. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole day.
2. Based on the total number of Shares held by Independent Shareholders at the end of the respective month/period.
3. Trading of Shares was suspended from 6 January 2011 to 18 February 2011, pending the release of an announcement by the Company in relation to the possible mandatory unconditional cash offer by the Vendors.
4. Trading of Shares was suspended from 29 December 2011 (at 10:09 a.m.) to 6 January 2012, pending the release of the Announcement in relation to the Offer.

LETTER FROM PARTNERS CAPITAL

During the Review Period as a whole, no trading of the Shares was recorded on 188 trading days on the Stock Exchange.

During the year 2010, the average daily trading volume of the Shares had been very thin, being approximately 112,353 Shares, representing approximately 0.019% of the total number of Shares held by Independent Shareholders during the year.

As illustrated in the table above, the average daily trading volume in 2011 was within the range of approximately 0% to 8.50%. Since trading of Shares was suspended during most of the time in January 2011, if excluding it from comparison, the lowest average daily trading volume was recorded in September 2011, being 0.03% of the total number of Shares held by Independent Shareholders at the end of the month and is higher than the average daily trading volume of the Shares for the year 2010. Trading of the Shares was suspended between 6 January 2011 and 18 February 2011 pending the publication of Company's announcement in relation to, inter alia, the possible mandatory unconditional cash offer by the Vendors. On 21 February 2011, being the date immediately following the aforesaid announcement was published and the trading of the Shares was resumed, the trading volume of the Shares further increased substantially to over 35.7 million Shares, representing approximately 29.6% of the total number of Shares held by Independent Shareholders.

Average daily trading volume of the Shares stayed at relatively high level as to approximately 1.77% and 1.33% of the total number of Shares held by Independent Shareholders in March 2011 and April 2011 respectively. Subsequent to the close of the period of the mandatory unconditional cash offer made by the Vendors on 6 May 2011, the Company has been informed by the Vendors that Mr. Pong, the ultimate beneficial owner and the sole director of the Offeror, has placed down 44,700,000 Shares (representing approximately 7.45% of the issued share capital of the Company) to independent places through a placing agent on 11 May 2011. On 11 May 2011, the trading volume of the Shares further increased substantially to over 45.4 million Shares, representing 37.6% of the total number of Shares held by Independent Shareholders prior to the placement of Shares. The placing is unconditional and was completed on 13 May 2011. The trading volume of the Shares reduced significantly to the level of approximately 1.1 million Shares thereafter on 13 May 2011, representing approximately 0.67% of the total number of Shares held by Independent Shareholders following the placement of Shares. The average daily trading volume of the Shares then gradually further decreased to approximately 0.04% of the total number of Shares held by Independent Shareholders in December 2011 and then increased to approximately 0.16% up to the Latest Practicable Date.

LETTER FROM PARTNERS CAPITAL

In view of the above, we consider the liquidity of the Shares was generally thin during most of the time in the Review Period. As such, the Independent Shareholders who may wish to realize their investment in the Company, particularly those with relatively sizeable shareholdings, might not be able to do so without having an adverse impact on the market price level of the Shares. Accordingly, we consider that the market price of the Share may not necessarily reflect the proceeds which Independent Shareholders can receive by disposal of the Shares in the open market and, thus, the Offer represents an alternative opportunity for the Independent Shareholders to realise their investment in the Company.

(iii) Price-earnings multiple

As the Group is principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services, price-earnings multiple is one of the most commonly used benchmarks for valuing the Company. However, the Group has been in a loss-making position and did not record any net profit attributable to Shareholders nor earnings before interest, tax, depreciation and amortization of the Company for the two years ended 31 March 2011 and has just undergone a corporate reorganization with the loss-making businesses which are engaged in development and sale of enterprise software and provision of maintenance services disposed. Meanwhile, we have reviewed the interim report of the Company for the six months ended 30 September 2011 and the management accounts of the Company for the nine months ended 31 December 2011 and noted that (i) the contributions to total revenue of the Group by each of the Group's principal businesses varied significantly during the first six months ended 30 September 2011; and (ii) although the Company has achieved a net profit for the said periods, it was primarily due to the gain on disposal of subsidiaries which was non-recurrent in nature. Therefore, if such gain on disposal of subsidiaries was to be excluded, the Company still recorded operating loss for the said periods. Therefore, the price-earnings multiple approach cannot give a meaningful result in valuing the Company and cannot be adopted.

(iv) Net asset value

As set out in the Letter from the Board, the aggregate consideration for the Sale Shares is HK\$133,000,000 (equivalent to approximately HK\$0.3167 per Sale Share) which was agreed between the Offeror and the Vendors after arm's length negotiations.

LETTER FROM PARTNERS CAPITAL

In assessing the Offer Price, we have considered two commonly adopted methodologies, namely the price-earnings multiple and the price-book multiple. Due to the factors mentioned in the previous section, the price-earnings multiple cannot give a meaningful result in assessing the Offer Price. In order to have another prospective for analyzing and assessing the Offer Price, we adopt the price-book multiple, which is a commonly used method in valuing companies, in particular loss-making companies, for our analysis. Upon reviewing the net asset position of the Group as at 30 September 2011, we note the asset value merely comprised of current assets of trade and other receivables and cash and cash equivalents which are less than the consideration of the Offer.

As the Company is predominantly engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services, we have searched the companies listed on the GEM of the Stock Exchange and identified 6 companies (the “Comparables”) which have principal businesses similar to that of the Group comprising mainly (i) sale, distribution or trading of computer hardware or IT products; (ii) development and sale of software and solutions; and (iii) provision of IT, integration or maintenance services. The Comparables represent an exhaustive list and we consider them relevant and suitable for comparison. We summarise the price-book multiples of these comparable companies as represented by the Offer Price below:

Company Name (stock code)	Principal Business	Price as at the Last Trading Date (1)	Latest published net asset value per share (HK\$) (2)	PB Ratio (times) (3) = (1)/(2)
China Information Technology Development Limited (8178)	(1) Sale of computer hardware; (2) Provision of software development and system integration services; (3) Provision of technical support and maintenance services; (4) Sale and lease of in-house developed computer hardware; and (5) provision of internet mobile and telecommunication value-added services	N/A ⁴	0.016	N/A
China Netcom Technology Holdings Limited (8071)	(1) Trading of computer hardware and software; (2) development of computer software, hardware and application system; (3) sale of self developed technology or results; (4) provision of relevant technical consultancy services in the PRC (excluding Hong Kong); and (5) provision of staff secondment and exploration of mines	0.095	0.069	1.38 ¹

LETTER FROM PARTNERS CAPITAL

Company Name (stock code)	Principal Business	Price as at the Last Trading Date (1)	Latest published net asset value per share (HK\$) (2)	PB Ratio (times) (3) = (1)/(2)
Jiangsu Nandasoft Technology Company Limited (8045)	(1) Sale of computer hardware and software products, trading of IT related products and equipment and mobile phone; (2) Rendering of system integration services; and (3) Provision of IT training services	0.385	0.359	1.07 ¹
Sing Lee Software (Group) Limited (8076)	(1) Sale of software products; (2) Sale of related hardware products; and (3) Provision of software related technical support services	0.300	0.040	7.50 ¹
Shanghai Jiaoda Withub Information Industrial Company Limited (8205)	(1) Sales and distribution of computer and electrical products and accessories; and (2) Develop and provide business application solutions services which include business solutions development, application software and network and data security products	0.200	0.182	1.10 ¹
Timeless Software Limited (8028)	(1) Hardware sales; (2) software development; and (3) software sale	0.162	0.084	1.93 ²
	Min			1.07
	Max			7.50
	Mean			2.60
	Median			1.38
			Unaudited consolidated net asset value per Share as at 30 September 2011³	
The Company (8050)		0.3167	0.0122	25.96

LETTER FROM PARTNERS CAPITAL

Notes:

1. Date of latest published account was 30 June 2011
2. Date of latest published account was 30 September 2011
3. Being the date of which the latest published interim consolidated balance sheet of the Company was made up.
4. Trading of shares of China Information Technology Development Limited is suspended during the Review Period.

As illustrated in the above table, the Offer Price of HK\$0.3167 per Share represents a price-book multiple of approximately 25.96 times which lies substantially above the maximum price-book multiple of the above comparable companies. Based on the above, we are of the opinion that the Offer Price is fair and reasonable.

(v) Dividend yield

We have reviewed the dividend payment history of the Company. Save and except for the special dividend of HK\$0.0693 per Share declared after the Disposal in April 2011, the Company has not paid or declared any dividends to the Shareholders for each of the three financial years ended 31 March 2011. Accordingly, no basis can be formed to appraise the fairness and reasonableness of the Offer Price based on the historical dividend yield of the Company.

(vi) Background and intention of the Offeror regarding the Group

(a) Background of the Offeror

The Offeror is a company incorporated in the BVI on 5 July 2011 with limited liability and is principally engaged in investment activities. The Offeror is wholly and ultimately beneficially owned by Mr. Chan. Mr. Chan is the sole director of the Offeror. Before the date of the Sale and Purchase Agreement, the Offeror has not conducted any business since its incorporation. Save for the cash used and to be used for the settlement of the consideration for the Sale Shares and the Offer, the Offeror does not have any material assets as at the Latest Practicable Date.

Mr. Chan, aged 62, is a merchant and investor who has pursued investments in areas of maritime related industries, real estate and international trading, among others. He is currently actively involved in various telecommunications endeavors in the PRC.

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(b) Intention of the Offeror regarding the Group

It is the intention of the Offeror that the Group will continue its existing principal activities and existing business. As at the Latest Practicable Date, the Offeror does not intend to introduce any major changes to the existing operation and business of the Company and has no intention or plan (i) for any acquisition or disposal of assets and/or business by the Group; (ii) to redeploy the fixed assets of the Company; and (iii) to discontinue the employment of the Group's employees as a result of the Offer. Immediately after the close of the Offer, the Offeror will conduct a more detailed review on the operations of the Group with a view to develop a comprehensive corporate strategy to broaden the revenue base of the Group. The Offeror will evaluate all available opportunities to consider whether there are any assets and/or business acquisitions suitable for enhancing the overall growth of the Group and may consider further acquisition in such assets and/or business if there will be suitable opportunity. Should such opportunity(ies) materialize, further announcement(s) will be made by the Company as and when required by the GEM Listing Rules. The Offeror considers that the acquisition of the Sale Shares and the Offer represent an opportunity to invest in a majority stake in a listed vehicle which may serve as a platform for it to develop business opportunities it identifies from time to time. The Offeror therefore considers that the acquisition of the Sale Shares and the Offer are in its long-term commercial interest.

Pursuant to the Sale and Purchase Agreement, the Offeror has irrevocably and unconditionally undertaken to procure the change of the name of the Company from its present name to a new name that does not contain the words or expressions "Flex System" or any other similar words or expressions or any colourable intimation thereof, such change to be effective as soon as practicable after Completion but in any event within 120 days from Completion.

(c) Proposed change of Board composition of the Group

The Board is currently made up of five Directors, comprising two executive Directors and three independent non-executive Directors. The Offeror intends to nominate new Directors to the Board with effect from the day immediately after the date of dispatch of the Document. Any changes to the Board will be made in compliance with the Takeovers Code and the GEM Listing Rules and further announcement will be made accordingly.

(d) Maintaining the listing status of the Company

The Offeror intends to maintain the listing of the Shares on GEM after the close of the Offer. The director of the Offeror and the new directors to be appointed to the Board will undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

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If, upon the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares.

Since the Company has been loss-making and is expected to face a challenging business environment, in the absence of any intention or any plan of the Offeror to introduce any major changes to the existing operation and business of the Company, we consider that a significant breakthrough in the Group's businesses in the near future is unlikely and the prospect of the Group is cautious. On the other hand, it is uncertain whether the new Directors to be nominated by the Offeror will bring any impact to existing Board and existing business of the Group. Based on the above, we consider that the Offer represents an alternative opportunity for the Independent Shareholders, in particular those are not confident in the new board of Directors or the future prospect of the Group, to realize their investment in the Company.

