

FlexSystem Holdings Limited



(incorporated in the Cayman Islands with limited liability)

Stock Code : 8050

third quarterly report
2011/2012

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This report, for which the directors (the “Directors”) of FlexSystem Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

The board of the Directors (the "Board") of FlexSystem Holdings Limited (the "Company") hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 31 December 2011 together with the unaudited comparative figures for the corresponding periods in 2010 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2011

	Note	Three months ended 31 December		Nine months ended 31 December	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Revenue	3	2,833	27,761	12,409	74,589
Cost of sales		(2,229)	(8,772)	(7,806)	(25,278)
Gross profit		604	18,989	4,603	49,311
Other income		15	27	49	163
Gain on disposal of subsidiaries		-	-	10,822	-
Distribution costs		(13)	(7,350)	(131)	(20,813)
Administrative expenses		(1,081)	(12,359)	(6,548)	(33,309)
Other operating expenses		-	(15)	-	(93)
Profit (Loss) before income tax		(475)	(708)	8,795	(4,741)
Income tax	4	-	-	-	-
Profit (Loss) for the period		(475)	(708)	8,795	(4,741)
Other comprehensive (expense) income					
Change in fair value of available-for-sale financial assets		-	47	-	187
Currency translation difference		-	712	-	712
Reclassification adjustment for translation reserve released upon disposal of subsidiaries		-	-	(1,495)	-
Other comprehensive (expense) income for the period, net of tax		-	759	(1,495)	899
Total comprehensive income (expense) for the period, net of tax		(475)	51	7,300	(3,842)

	Note	Three months ended		Nine months ended	
		31 December		31 December	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Profit (Loss) for the period attributable to:					
Owners of the Company		(427)	(672)	8,790	(4,614)
Non-controlling interests		(48)	(36)	5	(127)
		(475)	(708)	8,795	(4,741)
Total comprehensive income (expense) for the period attributable to:					
Owners of the Company		(427)	87	7,295	(3,715)
Non-controlling interests		(48)	(36)	5	(127)
		(475)	51	7,300	(3,842)
Earning (Loss) per share attributable to the owners of the Company					
- basic and diluted (in HK cent)	5	(0.07)	(0.11)	1.46	(0.77)
Dividend	6	Nil	Nil	41,580	Nil

Notes:

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 relevant provision of maintenance services.

The Group have disposed of the subsidiaries engaged in development and sale of enterprise software and relevant 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 nine months ended 31 December 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

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 31 December 2011		Nine months ended 31 December 2011	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue:				
Hardware	2,484	2,684	8,568	8,635
Software	115	15,035	1,760	38,985
Services	234	10,042	2,081	26,969
	2,833	27,761	12,409	74,589

4. Income tax

No provision for Hong Kong profits tax or overseas income tax has been made for the period ended 31 December 2011 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 (31 December 2010: Nil).

5. Earnings (Loss) per share

Basic earning (loss) per share for the three months and nine months ended 31 December 2011 are calculated by dividing the loss or profit attributable to owners of the Company for the period of approximately loss of HK\$427,000 and profit of HK\$8,790,000 respectively (three months and nine months ended 31 December 2010: losses of HK\$672,000 and HK\$4,614,000 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. Dividend

On 13 April 2011, the Board resolved that a special dividend of HK\$0.0693 per share, amounting to HK\$41,580,000, was paid to the shareholders of the Company. The special dividend was paid in April 2011.

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2011 (nine months ended 31 December 2010: Nil).

7. Reserve

For the nine months ended 31 December 2011

	Share premium (unaudited) HK\$'000	Merger reserve (unaudited) HK\$'000	Translation reserve (unaudited) HK\$'000	Available- for-sale investments reserve (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
As at 31 March 2010 and 1 April 2010	77,955	(47,430)	779	(461)	(44,030)	(13,187)
Comprehensive expense						
Loss for the period	-	-	-	-	(4,614)	(4,614)
Other comprehensive income						
Change in fair value of available-for-sale financial assets	-	-	-	187	-	187
Currency translation differences	-	-	712	-	-	712
Total comprehensive income (expense)	-	-	712	187	(4,614)	(3,715)
Dividends	-	-	-	-	-	-
As at 31 December 2010	77,955	(47,430)	1,491	(274)	(48,644)	(16,902)
As at 31 March 2011 and 1 April 2011	77,955	(47,430)	1,495	-	(50,844)	(18,824)
Comprehensive income						
Profit for the period	-	-	-	-	8,790	8,790
Other comprehensive expense						
Reclassification adjustment for translation reserve released upon disposal of subsidiaries	-	-	(1,495)	-	-	(1,495)
Total comprehensive income (expense)	-	-	(1,495)	-	8,790	7,295
Special distribution	(41,580)	-	-	-	-	(41,580)
Disposal of subsidiaries	-	47,430	-	-	(47,430)	-
As at 31 December 2011	36,375	-	-	-	(89,484)	(53,109)

