



# **FlexSystem Holdings Limited**

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

**QUARTERLY RESULTS REPORT  
FOR THE NINE MONTHS ENDED  
31ST DECEMBER, 2001**

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

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

## SUMMARY

- Recorded unaudited consolidated turnover of approximately HK\$44 million during the nine months ended 31st December, 2001.
- Achieved an unaudited consolidated net profit of approximately HK\$2 million and a gross profit margin of approximately 81% for the nine months ended 31st December, 2001.

## QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31ST DECEMBER, 2001

The board of directors (“Board”) of FlexSystem Holdings Limited, (the “Company”, together with its subsidiaries, the “Group”) is pleased to announce the unaudited consolidated results of the Group for the nine months ended 31st December, 2001 with the unaudited combined comparative figures for the corresponding period in 2000 as follows:—

		<b>Three months ended 31st December,</b>		<b>Nine months ended 31st December,</b>	
		<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	15,520	21,262	44,483	45,760
Gross profit		13,456	16,442	36,073	38,652
Profit/(Loss) before taxation		(2,824)	6,063	1,617	16,323
Taxation	3	356	(811)	(50)	(2,000)
Profit/(Loss) after taxation		(2,468)	5,252	1,567	14,323
Minority interests		463	—	461	—
Profit/(Loss) attributable to shareholders		<u>(2,005)</u>	<u>5,252</u>	<u>2,028</u>	<u>14,323</u>
Earnings/(loss) per share - Basic	4	<u>(0.33) cents</u>	<u>0.88 cents</u>	<u>0.34 cents</u>	<u>2.51 cents</u>
Dividend per share		<u>NIL</u>	<u>NIL</u>	<u>1.00 cent</u>	<u>1.50 cents</u>

Notes:

### 1. Basis of presentation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8th May, 2000 under the Companies Law (2000 Revision) of the Cayman Islands. In preparation for the listing of the Company's shares on GEM, a group reorganization was effected whereby the Company became the holding company of the Group on 10th July, 2000. The shares of the Company (the "Shares") were listed on GEM on 24th July, 2000 (the "Listing Date").

The results of the Group have been prepared on a merger basis as if the current group structure had been in existence throughout the periods under review or since the respective dates of incorporation or establishment of the respective subsidiaries now comprising the Group, whichever is a shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

### 2. Turnover

The Group is principally engaged in the development, sale and lease of enterprise software products in Hong Kong, mainland China (the "PRC") and other Asian countries. The unaudited consolidated revenue for the nine months ended 31st December, 2001 with the unaudited combined figures for the corresponding period in 2000 are as follows:

	Three months ended		Nine months ended	
	31st December, 2001	2000	31st December, 2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Sale and lease of application software	11,685	17,904	29,754	36,855
Maintenance services	3,572	2,783	12,748	8,205
Sale of hardware	263	575	1,981	700
	<u>15,520</u>	<u>21,262</u>	<u>44,483</u>	<u>45,760</u>

### 3. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits for the periods.

No provision for overseas income tax has been made in the results as the Group has no assessable profits for the periods (2000: Nil).

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

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

The calculation of the Group's basic earnings per share for the three months and nine months ended 31st December, 2000 is based on the Group's unaudited combined profit attributable to shareholders of approximately HK\$5,252,000 and HK\$14,323,000 respectively and the weighted average number of 520,000,000 shares and 570,000,000 shares in issue respectively.

There were no dilutive potential shares in issue during the periods ended 31st December, 2000 and 2001.

## **INTERIM DIVIDEND**

On 12th November, 2001, the Directors declared an interim dividend for the six months ended 30th September, 2001 of HK\$0.01 for each share to its shareholders. Save for the above, the Directors do not recommend dividend payment for the nine months ended 31st December, 2001 (nine months ended 31st December, 2000: Nil).

## **BUSINESS REVIEW AND PROSPECTS**

### **Business Review**

#### **General**

During the nine months ended 31st December, 2001, unaudited turnover of approximately HK\$44 million and unaudited net profit of approximately HK\$2 million was recorded. The decrease in turnover and net profit of approximately 2.8% and 86% respectively as compared with the corresponding period last year was principally due to the economic conditions pertaining to the IT industry.

With the global economic recession, the IT department of many companies are facing a fall-back on their IT expenditures, which weaken their purchasing power. Despite the difficult environment, the Group sees this as an opportunity to consolidate its market position for the future years. The Group had completed several acquisitions and has taken steps to assimilate the technologies by leveraging on the collective knowledge as well as restructuring the companies acquired. While the pace of the overseas expansion plan has slowed down, the Group will dedicate more resources on the development of its existing markets.

## **BUSINESS DEVELOPMENT**

The year 2001 is considered as a difficult and challenging year to most businesses. The prolonged delay of the recovery of the economy has had a negative impact on the society as a whole. The overall IT spending has declined, which has affected the performance of the IT industry. In view of this downward spiraling, the Group put additional effort in tightening cost control and stayed focused on its core business, namely development and marketing of the FlexSystem Enterprise Solutions.

### **Enterprise Software**

The Group has been working intensively on product enhancement and development of its core solution, namely ERP suite. The next generation FlexAccount is being developed according to schedule and will be launched by late 2002. An enhanced version of FION, which is being upgraded to capture Material Requirement Planning (MRP) data is under development and will be released by late 2003. For the nine months ended 31st December, 2001, the Group has worked closely with its subsidiaries acquired in 2000 and 2001 to develop new applications. Such effort has accelerated new products development and provided the Group a broader range of enterprise management solutions. Among the many new products, the Group has recently released an enterprise level collaborative tool - FlexWorkflow; and a knowledge management system - FlexLibrary. As for customer service, the Group has set up a professional services unit, for the provision of top-notch IT consultancy regarding ERP implementation.