RECOMMENDATION ON THE OFFER

Having considered the principal factors set out above, in particular, the following:

- (i) the Offer Price represents a premium of the closing price of the Share for most of the time during the Review Period;
- (ii) the price-book multiple as represented by the Offer Price is 25.96 times based on the unaudited consolidated net asset value per Share as at 30 September 2011 and is significantly higher than those of the Comparables;
- (iii) the low liquidity of trading of the Shares during the Review Period and the Offer provides an opportunity to the Independent Shareholders to dispose their Shares especially to those who have relatively sizeable shareholdings in the Company and their disposals may cast downward pressure on market price of the Shares;
- (iv) given that (i) the Company has been loss-making for the past two financial years and is still making a loss (after excluding the gain on disposal of subsidiaries) for the nine months ended 31 December 2011 after the Disposal in April 2011; and (ii) the Group is expected to face a challenging business environment due to the slim growth in local IT industry;
- (v) no dividend has been paid to the Shareholders for each of the three financial years ended 31 March 2011 except the special dividend of HK\$0.0693 per Share declared after the Disposal in April 2011 which is one-off in nature; and
- (vi) the Offeror's intention to (i) the Group's businesses which we consider unlikely to result in any significant breakthrough in the Group's businesses in near future; and (ii) the efficacy of proposed nomination of new Directors which we consider uncertain,

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we consider that the Offer is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend to the Independent Shareholders to accept the Offer.

Independent Shareholders are reminded that they should carefully closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sale of such Shares in the open market would exceed the net amount receivable under the Offer.

On the other hand, for those Independent Shareholders who wish to retain some or all of their Shares as they are attracted by and confident in the prospects and/or the management of the Group after the close of the Offer or otherwise, they should carefully consider the intention of the Offeror regarding the Group, details of which are set out in the Letter from Quam Capital. In any event, the Independent Shareholders should note the possibility that the generally thin trading volume recorded during most of the Review Period may render them difficult to dispose of their Shares in the market after the close of the Offers without exerting downward pressure on the price of the Shares. There is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable in the long term, or in the situation where the Offer fail to become unconditional.

Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in the Letter from Quam Capital and are strongly advised that the decision to realise or to hold their investment in the Shares is subject to individual circumstances and investment objectives.

Yours faithfully,

For and on behalf of

Partners Capital International Limited

Alan Fung

Managing Director

Hickman Wong

Director

1. PROCEDURES FOR ACCEPTANCE OF THE OFFER

- (a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in your name, and you wish to accept the Offer, you must send the duly completed and signed Form of Acceptance and Transfer together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) by post or by hand, to the Registrar, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, in any event not later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code.
- (b) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your holding of Shares (whether in full or in part), you must either:
- (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, and with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance and Transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and deliver the Form of Acceptance and Transfer duly completed and signed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your Shares have been lodged with your licensed securities dealer/registered institution in securities/custodian bank through CCASS, instruct your licensed securities dealer/registered institution in securities/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer/registered institution in securities/custodian bank for the

timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/registered institution in securities/custodian bank as required by them; or

- (iv) if your Shares have been lodged with your investor participant's account maintained with CCASS, give your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set by HKSCC Nominees Limited.
- (c) If you have lodged transfer(s) of any of your Shares for registration in your name and have not yet received your Share certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete and sign the Form of Acceptance and Transfer and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to the Offeror and/or Quam Securities or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant Share certificate(s) when issued and to deliver such Share certificates to the Registrar on your behalf and to authorise and instruct the Registrar to hold such Share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance and Transfer.
- (d) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your Shares is/are not readily available and/or is/are lost, as the case may be, and you wish to accept the Offer in respect of your Shares, the Form of Acceptance and Transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (e) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance and Transfer is received by the Registrar on or before 4:00 p.m. on the Closing Date or such later time as the Offeror may determine and announce in accordance with the Takeovers Code and the Registrar has recorded that the acceptance and the relevant documents as required under this paragraph have been so received, and is:
 - (i) accompanied by the relevant Share certificate(s) and/or transfer receipt(s) and/ or other document(s) of title (and/or any satisfactory

indemnity or indemnities required in respect thereof) and, if those Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) is/are not in your name, such other documents (e.g. a duly stamped transfer of the relevant Share(s) in blank or your favour, the person accepting the Offer, executed by the registered holder) in order to establish your right to become the registered holder of the relevant Shares; or

- (ii) from a registered Shareholder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the Shares which are not taken into account under another sub-paragraph of this paragraph (e)); or
- (iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance and Transfer is executed by a person other than the registered Shareholder, appropriate documentary evidence of authority (such as grant of probate or certified copy of a power of attorney) must be produced.

- (f) In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptance of the Offer, payable by the relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to such person on acceptance of the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant Independent Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptance of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).
- (g) No acknowledgement of receipt of any Form of Acceptance and Transfer, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

As the Offer Price of HK\$0.3167 is of four decimal places, the remittances in respect of the cash consideration payable for the Offer Shares will be rounded up to the nearest Hong Kong cent.

2. ACCEPTANCE PERIOD AND REVISIONS

- (a) Unless the Offer has previously been revised or extended, with the consent of the Executive, in accordance with the Takeovers Code, the Form of Acceptance and Transfer must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the relevant Form of Acceptance and Transfer, and the Offer will be closed on the Closing Date.

- (b) If the Offer is extended or revised, the announcement of such extension or revision shall state the next Closing Date or that the Offer will remain open until further notice. For the latter case, at least 14 days' notice in writing will be given to the Independent Shareholders, who have not accepted the Offer before the Offer is closed, and an announcement in respect thereof shall be released.

If the Offeror revises the terms of the Offer, the Independent Shareholders, whether or not they have already accepted the Offer, will be entitled to accept the revised Offer under the revised terms. The revised Offer must be kept open for at least 14 days following the date on which the revised offer document is posted.

- (c) If the Closing Date is extended, any reference in this Composite Document and in the Form of Acceptance and Transfer to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the Closing Date so extended.

3. ANNOUNCEMENTS

- (a) By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may in exceptional circumstances permit), the Offeror must inform the Executive and the Stock Exchange of its decision in relation to the revision or extension of the Offer. The Offeror must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offer has been closed, revised or extended.

The announcement must state the following:

- (i) the total number of Shares and rights over Shares for which acceptances of the Offer have been received;
- (ii) the total number of Shares and rights over Shares held, controlled or directed by the Offeror or persons acting in concert with it before the offer period (as defined under the Takeovers Code);
- (iii) the total number of Shares, rights over Shares, acquired or agreed to be acquired by the Offeror or persons acting in concert with it during the offer period (as defined under the Takeovers Code);
- (iv) details of any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Offeror or any parties acting in concert with it has borrowed or lent, save for any borrowed securities which have been either on-lent or sold; and

- (v) the percentages of the relevant classes of share capital of the Company and the percentages of voting rights of the Company represented by these numbers.
- (b) In computing the total number of Shares represented by acceptances, only valid acceptances have been received by the Registrar no later than 4:00 p.m. on the Closing Date shall be included.
- (c) As required under the Takeovers Code and the GEM Listing Rules, any announcement in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, will be published on the GEM website (www.hkgem.com) and the website of the Company (<http://ir.sinodelta.com.hk/8050/>).

4. RIGHT OF WITHDRAWAL

- (a) Acceptance to the Offer tendered by the Independent Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in (b) below.
- (b) If the Offeror is unable to comply with the requirements set out in the paragraph headed “Announcements” above, the Executive may require that the Independent Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

In such case, when the Independent Shareholders withdraw their acceptance(s), the Offeror shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form of Acceptance and Transfer to the relevant Independent Shareholder(s).

5. SETTLEMENT OF THE OFFER

Provided that a valid Form of Acceptance and Transfer and the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) have been received by the Registrar no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code, a cheque for the amount due to each of the accepting Independent Shareholders less seller’s ad valorem stamp duty (rounded up to the nearest HK\$1.00) in respect of the Offer Shares tendered by him under the Offer will be despatched to such Independent Shareholders by ordinary post at his own risk as soon as possible but in any event within 10 days of the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid.

Settlement of the consideration to which any Independent Shareholders is entitled under the Offer will be implemented in full in accordance with the terms of the Offer (save with respect of the payment of seller's ad valorem stamp duty), without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Independent Shareholders.

6. OVERSEAS SHAREHOLDERS

The making of the Offer to Overseas Shareholders may be prohibited or affected by the laws of the relevant jurisdictions. Overseas Shareholders should inform themselves of and observe any applicable legal requirements. It is the responsibility of each Overseas Shareholder wishing to accept the Offer to satisfy himself/herself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements and the payment of any transfer or other taxes due by such accepting Independent Shareholders in respect of such jurisdiction. Acceptances of the Offer by any such person will constitute a warranty by such person that such person is permitted under all applicable laws to accept the Offer and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws. The Overseas Shareholders are recommended to seek professional advice on deciding whether to accept the Offer.

7. TAXATION

The Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Offer. None of the Offeror and parties acting in concert with it, Quam Capital, Partners Capital, the Registrar or any of their respective directors or professional advisers or any persons involved in the Offer, and the company secretary of the Company accepts responsibility for any tax effects or liabilities of any person or persons as a result of their acceptance of the Offer.

8. GENERAL

- (a) All communications, notices, Form of Acceptance and Transfer, Share certificates, transfer receipts (as the case may be), other documents of title and/or any satisfactory indemnity or indemnities required in respect thereof and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the Independent Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of the Company, the Offeror, Quam Capital, Partners Capital and any of their respective agents nor the Registrar or the company secretary of the Company or other parties involved the Offer accepts any liability for any loss in postage or any other liabilities that may arise as a result thereof.
- (b) The provisions set out in the accompanying Form of Acceptance and Transfer form part of the terms and conditions of the Offer.

- (c) The accidental omission to despatch this Composite Document and/or Form of Acceptance and Transfer or any of them to any person to whom the Offer are made will not invalidate the Offer in any way.
- (d) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the Form of Acceptance and Transfer will constitute an authority to the Offeror, or such person or persons as the Offeror may direct to complete and execute any document on behalf of the person or persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person or persons has accepted the Offer.
- (f) Reference to the Offer in this Composite Document and in the Form of Acceptance and Transfer shall include any extension or revision thereof.
- (g) The English text of this Composite Document and the Form of Acceptance and Transfer shall prevail over their respective Chinese text in case of inconsistency.

1. THREE YEARS FINANCIAL SUMMARY

Set out below is a summary of the financial results of the Group for each of the years ended 31 March 2011, 2010 and 2009 as extracted from the annual reports of the Company for the year ended 31 March 2011, 2010 and 2009 respectively. There were no extraordinary items or exceptional items because of size, nature or incidence in respect of the consolidated income statement of the Group for each of the aforesaid years.