REVIEW AND PROSPECTS

Financial review

During the nine months ended 31 December 2011, the Group recorded a revenue of approximately HK\$12,409,000, representing a decrease of approximately 83.4% compared with the corresponding period last period of approximately HK\$74,589,000. The decrease in revenue was mainly attributed to the disposal of the subsidiaries engaged in development and sale of enterprise software and relevant provision of the maintenance services. The disposal was completed on 13 April 2011.

Profit before income tax of the Group for the nine months ended 31 December 2011 was approximately HK\$8,795,000, compared with loss before income tax of approximately HK\$4,741,000 for corresponding period last year. Profit attributable to owners of the Company for the period was increased to approximately HK\$8,790,000 compared with loss attributable to owners of the Company of approximately HK\$4,614,000 for the corresponding period last year.

Business review and prospects

In view of the challenging environment, the Group has disposed of the subsidiaries engaged in development and sale of enterprise software and the relevant provision of the maintenance services and directed its resources towards the business of provision of system integration services and other value-added technical consultation services and hardware-related business during the period.

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 which we believe to have a better growth potential.

Current businesses remain stable. With a view to developing a corporate strategy to broaden the income stream of the Group, the Group may explore other business opportunities and consider whether any assets and/or business acquisitions will be appropriate for the development of the Group.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS AND DISPOSAL

The Share Agreement

Pursuant to the sale and purchase agreement dated 5 January 2011 (the "Share Agreement") entered into among Excel Score Limited (the "Offeror"), Mr. Lok Wai Man ("Mr. Lok"), a former executive director of the Company and Mr. Pong Wai San, Wilson ("Mr. Pong"), the guarantor of the Offeror under the Share Agreement, Mr. Lok has conditionally agreed to sell and procure the sale of, and the Offeror has conditionally agreed to acquire, an aggregate of 479,298,000 shares of the Company (the "Sale Shares I") at a total consideration of HK\$126,400,000.

The Disposal Agreement

On 5 January 2011, the Company entered into the disposal agreement (the “Disposal Agreement”) with SomaFlex Holdings Inc. (“SomaFlex Holdings”) pursuant to which SomaFlex Holdings has conditionally agreed to purchase and the Company has conditionally agreed to sell the entire issued share capital of SomaFlex International Inc. at a consideration of HK\$40 million (the “Disposal”).

As the applicable percentage ratios in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company pursuant to the GEM Listing Rules. SomaFlex Holdings is approximately 98.27% beneficially owned by Mr. Lok and thus the Disposal also constitutes a connected transaction of the Company pursuant to the GEM Listing Rules and is subject to the approval of the independent shareholders of the Company.

Completion of the Share Agreement and the Disposal Agreement

Both completion of the sale and purchase of Sale Shares I and the Disposal took place on 13 April 2011. The Offeror, Mr. Pong and parties acting in concert with any of them acquired 479,298,000 shares of the Company, representing approximately 79.88% of the issued share capital of the Company as at the date of completion of the sale and purchase of Sale Shares I.

Details of the transactions have been published in the Company’s announcements dated 18 February, 11 March, 15 March, 13 April, 15 April and 6 May 2011 and the Company’s circular dated 16 March and 15 April 2011.

Saved as disclosed above, there were no material acquisitions and disposals of subsidiaries and affiliated companies or material investment which need to be disclosed in accordance with the requirements of the GEM Listing Rules during the period under review and up to date of this report.

