



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

**INTERIM RESULTS REPORT
FOR THE SIX MONTHS ENDED
30TH SEPTEMBER, 2002**

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2002

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30th September, 2002 with the unaudited combined comparative figures for the corresponding period in 2001 as follows:—

	<i>Note</i>	Three months ended 30th September,		Six months ended 30th September,	
		2002	2001	2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	13,532	12,874	27,688	28,963
Gross profit		10,505	9,496	21,772	22,617
(Loss)/Profit before taxation		(806)	734	(1,841)	4,441
Taxation	3	(64)	(20)	(127)	(406)
(Loss)/Profit after taxation		(870)	717	(1,968)	4,035
Minority interests		(53)	298	(54)	(2)
(Loss)/Profit attributable to shareholders		(923)	1,015	(2,022)	4,033
(Loss)/Earnings per share - Basic	4	(0.15) cent	0.17 cent	(0.34) cent	0.67 cent
Dividend per share		0.50 cent	1.00 cent	0.50 cent	1.00 cent

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 30th September, 2002 <i>HK\$'000</i> <i>(unaudited)</i>	As at 31st March, 2002 <i>HK\$'000</i> <i>(audited)</i>
Intangible assets		1,785	2,341
Fixed assets		5,255	5,799
Investment in a jointly controlled entity		613	520
Investment in an associated company		386	—
Long-term investments		5,025	4,525
Other investments		1,403	1,403
Current assets			
Inventories	5	721	702
Trade and other receivables		19,773	20,856
Bank balances and cash		41,318	50,814
		61,812	72,372
Current liabilities			
Trade and other payables	6	10,697	12,951
Taxation payable		6,403	6,861
		17,100	19,812
Net current assets		44,712	52,560
Total assets less current liabilities		59,179	67,148
Financed by:			
Share capital		60,000	60,000
Reserves	7	(2,072)	5,951
Shareholders' funds		57,928	65,951
Minority interests		1,251	1,197
		59,179	67,148

CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September, 2002 HK\$'000 (unaudited)	For the six months ended 30th September, 2001 HK\$'000 (unaudited)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(3,138)	3,377
INVESTING ACTIVITIES		
Interest received	350	1,465
Dividend received	22	—
Purchase of fixed assets	(231)	(495)
Proceeds on disposal of fixed assets	1	—
Payment for deferred development expenditures	—	(2,345)
Purchases of investment securities	(500)	(13,756)
	(358)	(15,131)
NET CASH USED IN INVESTING ACTIVITIES		
NET CASH OUTFLOW BEFORE FINANCING FINANCING ACTIVITIES	(3,496)	(11,754)
Dividends paid	(6,000)	(9,000)
Capital element of finance lease payments	—	(25)
	(6,000)	(9,025)
NET CASH USED IN FINANCING ACTIVITIES		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,496)	(20,779)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	50,814	83,165
CASH AND CASH EQUIVALENTS AT END OF PERIOD	41,318	62,386

Notes:

1. Basis of presentation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8th May, 2000 under the Companies Law (2000 Revision) of the Cayman Islands. In preparation for the listing of the Company's shares (the "Shares") on GEM, a group reorganisation was effected whereby the Company became the holding company of the Group on 10th July, 2000. The Shares were listed on GEM on 24th July, 2000 (the "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 six months ended 30th September, 2002 with the unaudited combined figures for the corresponding period in 2001 are as follows:—

	Three months ended		Six months ended	
	30th September,		30th September,	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Business segment:—				
Sale and lease of application software	8,652	9,469	17,299	18,069
Maintenance services	4,475	2,715	9,368	9,176
Sale of hardware	405	690	1,021	1,718
	<u>13,532</u>	<u>12,874</u>	<u>27,688</u>	<u>28,963</u>
Geographical segment:—				
Hong Kong	10,075	11,277	22,619	26,119
The PRC	2,510	1,043	3,791	2,095
Others	947	554	1,278	749
	<u>13,532</u>	<u>12,874</u>	<u>27,688</u>	<u>28,963</u>

3. Taxation

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

No provision for overseas income tax has been made in the results as the Group has no assessable profits for the periods (2001: Nil).

4. Earnings per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30th September, 2002 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$923,000 and HK\$2,022,000, 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 six months ended 30th September 2001 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$1,015,000 and HK\$4,033,000 respectively, and 600,000,000 Shares in issue.

5. Trade and other receivables

	As at 30th September, 2002 <i>HK\$'000</i>	As at 31st March, 2002 <i>HK\$'000</i>
--	---	---

Debtors, deposits and prepayments comprise:

Trade debtors	12,022	13,692
Other debtors, deposits and prepayments	7,751	7,164
	<u>19,773</u>	<u>20,856</u>

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 debtors, credit evaluations of customers are performed periodically. The following is an aging analysis of trade debtors net of provision or bad and doubtful debts.