No qualified opinion had been given in the auditor's reports issued by HLB Hodgson Impey Cheng in respect of the three years ended 31 March 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 March		
	2011 HK\$'000 (audited)	2010 HK\$'000 (audited)	2009 HK\$'000 (audited)
Revenue	102,033	89,106	97,149
Share of profit of an associate	35	105	175
(Loss)/profit before income tax	(6,762)	(12,867)	3,177
Income tax	<u>(1)</u>	<u>35</u>	<u>202</u>
(Loss)/profit for the year attributable to:			
Equity holders of the Company	(6,814)	(12,810)	3,360
Minority interests	<u>51</u>	<u>(22)</u>	<u>19</u>
	<u>(6,763)</u>	<u>(12,832)</u>	<u>3,379</u>
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company	(5,637)	(11,817)	3,042
Minority interests	<u>51</u>	<u>(22)</u>	<u>19</u>
	<u>(5,586)</u>	<u>(11,839)</u>	<u>3,061</u>
Dividends	<u>-</u>	<u>-</u>	<u>-</u>
Dividend per share	<u>-</u>	<u>-</u>	<u>-</u>
(Loss)/Earnings per share attributable to equity holders of the Company – basic and diluted	(1.14) HK cents	(2.14) HK cents	0.56 HK cents

2. AUDITED FINANCIAL INFORMATION

The following is the audited financial statements of the Group extracted from the annual report of the Company for the year ended 31 March 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

	<i>Note</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue	5	102,033	89,106
Cost of sales		<u>(34,755)</u>	<u>(35,276)</u>
Gross profit		67,278	53,830
Other income	6	2,031	242
Share of profit of an associate		35	105
Distribution costs		(29,761)	(25,450)
Administrative expenses		(45,614)	(40,804)
Other operating expenses		<u>(731)</u>	<u>(790)</u>
Loss before income tax		(6,762)	(12,867)
Income tax	8	<u>(1)</u>	<u>35</u>
Loss for the year		<u>(6,763)</u>	<u>(12,832)</u>
Other comprehensive income			
Available-for-sale financial assets:			
Change in fair value		342	168
Reclassification adjustments for losses included in the consolidated statement of comprehensive income			
– Loss on disposal		119	–
Currency translation differences		<u>716</u>	<u>825</u>
Other comprehensive income for the year, net of tax		<u>1,177</u>	<u>993</u>
Total comprehensive expense for the year		<u><u>(5,586)</u></u>	<u><u>(11,839)</u></u>

	<i>Note</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Loss for the year attributable to:			
– Owners of the Company		(6,814)	(12,810)
– Non-controlling interests		<u>51</u>	<u>(22)</u>
		<u>(6,763)</u>	<u>(12,832)</u>
Total comprehensive expense for the year attributable to:			
– Owners of the Company		(5,637)	(11,817)
– Non-controlling interests		<u>51</u>	<u>(22)</u>
		<u>(5,586)</u>	<u>(11,839)</u>
Loss per share attributable to owners of the Company (express in HK cents)			
– Basic and diluted	<i>10</i>	<u>(1.14)</u>	<u>(2.14)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

		At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000 (restated)	At 1 April 2009 HK\$'000 (restated)
	<i>Note</i>			
Non-current assets				
Property, plant and equipment	13	20,181	21,745	23,710
Investments in associates	15	989	1,191	1,119
Interest in a jointly-controlled entity	16	–	–	–
Available-for-sale financial assets	18	15	526	358
Amounts due from investee companies	19	–	–	–
		<u>21,185</u>	<u>23,462</u>	<u>25,187</u>
Current assets				
Inventories	20	525	665	834
Trade and other receivables	21	21,440	17,804	17,552
Current income tax assets		899	899	663
Cash and cash equivalents	22	26,574	30,757	36,064
		<u>49,438</u>	<u>50,125</u>	<u>55,113</u>
Total assets		<u>70,623</u>	<u>73,587</u>	<u>80,300</u>
Current liabilities				
Trade and other payables	23	28,552	25,870	20,606
Current income tax liabilities		–	60	74
		<u>28,552</u>	<u>25,930</u>	<u>20,680</u>
Net current assets		<u>20,886</u>	<u>24,195</u>	<u>34,433</u>
Total assets less current liabilities		<u>42,071</u>	<u>47,657</u>	<u>59,620</u>
Non-current liabilities				
Deferred income tax liabilities	27	–	–	124
Net assets		<u>42,071</u>	<u>47,657</u>	<u>59,496</u>

		At 31 March 2011 <i>HK\$'000</i>	At 31 March 2010 <i>HK\$'000</i> (restated)	At 1 April 2009 <i>HK\$'000</i> (restated)
Equity				
Capital and reserves attributable to the owners of the Company				
Share capital	24	60,000	60,000	60,000
Reserves		<u>(18,824)</u>	<u>(13,187)</u>	<u>(1,370)</u>
		41,176	46,813	58,630
Non-controlling interests		<u>895</u>	<u>844</u>	<u>866</u>
Total equity		<u><u>42,071</u></u>	<u><u>47,657</u></u>	<u><u>59,496</u></u>

STATEMENT OF FINANCIAL POSITION

As at 31 March 2011

		At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
	<i>Note</i>			
Non-current assets				
Investments in subsidiaries	14	2	21,906	14,187
Available-for-sale financial assets	18	–	511	343
		<u>2</u>	<u>22,417</u>	<u>14,530</u>
Current assets				
Prepayments and deposits	21	338	145	112
Cash and cash equivalents	22	13,621	16,820	24,409
		<u>13,959</u>	<u>16,965</u>	<u>24,521</u>
Total assets		<u>13,961</u>	<u>39,382</u>	<u>39,051</u>
Current liabilities				
Accruals	23	296	268	240
Net current assets		<u>13,663</u>	<u>16,697</u>	<u>24,281</u>
Total assets less current liabilities		<u>13,665</u>	<u>39,114</u>	<u>38,811</u>
Net assets		<u>13,665</u>	<u>39,114</u>	<u>38,811</u>
Equity				
Capital and reserves attributable to the owners of the Company				
Share capital	24	60,000	60,000	60,000
Reserves	26	(46,335)	(20,886)	(21,189)
Total equity		<u>13,665</u>	<u>39,114</u>	<u>38,811</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2011

	Attributable to the owners of the Company								
	Share capital	Share premium	Merger reserve	Translation reserve	Available-for-sale investments reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note 24)		(Note)						
As at 1 April 2009	60,000	77,955	(47,430)	(46)	(629)	(31,220)	58,630	866	59,496
Comprehensive expense									
Loss for the year	-	-	-	-	-	(12,810)	(12,810)	(22)	(12,832)
Other comprehensive income									
Changes in fair value of available-for-sale financial assets	-	-	-	-	168	-	168	-	168
Currency translation differences	-	-	-	825	-	-	825	-	825
Total comprehensive expense	-	-	-	825	168	(12,810)	(11,817)	(22)	(11,839)
As at 31 March 2010 and 1 April 2010	60,000	77,955	(47,430)	779	(461)	(44,030)	46,813	844	47,657
Comprehensive expense									
Loss for the year	-	-	-	-	-	(6,814)	(6,814)	51	(6,763)
Other comprehensive income									
Available-for-sale financial assets									
Changes in fair value	-	-	-	-	342	-	342	-	342
Reclassification adjustments for losses included in the consolidated statement of comprehensive income									
- loss on disposal	-	-	-	-	119	-	119	-	119
Currency translation differences	-	-	-	716	-	-	716	-	716
Total comprehensive expense	-	-	-	716	461	(6,814)	(5,637)	51	(5,586)
As at 31 March 2011	60,000	77,955	(47,430)	1,495	-	(50,844)	41,176	895	42,071

Note: Pursuant to a group reorganisation (“Reorganisation”), which was completed on 10 July 2000, to rationalise the Group’s structure in preparation for a listing of the Company’s shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of SomaFlex International Inc. (“SomaFlex”) through a share swap and became the holding company of SomaFlex and its subsidiaries.

The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired pursuant to the Reorganisation and the nominal value of the share capital of the Company issued in exchange thereof.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2011

	<i>Note</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Cash flows from operating activities			
Net cash used in operating activities	28	<u>(7,064)</u>	<u>(6,012)</u>
Cash flows from investing activities			
Interest received		4	95
Dividend received		16	16
Purchase of property, plant and equipment		(538)	(162)
Repayment from/(advances to) associates		1,871	(59)
Proceed from disposal of available-for-sale financial assets		<u>853</u>	<u>–</u>
Net cash generated from/(used in) investing activities		<u>2,206</u>	<u>(110)</u>
Net decrease in cash and cash equivalents			
		(4,858)	(6,122)
Cash and cash equivalents at beginning of year		30,757	36,064
Exchange gains on cash and cash equivalents		<u>675</u>	<u>815</u>
Cash and cash equivalents at end of year		<u><u>26,574</u></u>	<u><u>30,757</u></u>
Analysis of balances of cash and cash equivalents:			
Cash at bank and in hand	22	24,717	29,041
Short-term bank deposits	22	<u>1,857</u>	<u>1,716</u>
		<u><u>26,574</u></u>	<u><u>30,757</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2011

1. GENERAL INFORMATION

FlexSystem Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 8 May 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company’s registered office is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company’s principal place of business is situated at Unit A, 6/F., Nine Queen’s Road Central, Hong Kong.

The Company’s shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company and its subsidiaries (together the “Group”) are principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services.

In opinion of the directors, the parent and ultimate holding company of the Company is Excel Score Limited, which is incorporated in the British Virgin Islands.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (“HK\$’000”), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on 27 June 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis of preparation and principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

- (i) *Revised standards, and interpretation and amendments to existing standards effective for the annual period beginning on 1 April 2010*

The Group has adopted the following revised standards, and interpretation and amendments to existing standards which are mandatory for the first time for the Group’s financial year beginning on 1 April 2010 and are relevant to the Group’s operations. The impact on the Group’s consolidated financial statements upon adoption is set out below:

HKFRS 2 (Amendment), ‘Group Cash-settled Share-based Payment Transactions’. In addition to incorporating HK(IFRIC) – Interpretation 8, ‘Scope of HKFRS 2’, and HK(IFRIC) – Interpretation 11, ‘HKFRS 2 – Group and Treasury Share Transactions’, the amendment expands on the guidance in HK(IFRIC) – Interpretation 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance has no impact on the consolidated financial statements.

HKFRS 3 (Revised), 'Business Combinations', and consequential amendments to HKAS 27, 'Consolidated and Separate Financial Statements' and HKAS 28, 'Investments in Associates'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes in relation to contingent payments, measurement of non-controlling interests in the acquiree and acquisition-related costs. HKAS 27 (Revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in consolidated statement of comprehensive income. The Group has applied these standards in the consolidated financial statements.

HKFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations'. The amendment clarifies that HKFRS 5 specifies the disclosures required in respect of non-current assets classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The amendment has no impact on the consolidated financial statements.

HKAS 17 (Amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating leases using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, any land interest where title was not expected to pass to the Group by the end of the lease term was classified as an operating lease accounted for within "Prepaid lease payments", and amortised over the lease term. The Group has reassessed the classification of unexpired leasehold land interests as at 1 April 2010 on the basis of information existing at the inception of those leases, and has recognised its leasehold land interests in Hong Kong as finance leases retrospectively. As a result of the reassessment, the Group has reclassified those leasehold land interests from operating leases to finance leases. These property interests are held for own use and are accounted for as property, plant and equipment and depreciated from the land interest available for its intended use over the shorter of the useful life of the asset and lease term.

The effect of changes in accounting polices following the adoption of HKAS 17 (Amendment) on the consolidated statement of financial position is as follows:

	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Decrease in leasehold land and land use rights	<u>(11,474)</u>	<u>(11,791)</u>	<u>(12,108)</u>
Increase in property, plant and equipment	<u>11,474</u>	<u>11,791</u>	<u>12,108</u>

There is no impact on the consolidated statement of comprehensive income and the consolidated statement of changes in equity.

HKAS 36 (Amendment), 'Impairment of Assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating Segments' (that is, before the aggregation of segments with similar economic characteristics). The amendment has no impact on the consolidated financial statements.

HK Interpretation 5, 'Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause', specifies that amounts repayable under a loan agreement which includes a clause that gives the lender the unconditional right to call the loan at any time shall be classified by the borrower as current liabilities in its statement of financial position. The interpretation has no impact on the consolidated financial statements.

- (ii) *New and revised standards that are not effective and have not been early adopted by the Group*

The following new and revised standards relevant to the Group have been issued, but are not effective for the financial year beginning on 1 April 2010 and the Group has not early adopted them:

HKFRS 9, 'Financial Instruments' (effective for annual period starting from 1 April 2013). HKFRS 9 improves the classification and measurement of financial assets and financial liabilities compared with the requirements of HKAS 39. Under HKFRS 9, all financial assets are to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Most of the requirements in HKAS 39 for classification and measurement of financial liabilities were carried forward unchanged to HKFRS 9. The Group will apply HKFRS 9 from 1 April 2013.

HKAS 24 (Revised), 'Related Party Disclosures' (effective for annual period starting from 1 April 2011). HKAS 24 (Revised) simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Group will apply HKAS 24 (Revised) from 1 April 2011.

In addition, HKICPA has published a number of amendments for the existing standards under its annual improvements project.

These amendments are expected to have no material impact to the consolidated financial statements of the Group.

2.2 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March.

- (a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

For acquisitions prior to 1 July 2009, the cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Non-controlling interest is initially measured at its share of fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable

net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income.

For acquisition on or after 1 July 2009, as a result of the adoption of HKFRS 3 (Revised) "Business Combinations", accounting for acquisition of subsidiaries is as follows:

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchases, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. The financial information of subsidiaries has been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset, as appropriate. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(b) *Associates*

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associates, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of comprehensive income.

Where a Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

(c) *Jointly-controlled entities*

Jointly-controlled entities are all entities where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly-controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its jointly-controlled entities' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of loss in a jointly-controlled entity equals or exceeds its interest in the jointly-controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly-controlled entity.