SUBSEQUENT EVENTS

Sale and Purchase Agreement

On 29 December 2011, Happy On Holdings Limited (“Happy On Holdings”), Mr. Pong and Excel Score Limited (“Excel Score”) entered into a sale and purchase agreement (the “Sale and Purchase Agreement”) pursuant to which Happy On Holdings agreed to acquire and Mr. Pong and Excel Score agreed to sell an aggregate of 420,000,000 shares of the Company (which are beneficially owned by Mr. Pong as to 114,000,000 shares and Excel Score as to 306,000,000 shares), representing in aggregate 70.00% of the entire issued share capital of the Company (the “Sale Shares II”) as at the date of the joint announcement of the Company and Happy On Holdings on 6 January 2012 (the “Joint Announcement”) and immediately before the completion of sale and purchase of the Sale Shares II in accordance with the terms and conditions of the Sale and Purchase Agreement (the “Completion”). The aggregate consideration for the Sale Shares II is HK\$133,000,000 (equivalent to approximately HK\$0.3167 per Sale Share II) which was agreed between Happy On Holdings, Mr. Pong and Excel Score after arm’s length negotiations.

The Completion took place immediately after the entering into of the Sale and Purchase Agreement on 29 December 2011 and the consideration was paid by Happy On Holdings to Mr. Pong and Excel Score in cash upon the Completion.

Unconditional Mandatory Cash Offer

Immediately following the Completion, Happy On Holdings and parties acting in concert with it are interested in 420,000,000 shares of the Company, representing 70.00% 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 Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"), Happy On Holdings is required to make an unconditional mandatory general offer in cash (the "Offer") for all the issued shares of the Company other than those already owned or agreed to be acquired by Happy On Holdings and parties acting in concert with it (the "Offer Shares"). Quam Securities Company Limited will make the Offer, which is unconditional in all respects, on behalf of Happy On Holdings, in compliance with the Takeovers Code at Offer price HK\$0.3167 per Offer Share, which is the same as the price per Sale Share II paid by Happy On Holdings under the Sale and Purchase Agreement.

The composite document containing the terms of the Offer, together with the form of acceptance and transfer has been despatched to the shareholders of the Company on 27 January 2012.

Details of the transactions have been published in the Company's announcement dated 6 January 2012 and 27 January 2012; and composite document dated 27 January 2012. As at the date of this report, the Offer has not been completed.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2011, none of the Directors, the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the Directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2011, so far as the Directors are aware of and having made due enquires, the following persons had an interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations as recorded in the register required to be kept by the Company under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital as at 31 December 2011
Mr. Chan Foo Wing	Corporate Interest	420,000,000 (Note 1)	70.00%
Happy On Holdings Limited (Note 1)	Beneficial Interest	420,000,000	70.00%

Notes:

1. Mr. Chan Foo Wing is the ultimate beneficial owner and the sole director of Happy On Holdings Limited. By virtue of the SFO, Mr. Chan Foo Wing is deemed to be interested in the 420,000,000 shares held by Happy On Holdings Limited.

Save as disclosed above, as at 31 December 2011, the Directors and chief executives of the Company are not aware that there is any party who had an interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations as recorded in the register required to be kept by the Company under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARE OR DEBENTURES

Apart from as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or its Associated Corporations" above, at no time during the nine months ended 31 December 2011 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares during the nine months ended 31 December 2011.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the Directors, or the initial management shareholders or substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competed with or might compete with the business of the Group and had or might have any other conflicts of interest with the Group.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all of the Directors, the Company has complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the nine months ended 31 December 2011.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") since May 2000 with written terms of reference in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee currently comprises three members, namely Mr. Yip Tai Him, Ms. Yeung Wing Yan, Wendy and Mr. Lung Hung Cheuk. The primary duties of the Audit Committee are to review the Group's audit findings, accounting policies and standards, changes of accounting rules (if any), compliance to the GEM Listing Rules, internal and audit control, and cash flow forecast.

The unaudited consolidated results of the Group for the nine months ended 31 December 2011 have been reviewed by the Audit Committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

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

Hong Kong, 6 February 2012

At the date of this report, the Company's executive directors are Mr. Lau Wai Shu, Mr. Sit Hon Cheong, Mr. Yau Hoi Kin, Mr. Kwong Wai Ho, Richard and Dr. Huang Youmin and the Company's independent non-executive directors are Mr. Lung Hung Cheuk, Ms. Yeung Wing Yan, Wendy, Mr. Yip Tai Him and Dr. Chow Ka Ming, Jimmy.