As Internet has become the nuts and bolts of an enterprise, many corporations are leveraging Internet technology for communication. At the same time, there are more and more enterprise users trying to extend their applications to the reach of its employees, vendors and customers via the internet. The Group perceived the trend a few years back and was among the first few to launch an ASP business in Hong Kong for the enterprise market. The Group's Enterprise Data Center remains as the fastest growing one among the other ASPs.

### **Overseas Markets**

As the world witnesses the entry of PRC into the World Trade Organization, the PRC is drawing overseas capital and investment into the mainland. While the world is expecting an ever-increasing numbers of foreign invested companies entering the scene, the Group considers such development to be favorable for strengthening its position on the market. The Group's solutions integrate western financial management practice and PRC requirements, which is believed to be an edge over other similar software products in the PRC market. The Group has restructured its PRC operation and has its R&D resources consolidated in Shanghai. In addition, the Group has set up a central marketing committee to oversee the sales and marketing activities in the PRC for ensuring effective resources utilisation.

Outside the PRC market and like many other IT business, the Group's Pacific-Rim operations, including those in Taiwan, Australia, Malaysia and Singapore, are facing a relatively difficult time and has to cope with a challenging environment. Nonetheless, the company will continue its expansion in the region, but with a tighter control on capital investment.

### **Research and Development**

The Group regards R&D which brings forth innovative solutions as the most effective way to ensure product competitiveness and customer satisfaction. Despite the sluggish economic condition, the Group has continued allocate resources to R&D and diversified the efforts in two directions. On one hand, the Group is working intensively to enhance the enterprise solution suite's functionalities and performance. On the other hand, the Group is studying new programming technology and application framework, and is deploying the results in its solutions. The new technologies being studied and deployed include C# and Microsoft.net. The Group is confident that the new technologies will bring forth increasing competitive advantages and profitability.

### **Outlook**

The Group believes that the remaining months of the fiscal year will be equally challenging. Although short-term outlook is not very encouraging, the Group maintains a positive view on the medium to long-term development. The Group will continue to expand and invest, though with a more cautions approach, such that the Group can maintain its competitive edge and will always be ready when the economy recovers.

## DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2001, the interests of the directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

	Number of shares		Total
	Personal interests	Corporate interests	
Mr. Lok Wai Man ( <i>note 1</i> )	3,414,000	475,500,000 ( <i>note 2</i> )	478,914,000
Mr. So Yiu King ( <i>note 1</i> )	2,000	3,600,000 ( <i>note 2</i> )	3,602,000
Mr. Chow Chi Ming, Daniel ( <i>note 1</i> )	2,000	3,600,000 ( <i>note 2</i> )	3,602,000
Mr. Leung Wai Cheung ( <i>note 1</i> )	Nil	1,000,000 ( <i>note 2</i> )	1,000,000

1. Mr. Lok Wai Man, being a substantial shareholder of the Company entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company, is regarded as initial management shareholder (as defined in the GEM Listing Rules) of the Company. Mr. So Yiu King, Mr. Chow Ching Ming, Daniel and Mr. Leung Wai Cheung are executive directors of the Company and are also considered to be initial management shareholders of the Company.
2. The 475,500,000 shares were held by SomaFlex Holdings Inc., a private company beneficially owned by Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel and Mr. Leung Wai Cheung. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holdings Inc., he is deemed, by virtue of the SDI Ordinance, to be interested in the same 475,500,000 shares held by SomaFlex Holdings Inc.. The indirect interest of the other remaining Directors are the corresponding number of shares held by SomaFlex Holdings Inc. by reference to their respective shareholding in SomaFlex Holdings Inc..

Save as disclosed above, as at 31st December, 2001, none of the Directors, chief executive of the Company or their associates had any interests in or rights to subscribe for any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

## OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

Pursuant to the share option scheme for employees which was adopted on 15th July, 2000, the Directors may at their discretion grant options to full-time employees and executive directors of the Group to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the share option scheme. The maximum number of ordinary shares in respect of which options may be granted under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time.

No share options were granted by the Company during the period from the nine months ended 31st December, 2001.

## MANAGEMENT SHAREHOLDERS

Save for the Directors and substantial shareholders as herein disclosed, the Directors are not aware of any persons who as at 31st December, 2001 were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its Shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the period.

## SUBSTANTIAL SHAREHOLDERS

Other than the interest disclosed herein in respect of the Directors, chief executives and their respective associates, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December, 2001, the Company had the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

	Number of shares			Percentage of issued share capital
	Personal interests	Corporate Interests	Total	
SomaFlex Holdings Inc. ( <i>Note</i> )	Nil	475,500,000	475,500,000	79.25%

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



## **INTEREST OF SPONSOR**

DBS Asia Capital Limited (the “Sponsor”) has been appointed as the continuing sponsor to the Company. Pursuant to the appointment, for a fee, the Sponsor will act as the Company’s continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the remaining period up to 31st March, 2003.

As updated and notified by the Sponsor, as at 31st December, 2001, one of its fellow subsidiaries, DBS Vickers (Hong Kong) Limited, beneficially held 19,834,000 Shares (approximately 3.3% of the issued share capital) in the Company.

Saved as disclosed above, neither the Sponsor nor its directors or employees or associates, as at 31st December, 2001, had any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

By order of the Board  
**Lok Wai Man**  
*Chairman*

Hong Kong, 4th February, 2002