Unrealised gains on transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly-controlled entities have been changed where necessary in the consolidated statement of comprehensive income to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in jointly-controlled entities are recognised in the consolidated statement of comprehensive income.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive directors collectively. The executive directors are responsible for allocating resources and assessing performance of operating segments.

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) *Group companies*

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of each reporting period;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Land held under finance leases and all other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land held under a finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land	Over the lease term
Building	10-50 years or remaining terms of the respective leases, whichever is the shorter after considering the residual value
Leasehold improvements	Over the lease term
Plant and machinery	20%
Furniture and fixtures	20%-25%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

2.6 Impairment of non-financial assets

Assets that have indefinite useful lives or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units "CGU"). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Impairment of investments in subsidiaries, associates and jointly-controlled entities

Impairment testing of the investments in subsidiaries, associates or jointly-controlled entity is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associate or jointly-controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are those financial assets designated at fair value through profit or loss on initial recognition. At the end of each reporting period subsequent to initial recognition, financial assets at fair value through profit or loss are re-measured at fair value, with changes in fair value recognised directly in the statement of comprehensive income in the period in which they arise.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "amounts due from associates", "trade and other receivables" and "cash and cash equivalents" in the statement of financial position.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the consolidated statement of comprehensive income within "other (losses)/gains – net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are impaired or sold, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as “gain or loss on disposal of available-for-sale financial assets”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group’s right to receive payments is established.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.10 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio;
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) *Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. For investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated statement of comprehensive income. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income.

Impairment testing of trade and other receivables is described in Note 2.12.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the consolidated statement of comprehensive income.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of each reporting period in the countries where the Company and its subsidiaries and jointly-controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly-controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.17 Employee benefits*(a) Pension obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The Group’s employer contributions vest fully within the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Apart from the MPF scheme, the Group also contributes to other defined contribution retirement schemes. The contributions are expensed as incurred.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of each reporting period are discounted to their present value.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (a) Revenue from the sale of enterprise software and hardware products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

- (b) Maintenance service income is recognised over the life of the agreement on a straight-line basis. The unearned portion of the maintenance service income received is stated as deferred income in the statement of financial position.
- (c) Commission income is recognised when the relevant services are rendered.
- (d) Dividend income is recognised when the right to receive payment is established.
- (e) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.20 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rental payables under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance department which identifies and evaluates financial risks in close co-operation within the Group.

(a) *Market risk*

(i) Foreign exchange risk

Foreign exchange risk mainly arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The management of the Group considers the foreign exchange risk of the Group is not significant, and thus does not have any active policies to hedge against the foreign exchange risk.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated statement of financial position as available-for-sale financial assets. The Group is not exposed to commodity price risk.

As the Group's investments in available-for-sale financial assets are not significant, the management of the Group considers the price risk of the Group is not significant.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that credits are granted to customers with an appropriate credit history.

In addition, the Group reviews the recoverable amounts of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has maintained relationship with various financial institutions, and has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The Group's financial liabilities principally comprise trade payables and other financial liabilities included in other payables and accruals, all of which are expected to be settled within one year and are included in current liabilities. As at 31 March 2011, the Group did not have any borrowings or derivative financial liabilities (2010: Nil).

3.2 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity", as shown in the consolidated statement of financial position.

During 2011, the Group's strategy, which was unchanged from 2010, was to maintain a gearing ratio of zero. The gearing ratios at 31 March 2011 and 2010 were zero as the Group has no borrowing or debt.

3.3 Fair value estimation

The Group uses the following hierarchies for determining and disclosing the fair values of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets
- Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The following table presents the Group's assets that are measured at fair value as at 31 March 2011.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Available-for-sale financial assets				
– Listed equity securities	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The following table presents the Group's assets that are measured at fair value as at 31 March 2010.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Available-for-sale financial assets				
– Listed equity securities	511	–	–	511
	<u>511</u>	<u>–</u>	<u>–</u>	<u>511</u>

There were no transfer amongst level 1 and 2 in the current year.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Group is subject to income tax in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based

on estimates of whether additional taxes will be made. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition as at the end of each reporting period and the historical experience of selling products of similar nature.

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

(d) Impairment of property, plant and equipment

The Group's management assesses at the end of each reporting period whether property, plant and equipment have any indication of impairment, in accordance with the accounting policy stated in Note 2.6. The recoverable amount is higher of an asset's value in use and fair value less costs to sell, which is estimated based on the best information available to reflect the amount that is obtainable at the end of each reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to dispose, or cash to be generated from continuously using the assets.

(e) Impairment of trade and other receivables

The Group's management estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and impairment charge in the period in which such estimate has been changed.

5. REVENUE AND SEGMENT INFORMATION

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue		
Software	51,846	41,864
Services	37,380	34,709
Other operations	12,807	12,533
	<u>102,033</u>	<u>89,106</u>

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to make strategic decisions.

The Executive Directors review the Group's financial information mainly from software, services and other operations perspective. The Executive Directors further assess the performance of operations on a geographical basis (Hong Kong, PRC and other countries). The reportable segments are classified in a manner consistent with the information reviewed by the Executive Directors.

The Executive Directors assess the performance of the operating segments based on a measure of reportable segment (loss)/profit. This measurement basis excludes other income, share of profit of an associate and unallocated expenses.

Segment assets mainly exclude investments in associates, interest in a jointly-controlled entity, available-for-sale financial assets, current income tax assets and other assets that are managed on a central basis. Segment liabilities mainly exclude current income tax liabilities and other liabilities that are managed on a central basis.

In respect of geographical segment reporting, sales are based on the country in which the customer is located, and non-current assets are based on the country where the assets are located.

The segment information for the year ended 31 March 2011 is as follows:

	Software	Services	Other operations	Unallocated	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from external customers	51,846	37,380	12,807	–	102,033
Reportable segment (loss)/profit	(13,968)	12,020	(3,322)	(3,558)	(8,828)
Other income					2,031
Share of profit of an associate					35
Loss before income tax					(6,762)
Income tax (<i>Note 8</i>)					(1)
Loss for the year					(6,763)
Depreciation of property, plant and equipment	–	–	–	2,117	2,117
Addition to non-current assets	–	–	–	538	538

The segment information for the year ended 31 March 2010 is as follows:

	Software	Services	Other	Unallocated	Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>operations</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>HK\$'000</i>		
Revenue from external customers	<u>41,864</u>	<u>34,709</u>	<u>12,533</u>	<u>–</u>	<u>89,106</u>
Reportable segment (loss)/profit	(15,948)	9,259	(3,393)	(3,132)	(13,214)
Other income					242
Share of profit of an associate					<u>105</u>
Loss before income tax					(12,867)
Income tax (<i>Note 8</i>)					<u>35</u>
Loss for the year					<u>(12,832)</u>
Depreciation of property, plant and equipment	–	–	–	2,135	2,135
Addition to non-current assets	<u>–</u>	<u>–</u>	<u>–</u>	<u>162</u>	<u>162</u>

An analysis of the Group's assets as at 31 March 2011 by reportable segment is set out below:

	Software	Services	Other	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>operations</i>	<i>HK\$'000</i>
			<i>HK\$'000</i>	
Segment assets	<u>–</u>	<u>–</u>	<u>525</u>	525
Investments in associates				989
Available-for-sale financial assets				15
Current income tax assets				899
Unallocated assets				<u>68,195</u>
Total assets per consolidated statement of financial position				<u>70,623</u>

An analysis of the Group's liabilities as at 31 March 2011 by reportable segment is set out below:

	Software <i>HK\$'000</i>	Services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment liabilities	<u>9,965</u>	<u>9,112</u>	<u>–</u>	19,077
Current income tax liabilities				–
Unallocated liabilities				<u>9,475</u>
Total liabilities per consolidated statement of financial position				<u>28,552</u>

An analysis of the Group's assets as at 31 March 2010 by reportable segment is set out below:

	Software <i>HK\$'000</i>	Services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	<u>–</u>	<u>–</u>	<u>665</u>	665
Investments in associates				1,191
Available-for-sale financial assets				526
Current income tax assets				899
Unallocated assets				<u>70,306</u>
Total assets per consolidated statement of financial position				<u>73,587</u>

An analysis of the Group's liabilities as at 31 March 2010 by reportable segment is set out below:

	Software <i>HK\$'000</i>	Services <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment liabilities	<u>7,272</u>	<u>8,867</u>	<u>–</u>	16,139
Current income tax liabilities				60
Unallocated liabilities				<u>9,731</u>
Total liabilities per consolidated statement of financial position				<u>25,930</u>

The revenue from external customers of the Group by geographical segments is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Revenue		
Hong Kong	80,586	71,394
PRC	11,227	9,801
Other countries	10,220	7,911
	<u>102,033</u>	<u>89,106</u>

For the year ended 31 March 2011, there was no transaction with a single external customer that amounted to 10% or more of the Group's revenue (2010: Nil).

An analysis of the non-current assets, excluded financial instruments, of the Group by geographical segments is as follows:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current assets		
Hong Kong	20,212	22,144
PRC	718	638
Other countries	240	154
	<u>21,170</u>	<u>22,936</u>

6. OTHER INCOME

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Dividend income on available-for-sale financial assets	16	16
Interest income on short-term bank deposits	4	95
Reversal of provision for impairment of amount due from an associate	1,953	–
Others	58	131
	<u>2,031</u>	<u>242</u>

7. EXPENSES BY NATURE

	2011 HK\$'000	2010 HK\$'000
Depreciation of property, plant and equipment	2,117	2,135
Loss on disposal of property, plant and equipment	26	2
Fair value loss on available-for-sale financial assets (transfer from equity on disposal)	119	–
Cost of inventories expensed	10,594	10,493
Inventories written off	190	195
Operating lease rentals in respect of rented premises	1,691	1,713
Auditors' remuneration	450	350
Bad debts written off	105	357
Provision for impairment of trade receivables (Note 21)	96	117
Provision for impairment of amounts due from associates	319	92
	<u> </u>	<u> </u>

8. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the year. No provision for Hong Kong profits tax has been made for the year ended 31 March 2011 as the Group had no assessable profit arising in or derived from Hong Kong (2010: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2011 HK\$'000	2010 HK\$'000
Current income tax		
– Overseas taxation	1	89
Deferred income tax (Note 27)	–	(124)
	<u> </u>	<u> </u>
Income tax expense/(credit)	<u> </u> 1	<u> </u> (35)

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the weighed average tax rate applicable to profits of the consolidated entities as follows:

	2011 HK\$'000	2010 HK\$'000
Loss before income tax	<u> </u> (6,762)	<u> </u> (12,867)
Tax calculated at Hong Kong profits tax rate of 16.5% (2010: 16.5%)	(1,115)	(2,123)
Income not subject to tax	(1,208)	(56)
Expenses not deductible for tax purpose	478	333
Tax losses for which no deferred income tax asset was recognised	1,850	2,598
Utilisation of previously unrecognised tax losses	(5)	(741)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1	95
Others	–	(141)
	<u> </u>	<u> </u>
Income tax expense/(credit)	<u> </u> 1	<u> </u> (35)

9. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$25,910,000 (2010: profit of approximately HK\$135,000).

10. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to owners of the Company for the year of approximately HK\$6,814,000 (2010: HK\$12,810,000) by the weighted average number of 600,000,000 (2010: 600,000,000) ordinary shares in issue during the year.

There is no diluted loss per share since the Company has no dilutive potential ordinary shares in existence for the years ended 31 March 2011 and 2010.

11. DIVIDENDS

No dividend was paid or proposed during the year ended 31 March 2011 (2010: Nil). The special distribution of HK\$0.0693 per share, totally HK\$41.58 million, was approved at the Board Meeting held on 13 April 2011 and paid on 18 April 2011.

12. EMPLOYEE BENEFIT EXPENSE

	2011 HK\$'000	2010 HK\$'000
Salaries, wages and other benefits	68,652	60,893
Pension costs – defined contribution schemes	<u>2,924</u>	<u>2,666</u>
Total employee benefit expense (including directors' remuneration)	<u><u>71,576</u></u>	<u><u>63,559</u></u>

(a) Defined contribution schemes

The Group operated a defined contribution scheme (the "Old Scheme") for all qualified employees in Hong Kong prior to 1 December 2000. With the implementation of the MPF Scheme effective from 1 December 2000, the Old Scheme was terminated and the accumulated contributions of the Old Scheme were transferred to the MPF Scheme as the Group's voluntary contributions. Under the MPF Scheme, monthly contributions are made at 5% of an employee's gross salary or HK\$1,000, whichever is lower. The Group's voluntary contributions forfeited by qualified employees in Hong Kong who left the MPF Scheme prior to vesting fully in such contributions can be used to reduce the Group's future contributions to the MPF Scheme. During the years ended 31 March 2010 and 2011, there were no material contributions forfeited.

The PRC subsidiary of the Group has participated in an employees' retirement scheme implemented by the Chinese local government. Contributions are made to the scheme at rate of 13% to 30% (2010: 18% to 30%) of the applicable basic payroll costs.

The Singapore subsidiary of the Group has participated in the Central Provident Fund. Contributions are made at 35% to 35.5% (2010: 34.5%) of an employee's ordinary wages.

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 March 2011 is set out below:

Name of director	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employer's contributions to defined contribution schemes HK\$'000	Total HK\$'000
<i>Executive directors</i>				
Mr. Lok Wai Man	-	932	24	956
Mr. So Yiu King	-	898	12	910
Mr. Chow Chi Ming, Daniel	-	498	23	521
<i>Independent non-executive directors</i>				
Mr. Tse Lin Chung	30	-	-	30
Mr. Lee Kar Wai	30	-	-	30
Mr. Mak Wing Kwong, David	30	-	-	30
	<u>90</u>	<u>2,328</u>	<u>59</u>	<u>2,477</u>

The remuneration of every director for the year ended 31 March 2010 is set out below:

Name of director	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employer's contributions to defined contribution schemes HK\$'000	Total HK\$'000
<i>Executive directors</i>				
Mr. Lok Wai Man	-	937	24	961
Mr. So Yiu King	-	795	12	807
Mr. Chow Chi Ming, Daniel	-	496	23	519
<i>Independent non-executive directors</i>				
Mr. Tse Lin Chung	30	-	-	30
Mr. Lee Kar Wai	30	-	-	30
Mr. Mak Wing Kwong, David	30	-	-	30
	<u>90</u>	<u>2,228</u>	<u>59</u>	<u>2,377</u>

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office (2010: Nil). None of the directors waived or agreed to waive any remuneration during the year (2010: Nil).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2010: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2010: three) individuals during the year are as follows:

	2011 HK\$'000	2010 HK\$'000
Basic salaries, allowances and benefits in kind	2,228	2,096
Employer's contributions to defined contribution schemes	81	78
	<u>2,309</u>	<u>2,174</u>
	2011 Number of Individuals	2010 Number of Individuals
The emoluments fell within the following band:		
Nil – HK\$1,000,000	<u>3</u>	<u>3</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land HK\$'000	Building HK\$'000	Leasehold improve- ments HK\$'000	Group Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 April 2009							
Cost, as previously reported	-	7,804	6,323	4,806	5,117	188	24,238
Adoption of amendment to HKAS 17	12,900	-	-	-	-	-	12,900
Cost, as restated	<u>12,900</u>	<u>7,804</u>	<u>6,323</u>	<u>4,806</u>	<u>5,117</u>	<u>188</u>	<u>37,138</u>
Accumulated depreciation, as previously reported	-	(478)	(4,175)	(3,992)	(3,892)	(99)	(12,636)
Adoption of amendment to HKAS 17	(792)	-	-	-	-	-	(792)
Accumulated depreciation, as restated	<u>(792)</u>	<u>(478)</u>	<u>(4,175)</u>	<u>(3,992)</u>	<u>(3,892)</u>	<u>(99)</u>	<u>(13,428)</u>
Net book amount, as restated	<u>12,108</u>	<u>7,326</u>	<u>2,148</u>	<u>814</u>	<u>1,225</u>	<u>89</u>	<u>23,710</u>
Year ended 31 March 2010							
Opening net book amount, as restated	12,108	7,326	2,148	814	1,225	89	23,710
Additions	-	-	42	32	88	-	162
Disposals	-	-	-	-	(2)	-	(2)
Depreciation for the year	(317)	(191)	(1,097)	(196)	(295)	(39)	(2,135)
Exchange differences	-	-	-	(1)	13	(2)	10
Closing net book amount, as restated	<u>11,791</u>	<u>7,135</u>	<u>1,093</u>	<u>649</u>	<u>1,029</u>	<u>48</u>	<u>21,745</u>

	Leasehold land HK\$'000	Building HK\$'000	Leasehold improve- ments HK\$'000	Group Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 31 March 2010							
Cost, as previously reported	-	7,804	6,424	4,787	5,255	184	24,454
Adoption of amendment to HKAS 17	12,900	-	-	-	-	-	12,900
Cost, as restated	12,900	7,804	6,424	4,787	5,255	184	37,354
Accumulated depreciation, as previously reported	-	(669)	(5,331)	(4,138)	(4,226)	(136)	(14,500)
Adoption of amendment to HKAS 17	(1,109)	-	-	-	-	-	(1,109)
Accumulated depreciation, as restated	(1,109)	(669)	(5,331)	(4,138)	(4,226)	(136)	(15,609)
Net book amount, as restated	11,791	7,135	1,093	649	1,029	48	21,745
Year ended 31 March 2011							
Opening net book amount, as restated	11,791	7,135	1,093	649	1,029	48	21,745
Additions	-	-	239	150	149	-	538
Disposals	-	-	-	(7)	(19)	-	(26)
Depreciation for the year	(317)	(192)	(1,106)	(181)	(288)	(33)	(2,117)
Exchange differences	-	-	-	(2)	30	13	41
Closing net book amount	11,474	6,943	226	609	901	28	20,181
At 31 March 2011							
Cost	12,900	7,804	6,663	4,961	5,337	199	37,864
Accumulated depreciation	(1,426)	(861)	(6,437)	(4,352)	(4,436)	(171)	(17,683)
Net book amount	11,474	6,943	226	609	901	28	20,181

The Group's interests in leasehold land held for own use under finance lease are analysed as follows:

	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000 (restated)	At 1 April 2009 HK\$'000 (restated)
In Hong Kong:			
On lease between 10 to 50 years	11,474	11,791	12,108

14. INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries

	At 31 March 2011 HK\$'000	Company At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Unlisted shares, at cost	47,550	47,550	47,550
Less: Provision for impairment	(47,550)	(47,550)	(47,550)
	—	—	—
Amounts due from subsidiaries (Note (b))	79,556	77,356	69,637
Less: Provision for impairment (Note (b))	(79,554)	(55,450)	(55,450)
	2	21,906	14,187
	<u>2</u>	<u>21,906</u>	<u>14,187</u>

The following is a list of the principal subsidiaries of the Company as at 31 March 2011:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
<i>Subsidiary held directly:</i>				
SomaFlex International Inc.	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
<i>Subsidiaries held indirectly:</i>				
FlexSystem Limited	Hong Kong	Development and distribution of FlexAccount products in Hong Kong	120,000 ordinary shares of HK\$1 each	100%
FlexSystem (Shanghai) Co., Ltd. (Note (i))	PRC	Development and distribution of FlexAccount products in the PRC	Registered capital of US\$620,000	100%
FlexSystem Software Limited	Macau	Research and development in Macau	Registered capital of MOP30,000	100%
Norray Professional Computer Limited ("Norray")	Hong Kong	Provision of system integration services and other value-added technical consultation services and hardware-related business in Hong Kong	200,000 ordinary shares of HK\$1 each	70%
Starwise International Computers Limited	Hong Kong	Investment holding in Hong Kong	1,050,000 ordinary shares of HK\$1 each	100%

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
FlexEducation Technology Limited	Hong Kong	Development of educational software and investment holding in Hong Kong	100 ordinary shares of HK\$1 each	100%
Soma Software Services Limited	Hong Kong	Provision of ASP services in Hong Kong	100 ordinary shares of HK\$1 each	100%
FlexSystem Limited, Taiwan Branch	Taiwan	Sales of computer equipment, computer programming, and provision of computer maintenance and consultation services in Taiwan	Registered capital of NT\$2,500,000	100%
Maya Systems Consultants Pte. Limited	Singapore	Distribution of FlexAccount products in Singapore	500,000 ordinary shares of S\$1 each	70%
FineStar Pacific Limited	Hong Kong	Investment holding in Hong Kong	10,000 ordinary shares of HK\$1 each	51%
Master Regal Limited	Hong Kong	Investment holding in Hong Kong	100 ordinary shares of HK\$1 each	60%
Soma Systems Technology Sdn. Bhd.	Malaysia	Distribution of FlexAccount products in Malaysia	2 ordinary shares of RM1 each	100%
FlexDevelopments (Macau Commercial Offshore) Limited	Macau	Research and development of software in Macau	Registered capital of MOP100,000	100%
FlexSystem (M) Sdn. Bhd.	Malaysia	Distribution of FlexAccount products in Malaysia	2 ordinary shares of RM1 each	100%

Notes:

- (i) Wholly foreign-owned enterprise established in the PRC.
- (ii) All of the above subsidiaries of the Group are limited liability companies.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(b) Amounts due from subsidiaries

The impairment as at 31 March 2011 includes impairment provision of approximately HK\$79,554,000 (2010: HK\$55,450,000) for amounts due from subsidiaries. The provision was determined on the basis of the amounts recoverable from the subsidiaries with reference to the estimated fair value of the underlying assets held by subsidiaries.

Movements in the provision for impairment of amounts due from subsidiaries are as follows:

	Company		
	At 31 March 2011	At 31 March 2010	At 1 April 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April	55,450	55,450	55,450
Provision for impairment	24,104	-	-
	<u>79,554</u>	<u>55,450</u>	<u>55,450</u>
At 31 March	<u><u>79,554</u></u>	<u><u>55,450</u></u>	<u><u>55,450</u></u>

The carrying amounts of the amounts due from subsidiaries approximate their fair values.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15. INVESTMENTS IN ASSOCIATES

	Group		
	At 31 March 2011	At 31 March 2010	At 1 April 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of investment in associates, unlisted	610	610	610
Share of post-acquisition results and reserves	(1,984)	(2,019)	(2,124)
	<u>(1,374)</u>	<u>(1,409)</u>	<u>(1,514)</u>
Loss in excess of cost of investment	(1,374)	(1,409)	(1,514)
	<u>(1,374)</u>	<u>(1,409)</u>	<u>(1,514)</u>
Amounts due from associates	6,253	8,124	8,065
Less: Provision for impairment	(3,890)	(5,524)	(5,432)
	<u>2,363</u>	<u>2,600</u>	<u>2,633</u>
	<u><u>989</u></u>	<u><u>1,191</u></u>	<u><u>1,119</u></u>

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

Details of the associates of the Group as at 31 March 2011 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Indirect interest held
Flex-Logic Limited	Hong Kong	Software development in Hong Kong	2 ordinary shares of HK\$1 each	50%
FlexOmnitech Limited	Hong Kong	Distribution of computer programming and provision of computer maintenance in Hong Kong	50,000 ordinary shares of HK\$1 each	20%
I-Global Systems Limited	Hong Kong	Software systems consultancy in Hong Kong	10,000 ordinary shares of HK\$1 each	30%

The following table illustrates the summarised financial information of the associates of the Group as extracted from their financial statements:

	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Total assets	11,665	3,346	2,083
Total liabilities	15,390	9,092	8,675
Revenues	8,153	7,473	7,147
Profit	<u>1,993</u>	<u>846</u>	<u>144</u>

The Group has discontinued recognition of its share of losses of certain associates. The amounts of unrecognised share of those associates, both for the year and cumulatively, are as follows:

	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Unrecognised share of profits/(losses) of associates for the year	<u>953</u>	<u>220</u>	<u>(137)</u>
Accumulated unrecognised share of losses of associates	<u>(323)</u>	<u>(1,276)</u>	<u>(1,496)</u>

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	At 31 March 2011 HK\$'000	Group At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Cost of investment in a jointly-controlled entity	1,950	1,950	1,950
Amount due to a jointly-controlled entity	(1,950)	(1,950)	(1,950)
	<u> </u>	<u> </u>	<u> </u>
	-	-	-
	<u> </u>	<u> </u>	<u> </u>

Particulars of the jointly-controlled entity of the Group are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued shares held by the Group	Interest held
CDCFlex Limited	Hong Kong	Development of software for basic accounting and payroll service	19,500,000 ordinary shares of HK\$0.1 each	50%

The amount due to a jointly-controlled entity is unsecured, interest-free and repayable on demand.

The Group's jointly-controlled entity has not yet commenced business since its date of incorporation and up to 31 March 2011 and had no significant assets or liabilities at 31 March 2011 and 2010.

As at 31 March 2011 and 2010, the Group was committed to contribute to the capital of CDCFlex Limited in the amount of approximately US\$2,250,000 (equivalent to approximately HK\$17,550,000) pursuant to a legally binding term sheet dated 24 October 2007 and entered into between the Group and CDC Software Corporation with respect to the formation of CDCFlex Limited.

17. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

Assets per consolidated statement of financial position

		Loans and receivables	Available- for-sale	Total
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2011				
Amounts due from associates	15	2,363	–	2,363
Available-for-sale financial assets	18	–	15	15
Trade and other receivables	21	20,913	–	20,913
Cash and cash equivalents	22	26,574	–	26,574
Total		<u>49,850</u>	<u>15</u>	<u>49,865</u>

Liabilities per consolidated statement of financial position

			Amortised cost
	<i>Note</i>		<i>HK\$'000</i>
31 March 2011			
Trade and other payables	23		<u>9,475</u>
Total			<u>9,475</u>

Assets per consolidated statement of financial position

		Loans and receivables	Available- for-sale	Total
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2010				
Amounts due from associates	15	2,600	–	2,600
Available-for-sale financial assets	18	–	526	526
Trade and other receivables	21	17,603	–	17,603
Cash and cash equivalents	22	30,757	–	30,757
Total		<u>50,960</u>	<u>526</u>	<u>51,486</u>

Liabilities per consolidated statement of financial position

			Amortised cost
	<i>Note</i>		<i>HK\$'000</i>
31 March 2010			
Trade and other payables	23		<u>9,731</u>
Total			<u>9,731</u>

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group			Company		
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Beginning of the year	526	358	676	511	343	661
Fair value gain/(loss) recognised in equity	342	168	(318)	342	168	(318)
Disposal	(853)	—	—	(853)	—	—
End of the year	<u>15</u>	<u>526</u>	<u>358</u>	<u>—</u>	<u>511</u>	<u>343</u>

There was no impairment of provision on available-for-sale financial assets in 2011 (2010: Nil).

Available-for-sale financial assets include the following:

	Group			Company		
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Equity securities listed in Hong Kong, at fair value	—	511	343	—	511	343
Unlisted equity securities, at cost less impairment (<i>Note</i>)	<u>15</u>	<u>15</u>	<u>15</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>15</u>	<u>526</u>	<u>358</u>	<u>—</u>	<u>511</u>	<u>343</u>
Market value of listed securities	<u>—</u>	<u>511</u>	<u>343</u>	<u>—</u>	<u>511</u>	<u>343</u>

Note: The investments are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

19. AMOUNTS DUE FROM INVESTEE COMPANIES

	Group		
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Amounts due from investee companies	3,065	3,065	3,065
Less: Provision for impairment	<u>(3,065)</u>	<u>(3,065)</u>	<u>(3,065)</u>
	<u>—</u>	<u>—</u>	<u>—</u>

The amounts due from investee companies are unsecured, interest-free and have no fixed terms of repayment.

20. INVENTORIES

	At 31 March 2011 HK\$'000	Group At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Merchandise	525	665	834

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK\$10,594,000 (2010: HK\$10,493,000).

21. TRADE AND OTHER RECEIVABLES

	Group			Company		
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Trade receivables (Note (a))	17,453	14,804	14,157	-	-	-
Prepayments, deposits and other receivables	3,125	2,148	2,320	338	145	112
Advances to staff (Note (e))	862	852	1,075	-	-	-
	<u>21,440</u>	<u>17,804</u>	<u>17,552</u>	<u>338</u>	<u>145</u>	<u>112</u>

Notes:

- (a) The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically. As at 31 March 2011, the ageing analysis of trade receivables (net of provision for impaired receivables) is as follows:

	At 31 March 2011 HK\$'000	Group At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
0 – 30 days	6,837	5,007	4,635
31 – 60 days	2,332	1,606	1,309
61 – 90 days	788	1,091	1,151
91 – 180 days	2,755	1,832	2,766
181 – 365 days	1,627	2,977	2,267
Over 365 days	3,114	2,291	2,029
	<u>17,453</u>	<u>14,804</u>	<u>14,157</u>

- (b) As of 31 March 2011, trade receivables of approximately HK\$7,496,000 (2010: HK\$7,100,000) were aged over three months but not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	At 31 March 2011 HK\$'000	Group At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
91 – 180 days	2,755	1,832	2,766
181 – 365 days	1,627	2,977	2,267
Over 365 days	3,114	2,291	2,029
	<u>7,496</u>	<u>7,100</u>	<u>7,062</u>

- (c) As at 31 March 2011, trade receivables of approximately HK\$5,301,000 (2010: HK\$5,205,000) were impaired. Provision for impairment of approximately HK\$96,000 (2010: HK\$117,000) was recognised for the year ended 31 March 2011. The impairment was firstly assessed individually for individual significant or long outstanding balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk characteristics. The ageing analysis of these receivables is as follows:

	At 31 March 2011 HK\$'000	Group At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Over 365 days	5,301	5,205	5,402

- (d) Movements on the provision for impairment of trade receivables are as follows:

	At 31 March 2011 HK\$'000	Group At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
At beginning of the year	5,205	5,402	4,212
Receivables written off as uncollectible	–	(314)	(795)
Provision for impairment of trade receivables (<i>Note 7</i>)	96	117	1,985
At end of the year	<u>5,301</u>	<u>5,205</u>	<u>5,402</u>

The creation and release of provision for impaired receivables have been included in “Other operating expenses” in the consolidated statement of comprehensive income (*Note 7*).

- (e) The advances to staff are unsecured, interest-free and have no fixed terms of repayment.

The maximum exposure to credit risk at the end of each reporting period is the fair value of trade and other receivables as mentioned above. The Group does not hold any collateral as security.

22. CASH AND CASH EQUIVALENTS

	Group			Company		
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Cash at bank and in hand	24,717	29,041	8,908	13,621	16,820	297
Short-term bank deposits	<u>1,857</u>	<u>1,716</u>	<u>27,156</u>	<u>—</u>	<u>—</u>	<u>24,112</u>
Maximum exposure to credit risk	<u>26,574</u>	<u>30,757</u>	<u>36,064</u>	<u>13,621</u>	<u>16,820</u>	<u>24,409</u>

The effective interest rate on short-term bank deposits is 0.06% (2010: 0.05% to 0.65%). These deposits have a maturity of 30 days (2010: 59 days).

As at 31 March 2011, the Group had bank balances and cash of approximately HK\$1,630,000 (2010: HK\$1,811,000) which are denominated in Renminbi. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE AND OTHER PAYABLES

	Group			Company		
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Trade payables (<i>Note (a)</i>)	2,157	3,294	1,457	—	—	—
Other payables and accruals	7,317	6,429	6,531	296	268	240
Amounts due to investee companies (<i>Note (b)</i>)	1	8	53	—	—	—
Deferred income	9,112	8,867	8,220	—	—	—
Sales deposits received	<u>9,965</u>	<u>7,272</u>	<u>4,345</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>28,552</u>	<u>25,870</u>	<u>20,606</u>	<u>296</u>	<u>268</u>	<u>240</u>

Notes:

(a) The ageing analysis of trade payables is as follows:

	At 31 March 2011 HK\$'000	Group At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
0 – 30 days	784	2,477	1,246
31 – 60 days	509	665	172
61 – 90 days	193	30	–
91 – 180 days	151	4	–
181 – 365 days	45	90	29
Over 365 days	475	28	10
	<u>2,157</u>	<u>3,294</u>	<u>1,457</u>

(b) The amounts due to investee companies are unsecured, interest-free and have no fixed terms of repayment.

24. SHARE CAPITAL

	At 31 March 2011 HK\$'000	Company At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Authorised:			
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:			
600,000,000 ordinary shares of HK\$0.10 each	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>

25. SHARE OPTIONS

Pursuant to the share option scheme for employees which was adopted on 15 July 2000, the directors of the Company may at their discretion, invite any full-time employees of the Group, including executive directors of any company in the Group, to take up options to subscribe for ordinary shares in the Company. It is believed that the share option scheme will assist the Group in its recruitment and retention of high calibre computer professionals, executives and employees.

Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant. The subscription price of a share in respect of any particular option granted under the share option scheme shall be such price as the board of directors of the Company shall determine save that such price will not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

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 employee shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued or issuable under the share option scheme.

An option may be exercised in accordance with the terms of the share option scheme at any time during a period of three years commencing on the expiry of six months after the date of acceptance of the option and expiring on the last day of the three-year period or the tenth anniversary of the date of adoption of the share option scheme, whichever is earlier.

No share options were granted by the Company or outstanding at any time during the years ended 31 March 2010 and 2011. The share option scheme was expired on 14 July 2010. At the date of this report, the Company does not have any share option scheme currently in force.

26. RESERVES

	Share premium <i>HK\$'000</i>	Company Available- for-sale investments reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total reserves <i>HK\$'000</i>
As at 1 April 2009	79,872	(629)	(100,432)	(21,189)
Comprehensive income				
Profit for the year	–	–	135	135
Other comprehensive income				
Changes in fair value of available-for-sale financial assets	–	168	–	168
Total comprehensive income	–	168	135	303
As at 31 March 2010 and 1 April 2010	79,872	(461)	(100,297)	(20,886)
Comprehensive expense				
Loss for the year	–	–	(25,910)	(25,910)
Other comprehensive income				
Available-for-sale financial assets				
Change in fair value	–	342	–	342
Reclassification adjustments for losses included in the consolidated statement of comprehensive income – loss on disposal	–	119	–	119
Total comprehensive expense	–	461	(25,910)	(25,449)
As at 31 March 2011	79,872	–	(126,207)	(46,335)

27. DEFERRED INCOME TAX

Deferred income tax liabilities:

	Group		
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Beginning of the year	-	124	636
Credited to the consolidated statement of comprehensive income	-	(124)	(512)
End of the year	<u>-</u>	<u>-</u>	<u>124</u>

No deferred income tax liabilities have been recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31 March 2011 and 2010.

Deferred income tax assets:

A deferred income tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 March 2011, the unrecognised deferred income tax assets of the Group and of the Company are as follows:

	Group			Company		
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000	At 1 April 2009 HK\$'000
Tax effect of temporary difference attributable to estimated tax losses	<u>5,300</u>	<u>3,455</u>	<u>1,529</u>	<u>1,650</u>	<u>1,350</u>	<u>1,197</u>

28. NET CASH USED IN OPERATING ACTIVITIES

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Loss before income tax	(6,762)	(12,867)
Adjustments for:		
– Depreciation of property, plant and equipment	2,117	2,135
– Loss on disposal of property, plant and equipment	26	2
– Fair value loss on available-for-sale financial assets (transfer from equity on disposal)	119	–
– Reversal of provision for impairment of amount due from an associate	(1,953)	–
– Interest income	(4)	(95)
– Dividend income	(16)	(16)
– Provision for impairment of trade receivables	96	117
– Provision for impairment of amounts due from associates	319	92
– Share of profit of an associate	(35)	(105)
Changes in working capital:		
– Inventories	140	169
– Trade and other receivables	(3,732)	(369)
– Trade and other payables	2,682	5,264
Cash used in operations	(7,003)	(5,673)
Overseas tax paid	(61)	(103)
Hong Kong profits tax paid	–	(236)
Net cash used in operating activities	<u>(7,064)</u>	<u>(6,012)</u>

29. OPERATING LEASE COMMITMENTS

As at 31 March 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	At 31 March 2011 <i>HK\$'000</i>	At 31 March 2010 <i>HK\$'000</i>
No later than one year	1,643	1,511
Later than one year and no later than five years	2,380	232
	<u>4,023</u>	<u>1,743</u>

Leases are negotiated for terms ranging from 1 to 5 years.

The Company did not have significant lease commitments as at 31 March 2011 and 2010.

30. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

	Group	
	2011 HK\$'000	2010 HK\$'000
Maintenance service fee received from an associate	169	1,135
Software incomes received from an associate	3	11
Software expenses paid to associates	5,470	3,683
	<u>5,470</u>	<u>3,683</u>

Note:

The software incomes and expenses and maintenance service fee were made in accordance with terms mutually agreed between the parties involved.

Key management compensation

	Group	
	At 31 March 2011 HK\$'000	At 31 March 2010 HK\$'000
Short-term employee benefits	3,612	3,509
Post employment benefits	116	115
	<u>3,728</u>	<u>3,624</u>

31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.

32. EVENTS AFTER THE REPORTING PERIOD

- (a) The Company entered into a sale and purchase agreement dated 5 January 2011 with SomaFlex Holdings Inc., which was approximately 98.27% beneficially owned by Mr. Lok Wai Man, to dispose of the entire equity interest in SomaFlex, together with its subsidiaries and associated companies (save and except Norray), at a cash consideration of HK\$40 million. The transaction constituted a very substantial disposal and connected transaction on the part of the Company pursuant to the GEM Listing Rules and was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 8 April 2011. The transaction was completed on 13 April 2011 and resulted in a gain on the disposal of subsidiaries of approximately HK\$11 million.
- (b) Pursuant to a board resolution dated 13 April 2011, the Company declared a special distribution to the shareholders. Further details are disclosed in Note 11 to these financial statements.

3. UNAUDITED FINANCIAL INFORMATION

The following is the unaudited financial statements of the Group extracted from the interim report of the Company for the six months ended 30 September 2010 and 2011. No dividend has been distributed by the Group for the six months ended 30 September 2010. A special dividend of HK\$0.0693 per Share, amounting to HK\$41,580,000, was declared and paid to the Shareholders for the six months ended 30 September 2011. Save for gain on disposal of subsidiaries of approximately HK\$10.8 million during the six months ended 30 September 2011, there were no extraordinary items or exceptional items because of size, nature or incidence in respect of the consolidated income statement of the Group for the six months ended 30 September 2010 and 2011.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

For the three and six months ended 30 September 2011

	Note	Three months ended 30 September		Six months ended 30 September	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Revenue	3	3,599	25,507	9,576	46,827
Cost of sales		(3,133)	(9,202)	(5,577)	(16,506)
Gross profit		466	16,305	3,999	30,321
Other income		2	24	34	137
Gain on disposal of subsidiaries		-	-	10,822	-
Distribution costs		(7)	(6,964)	(118)	(13,464)
Administrative expenses		(1,122)	(10,757)	(5,467)	(20,949)
Other operating expenses		-	540	-	(78)
Profit (Loss) before income tax		(661)	(852)	9,270	(4,033)
Income tax	4	-	-	-	-
Profit (Loss) for the period		(661)	(852)	9,270	(4,033)
Other comprehensive income (expense)					
Change in fair value of available-for-sale financial assets		-	65	-	140
Reclassification adjustment for translation reserve released upon disposal of subsidiaries		-	-	(1,495)	-

	Three months ended		Six months ended	
	30 September		30 September	
	2011	2010	2011	2010
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Other comprehensive (expense) income for the period, net of tax	–	65	(1,495)	140
Total comprehensive income (expense) for the period, net of tax	<u>(661)</u>	<u>(787)</u>	<u>7,775</u>	<u>(3,893)</u>
Profit (Loss) for the period attributable to:				
Owners of the Company	(574)	(931)	9,217	(3,942)
Non-controlling interests	<u>(87)</u>	<u>79</u>	<u>53</u>	<u>(91)</u>
	<u>(661)</u>	<u>(852)</u>	<u>9,270</u>	<u>(4,033)</u>
Total comprehensive income (expense) for the period attributable to:				
Owners of the Company	(574)	(866)	7,722	(3,802)
Non-controlling interests	<u>(87)</u>	<u>79</u>	<u>53</u>	<u>(91)</u>
	<u>(661)</u>	<u>(787)</u>	<u>7,775</u>	<u>(3,893)</u>
Earning (Loss) per share attributable to the owners of the Company				
– basic and diluted (in HK cent(s))	5	(0.1)	(0.16)	1.54
		<u>(0.66)</u>		
Dividend	<u>Nil</u>	<u>Nil</u>	<u>41,580</u>	<u>Nil</u>
Dividend per share	<u>Nil</u>	<u>Nil</u>	<u>HK\$0.07</u>	<u>Nil</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**

As at 30 September 2011

	<i>Note</i>	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		20	20,181
Investments in associates		–	989
Interest in a jointly-controlled entity		–	–
Available-for-sale financial assets		–	15
Amounts due from investee companies		–	–
		<u>20</u>	<u>21,185</u>
Current assets			
Inventories		–	525
Trade and other receivables	6	3,218	21,440
Current income tax assets		–	899
Cash and cash equivalents		8,420	26,574
		<u>11,638</u>	<u>49,438</u>
Total assets		<u>11,658</u>	<u>70,623</u>
Current liabilities			
Trade and other payables	7	4,264	28,552
Current income tax liabilities		–	–
		<u>4,264</u>	<u>28,552</u>
Net current assets		<u>7,374</u>	<u>20,886</u>
Total assets less current liabilities		<u>7,394</u>	<u>42,071</u>
Equity			
Capital and reserves attributable to the owners of the Company			
Share capital	8	60,000	60,000
Reserves		(52,682)	(18,824)
		<u>7,318</u>	<u>41,176</u>
Non-controlling interests		76	895
Total equity		<u>7,394</u>	<u>42,071</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 September 2011

	Six months ended 30 September 2011 <i>HK\$'000</i> (unaudited)	Six months ended 30 September 2010 <i>HK\$'000</i> (unaudited)
Net cash used in operating activities	<u>(2,620)</u>	<u>(2,321)</u>
Net cash generated from/(used in) investing activities	<u>26,046</u>	<u>(40)</u>
Net cash used in financing activities	<u>(41,580)</u>	<u>–</u>
Net decrease in cash and cash equivalents	(18,154)	(2,361)
Cash and cash equivalents at the beginning of the period	26,574	30,757
Effect of foreign exchange rate change, net	<u>–</u>	<u>–</u>
Cash and cash equivalents at the end of the period	<u><u>8,420</u></u>	<u><u>28,396</u></u>
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	<u><u>8,420</u></u>	<u><u>28,396</u></u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2011

	Attributable to the owners of the Company								
	Share capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Merger reserve (unaudited) HK\$'000	Translation reserve (unaudited) HK\$'000	Available- for-sale		Total (unaudited) HK\$'000	Non- controlling interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
					investments	Accumulated			
					reserve	losses			
As at 1 April 2010	60,000	77,955	(47,430)	779	(461)	(44,030)	46,813	844	47,657
Comprehensive expense									
Loss for the period	-	-	-	-	-	(3,942)	(3,942)	(91)	(4,033)
Other comprehensive income									
Change in fair value of available-for-sale financial assets	-	-	-	-	140	-	140	-	140
Total comprehensive income (expense)	-	-	-	-	140	(3,942)	(3,802)	(91)	(3,893)
Dividends	-	-	-	-	-	-	-	-	-
As at 30 September 2010	<u>60,000</u>	<u>77,955</u>	<u>(47,430)</u>	<u>779</u>	<u>(321)</u>	<u>(47,972)</u>	<u>43,011</u>	<u>753</u>	<u>43,764</u>
As at 1 April 2011	60,000	77,955	(47,430)	1,495	-	(50,844)	41,176	895	42,071
Comprehensive income									
Profit for the period	-	-	-	-	-	9,217	9,217	53	9,270
Other comprehensive expense									
Reclassification adjustment for translation reserve released upon disposal of subsidiaries	-	-	-	(1,495)	-	-	(1,495)	-	(1,495)
Total comprehensive income (expense)	-	-	-	(1,495)	-	9,217	7,722	53	7,775
Special distribution	-	(41,580)	-	-	-	-	(41,580)	-	(41,580)
Disposal of subsidiaries	-	-	47,430	-	-	(47,430)	-	(872)	(872)
As at 30 September 2011	<u>60,000</u>	<u>36,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(89,057)</u>	<u>7,318</u>	<u>76</u>	<u>7,394</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2011

1. GENERAL INFORMATION

FlexSystem Holdings Limited (the "Company") was incorporated in the Cayman Islands on 8 May 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's registered office is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal place of business is situated at Unit A, 6/F., Nine Queen's Road Central, Hong Kong.

The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company and its subsidiaries (together the "Group") are principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services.

The Group have disposed of the subsidiaries engaged in development and sale of enterprise software and provision of maintenance services and the disposal was completed on 13 April 2011. After completion of the disposal, the Group is mainly engaged in provision of system integration services and other value-added technical consultation services and hardware-related business.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 September 2011 (the "Condensed Financial Report") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). The Condensed Financial Report should be read in conjunction with the annual financial statements of the Company for the year ended 31 March 2011 (the "2011 Annual Financial Statements").

The preparation of the Condensed Financial Report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Condensed Financial Report have been prepared under the historical cost convention. The Condensed Financial Report is presented in Hong Kong Dollars ("HK\$") which is also the functional currency of the Company and all values are rounded to the nearest thousands ("HK\$'000") unless otherwise stated.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the net invoiced value of goods sold and net value of services rendered, after allowances for returns and trade discounts.

All significant transactions amongst the companies comprising the Group have been eliminated on consolidation. Revenue recognised during the period are as follows:

	Three months ended 30 September		Six months ended 30 September	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Revenue:				
Hardware	3,333	3,592	6,084	5,950
Software	17	13,304	1,645	23,950
Services	249	8,611	1,847	16,927
	<u>3,599</u>	<u>25,507</u>	<u>9,576</u>	<u>46,827</u>

Management has determined the operating segments based on the reports reviewed by the Executive Directors that are used to make strategic decisions.

The Executive Directors review the Group's financial information mainly from hardware, software and services perspectives. The reportable segments are classified in a manner consistent with the information reviewed by the Executive Directors.

The Executive Directors assess the performance of the operating segments based on a measure of reportable segment (loss)/profit. This measurement basis excludes other income, share of profit of an associate and unallocated expenses.

Segment assets mainly exclude investments in associates, interest in a jointly-controlled entity, available-for-sale financial assets, current income tax assets and other assets that are managed on a central basis.

	Hardware		Software		Services		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Reportable segment revenue:								
From external customers	<u>6,084</u>	<u>5,950</u>	<u>1,645</u>	<u>23,950</u>	<u>1,847</u>	<u>16,927</u>	<u>9,576</u>	<u>46,827</u>
Reportable segment profit/(loss)	<u>(438)</u>	<u>(1,814)</u>	<u>1,119</u>	<u>(5,950)</u>	<u>1,523</u>	<u>4,762</u>	<u>2,204</u>	<u>(3,002)</u>

	Hardware		Software		Services		Total	
	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)	30 September 2011 HK\$'000 (unaudited)	31 March 2011 HK\$'000 (audited)
Reportable segment assets	2,406	525	651	-	12	-	3,069	525

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	Six months ended 30 September 2011 HK\$'000 (unaudited)		As at 30 September 2011 HK\$'000 (unaudited)	
			31 March 2011 HK\$'000 (audited)	
Reportable segment profit (loss)	2,204		(3,002)	
Gain on disposal of subsidiaries	10,822		-	
Depreciation	(14)		(835)	
Unallocated corporate expense	(3,776)		(333)	
Unallocated corporate income	34		137	
Profit (loss) before income tax	9,270		(4,033)	
Total segment assets	3,069		525	
Investments in associates	-		989	
Available-for-sale financial assets	-		15	
Current income tax assets	-		899	
Unallocated assets	8,589		68,195	
Total assets per balance sheet	11,658		70,623	

4. INCOME TAX

No provision for Hong Kong profits tax or overseas income tax has been made as the Group had no assessable profit for the respective periods.

Deferred tax had not been provided for the Group because the Group had no material temporary differences at the reporting date (30 September 2010: Nil).

5. EARNING (LOSS) PER SHARE

Basic earning (loss) per share for the three months and six months ended 30 September 2011 is calculated by dividing the loss or profit attributable to owners of the Company for the period of approximately loss of HK\$574,000 and profit of HK\$9,217,000 respectively (three months and six months ended 30 September 2010: losses of HK\$931,000 and HK\$3,942,000 respectively) by the weighted average number of 600,000,000 ordinary shares in issue during the periods.

There is no diluted earning (loss) per share since the Company has no dilutive potential ordinary shares in existence for the periods.

6. TRADE AND OTHER RECEIVABLES

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically. As at 30 September 2011, the ageing analysis of trade receivables (net of provision for impaired receivables) is as follows:

	30 September 2011 <i>HK\$'000</i> (unaudited)	31 March 2011 <i>HK\$'000</i> (audited)
Trade receivables		
0 – 30 days	2,189	6,837
31 – 60 days	23	2,332
61 – 90 days	192	788
91 – 180 days	40	2,755
181 – 365 days	283	1,627
Over 365 days	342	3,114
	<u>3,069</u>	<u>17,453</u>

7. TRADE AND OTHER PAYABLES

As at 30 September 2011, the ageing analysis of trade payables is as follows:

	30 September 2011 <i>HK\$'000</i> (unaudited)	31 March 2011 <i>HK\$'000</i> (audited)
Trade payables		
0 – 30 days	2,347	784
31 – 60 days	303	509
61 – 90 days	–	193
91 – 180 days	140	151
181 – 365 days	–	45
Over 365 days	16	475
	<u>2,806</u>	<u>2,157</u>

8. SHARE CAPITAL

	30 September 2011 <i>HK\$'000</i> (unaudited)	31 March 2011 <i>HK\$'000</i> (audited)
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
600,000,000 ordinary shares of HK\$0.10 each	<u>60,000</u>	<u>60,000</u>

9. DISPOSAL OF SUBSIDIARIES

During the six months ended 30 September 2011, the Group disposed of subsidiaries engaged in development and sale of enterprise software and relevant provision of maintenance services and the disposal was completed on 13 April 2011.

Details of net assets disposed of and gain on disposal are as follows:

	At 13 April 2011
	<i>HK\$'000</i>
Net assets disposed of	
Property, plant and equipment	20,158
Investments in associates	966
Interest in a jointly-controlled entity	–
Available-for-sale financial assets	15
Inventories	525
Trade and other receivables	18,696
Income tax assets	899
Bank balances and cash	13,954
Trade and other payables	(23,668)
Non-controlling interests	(872)
	<hr/>
	30,673
Translation reserve released	(1,495)
Gain on disposal of subsidiaries	10,822
	<hr/>
Consideration satisfied by cash	40,000
	<hr/>
Net cash inflow arising on disposal	
Cash received	40,000
Cash and cash equivalents disposed of	(13,954)
	<hr/>
	26,046
	<hr/> <hr/>

10. MATERIAL RELATED PARTY TRANSACTION

The Group had printing services fee of HK\$311,000 (six months ended 30 September 2010: Nil) paid to a related company owned by a substantial shareholder of the Company and controlled by one of the directors of the Company. The transactions were conducted at pre-determined prices in accordance with terms mutually agreed between the Group and the related company. The transaction is conducted in the normal course of business.

NO MATERIAL CHANGE

Save for the Group's disposal of the entire equity interest in SomaFlex International Inc. on 13 April 2011, a gain of approximately HK\$10,822,000 recorded on such disposal of subsidiaries and a special distribution of approximately HK\$41,580,000 paid to Shareholders, the Directors confirm that, as at the Latest Practicable Date, there are no material change in the financial or trading position or outlook of the Group since 31 March 2011, being the date to which the latest published audited consolidated financial statements of the Group were made up.

INDEBTEDNESS**Borrowings and contingent liabilities**

As at the close of business on 31 December 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the Group did not have any outstanding borrowings or contingent liabilities.

Disclaimer

Apart from intra-group liabilities and normal trade payables, the Group did not have outstanding indebtedness as at the close of business on 31 December 2011 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

1. RESPONSIBILITY STATEMENT

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than those relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

<i>Authorised:</i>		<i>HK\$</i>
2,000,000,000	Shares	200,000,000
<i>Issued:</i>		
600,000,000	Shares	60,000,000

Save for the Shares, the Company has no outstanding securities, options, derivatives, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

All Shares in issue rank pari passu in all respects with each other including rights to dividends, voting and return of capital. The Company has not issued any Shares since 31 March 2011, the date to which the latest audited financial statements of the Company were made up.

3. DISCLOSURE OF INTERESTS

(a) Interests in the Offeror

As at the Latest Practicable Date, none of the Company nor any of its Directors have any interest in the equity share capital or any convertible securities, warrants, options or derivatives of the Offeror, and no such person (including the Company) had dealt in the equity share capital or any convertible securities, warrants, options or derivatives of the Offeror during the Relevant Period.

(b) Directors' interests in the Shares

As at the Latest Practicable Date, none of the Directors had any interests in the Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company.

(c) Other interest

As at the Latest Practicable Date:

- no Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser); and
- there were no Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company which the Company and any Directors had borrowed or lent.

(d) As at the Latest Practicable Date, no person who owned or controlled any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company has irrevocably committed himself/herself to accept or not to accept the Offer.

(e) No person has any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

- (f) No Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options or derivatives of Company are managed on a discretionary basis by fund managers connected with the Company.

4. DEALING IN SECURITIES OF THE COMPANY

- (a) During the Relevant Period, none of the Directors had dealt in any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company.
- (b) During the Relevant Period,
- the Company did not deal in any interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;
 - none of the subsidiaries of the Company or a pension fund (if any) of any member of the Group or an adviser to the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser) had dealt in any interest in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company;
 - no person, with whom the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company;
 - no fund managers connected with the Company had dealt in the Shares or other securities of the Company carrying voting rights or any convertible securities, warrants, options and derivatives of the Company; and
 - none of the Company or any of the Directors has borrowed or lent any Shares or other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

6. MATERIAL CONTRACT

Save for a disposal agreement dated 5 January 2011 entered into between the Company, as the vendor, and SomaFlex Holdings Inc., as the purchaser, in relation to the sale and purchase of the entire issued share capital of SomaFlex International Inc. at a cash consideration of HK\$40 million, no material contract (not being contracts in the ordinary course of business) has been entered into by the members of the Group within the two years preceding the date of the Joint Announcement and up to and including the Latest Practicable Date and are or may be material.

7. EXPERTS AND CONSENTS

The followings are the qualification of the experts who have given opinions and/or advice contained in this Composite Document:

Name	Qualification
Quam Capital	A licenced corporation to carry out type 6 (advising on corporate finance) regulated activities under the SFO
Partners Capital	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of Quam Capital and Partners Capital has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion herein of its advice or letter, as the case may be and reference to its name in the form and context in which they appear.

8. GENERAL

- (a) No benefit (other than statutory compensation) has been or will be given to any Director as compensation for loss of office or otherwise in connection with the Offer.
- (b) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

- (c) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any Director has a material personal interest.
- (d) As at the Latest Practicable Date, none of the Directors had any service contracts with the Company or any of its subsidiaries or associated companies in force which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months preceding the date of the Joint Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the registered office of the Company in Hong Kong at Unit A, 6/F, Nine Queen's Road Central, Hong Kong, (ii) on the website of the Company (<http://ir.sinodelta.com.hk/8050/>), and the SFC (www.sfc.hk) from the date of this Composite Document until the Closing Date:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of the Offeror;
- (c) the annual reports of the Company for the years ended 31 March 2010 and 31 March 2011;
- (d) the interim report of the Company for the six months ended 30 September 2011;
- (e) the letter from Quam Capital, the text of which is set out on pages 6 to 13 of this Composite Document;
- (f) the letter from the Board, the text of which is set out on pages 14 to 18 of this Composite Document;
- (g) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 19 to 20 of this Composite Document;
- (h) the letter from Partners Capital, the text of which is set out on pages 21 to 40 of this Composite Document;
- (i) the written consents referred to in the section headed "Experts and consents" in this appendix; and

- (j) the material contract referred to in the section headed “Material contract” in this appendix.

10. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Sit Hon Cheong, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited, which is situated at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.
- (c) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands. The principal place of business of the Company in Hong Kong is at Unit A, 6/F., Nine Queen’s Road Central, Hong Kong.
- (d) The office of Partners Capital is situated at Unit 3906, COSCO Tower, 183 Queen’s Road Central, Hong Kong.
- (e) The English text of this Composite Document and the Form of Acceptance and Transfer shall prevail over their respective Chinese text in case of inconsistency.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information to Shareholders with regard to the Offeror, the Group and the Offer.

The information contained in this Composite Document relating to the Offeror and its intention regarding the Group has been supplied by the Offeror. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this Composite Document (other than the information relating to the Group and the Vendors), and confirms, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	Closing price per Share HK\$
29 July 2011	0.425
31 August 2011	0.380
30 September 2011	0.265
31 October 2011	0.280
30 November 2011	0.270
28 December 2011 (Last Trading Day)	0.360
30 December 2011	Not applicable*
20 January 2012 (being the Latest Practicable Date)	0.335

* *Trading in the Shares was suspended from 10:09 a.m. on 29 December 2011 to 8 January 2012 pending the release of the Joint Announcement.*

During the Relevant Period, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$0.46 per Share on 15 July 2011 to 22 July 2011 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$0.265 per Share on 26 September 2011 to 4 October 2011 and 7 October 2011 to 12 October 2011.

3. DISCLOSURE OF INTERESTS OF THE OFFEROR AND ITS SOLE DIRECTOR

As at the Latest Practicable Date, the Offeror is beneficially and wholly owned by Mr. Chan.

Save for the interest in a total of 420,000,000 Shares as a result of the acquisition of the Sale Shares, none of the Offeror, its sole director and parties acting in concert with it had any other interest in the Shares, options, warrants, derivatives or securities which are convertible into Shares as at the Latest Practicable Date. Save for the acquisition of the Sale Shares, the Offeror, its sole director and parties acting in concert with any of them have not dealt in the Shares, convertible securities, warrants, options and derivatives of the Company during the Relevant Period.

4. SHAREHOLDINGS AND DEALINGS IN SECURITIES OF THE COMPANY

- (a) As at the Latest Practicable Date, there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between the Offeror or its associates (as defined under the Takeovers Code), or any person acting in concert with the Offeror, and any other person;
- (b) as at the Latest Practicable Date, there was no Shares, convertible securities, warrants, options and derivatives in respect of Shares in the Company which the Offeror or any party acting in concert with it has borrowed or lent;
- (c) none of the Offeror, or any parties acting in concert with it, has entered into any arrangements of the kind (whether by way of option, indemnity, or otherwise) as referred to in Note 8 to Rule 22 of the Takeovers Code with any other person;
- (d) during the Relevant Period, none of the Offeror, its ultimate beneficial owner, its sole director and parties acting in concert with any one of the Offeror or its ultimate beneficial owner has borrowed or lent any Shares or other securities of the Company carrying voting rights, or convertible securities, warrants, options or derivatives of the Company; and
- (e) none of the Offeror or parties acting in concert with it has received any irrevocable commitment to accept or reject the Offer.

5. MISCELLANEOUS

As at the Latest Practicable Date,

- (a) no benefit (other than statutory compensation) had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer;
- (b) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror, any person acting in concert with it and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependent upon the Offer;
- (c) no material contracts had been entered into by the Offeror in which any Director has a material personal interest;
- (d) there was no agreement or arrangement to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offer;
- (e) there was no agreement, arrangement or understanding that the securities acquired in pursuance of the Offer would be transferred, charged or pledged to any other persons; and
- (f) there was no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Offeror or the Company which might be material to the Offer.

6. GENERAL

- (a) The registered office of the Offeror is situated at Akara Building, 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the entire issued share capital of the Offeror is beneficially and wholly owned by Mr. Chan. The sole director of the Offeror is Mr. Chan. The correspondence address of the Offeror and Mr. Chan in Hong Kong is Room 2702, 27/F, Golden Centre, 188 Des Voeux Road Central, Central, Hong Kong.
- (b) The registered address of Quam Securities is Room 3208, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong.
- (c) The English text of this Composite Document and the Form of Acceptance and Transfer shall prevail over their respective Chinese text in case of inconsistency.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays) at the registered office of the Company in Hong Kong at Unit A, 6/F, Nine Queen's Road Central, Hong Kong, (ii) on the website of the SFC (www.sfc.hk), and (iii) the Company's website at (<http://ir.sinodelta.com.hk/8050/>) from the date of this Composite Document until the Closing Date:

- (a) the memorandum and articles of association of the Offeror;
- (b) the letter from Quam Capital as set out on pages 6 to 13 of this Composite Document; and
- (c) the written consents referred to in the section headed "Experts and consents" in appendix III of this Composite Document.