	30th September, 2002 <i>HK\$'000</i>	31st March, 2002 <i>HK\$'000</i>
0-30 days	3,631	4,084
31-60 days	141	1,228
61-90 days	554	896
91-180 days	1,261	1,350
181-365 days	3,534	2,922
Over 365 days	2,901	3,212
	<u>12,022</u>	<u>13,692</u>

6. Creditors, accruals and deposits

	As at 30th September, 2002 <i>HK\$'000</i>	As at 31st March, 2002 <i>HK\$'000</i>
Creditors, accruals and deposits comprise:—		
Trade creditors	370	231
Other creditors, deferred income and deposits	10,327	12,720
	<u>10,697</u>	<u>12,951</u>

The following is an aging analysis of trade creditors:—

	30th September, 2002 <i>HK\$'000</i>	31st March 2002 <i>HK\$'000</i>
0-30 days	148	180
31-60 days	2	—
61-90 days	—	6
91-180 days	41	17
181-365 days	55	27
Over 365 days	124	1
	<u>370</u>	<u>231</u>

7. Reserves

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2001, as previously reported	73,588	(47,430)	44	(25)	27,205	53,382
Effect of adopting SSAP 9 (revised)	9,000	—	—	—	—	9,000
At 1st April, 2001, as restated	82,588	(47,430)	44	(25)	27,205	62,382
Impairment of goodwill previously written off to reserves	25,367	—	—	—	—	25,367
Disposal of fixed assets	—	—	(44)	—	—	(44)
Exchange differences	—	—	—	(30)	—	(30)
2001 final dividend paid	(9,000)	—	—	—	—	(9,000)
2002 interim dividend paid	(6,000)	—	—	—	—	(6,000)
Loss for the year	—	—	—	—	(66,724)	(66,724)
At 31 March, 2002 (Audited)	<u>92,955</u>	<u>(47,430)</u>	<u>—</u>	<u>(55)</u>	<u>(39,519)</u>	<u>5,951</u>

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002	92,955	(47,430)	—	(55)	(39,519)	5,951
2002 final dividend paid	(6,000)					(6,000)
Net loss for the six months ended 30th September, 2002					(2,023)	(2,023)
At 30th September, 2002 (unaudited)	<u>86,955</u>	<u>(47,430)</u>	<u>—</u>	<u>55</u>	<u>(41,542)</u>	<u>(2,072)</u>
Representing:						
At 30th September, 2002 after proposed interim dividend	83,955					
2003 interim dividend proposed	<u>3,000</u>					
	<u>86,955</u>					

INTERIM DIVIDEND

The Directors recommend the payment of an interim dividend of HK0.50 cent per share for the six months ended 30th September, 2002 (six months ended 30th September, 2001: HK1.00 cent). The dividend will be payable on 4th December, 2002 to shareholders whose names appear on the Register of Members of the Company at the close of business on Tuesday, 3rd December, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed between Thursday, 28th November, 2002 and Tuesday, 3rd December, 2002, during which period no transfer of shares will be effected. To rank for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant shares certificates, must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 27th November, 2002.

BUSINESS REVIEW AND PROSPECTS

Financial review

During the period ended 30th September, 2002, turnover decreased by approximately 4.4% to approximately HK\$28 million as compared with the corresponding period last year. Moreover, the loss attributable to shareholders amounted to approximately HK\$2 million. The loss for the period was principally due to the economic conditions pertaining to the IT industry.

Financial resources and liquidity

As at 30th September, 2002, the shareholders' funds of the Group amounted to approximately HK\$58 million. Current assets amounted to approximately HK\$62 million, of which approximately HK\$41 million were cash and bank deposits and approximately HK\$21 million were debtors, deposits, prepayments and inventory. Its current liabilities amounted to approximately HK\$17 million, mainly comprise of creditors, accruals and deposits received and taxation payable amounted to approximately HK\$11 million and HK\$6 million respectively. The net asset value per share was approximately HK\$0.99. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30th September, 2002, the Group did not have any borrowings and long-term debts. The liquidity ratio of the Group, represented by a ratio of current assets over current liabilities, was 3.6:1 (As at 31st March, 2002: 3.7:1), reflecting the adequacy of financial resources.

Exposure to exchange rate fluctuations

During the year ended 30th September, 2002, the Group experienced only immaterial exchange rate fluctuations as most of the Group's monetary assets and liabilities were denominated in Hong Kong Dollars and the Group conducted its business transactions principally in this type of currency. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Significant investments and acquisitions

During the six months ended 30th September, 2002, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 30th September, 2002, the Group had no material investment.

Capital commitments

As at 30th September, 2002, the Group had no future plans for material investment.

Contingent liabilities

As at 30th September, 2002, the Group had no material contingent liabilities.

Charges on the Group's assets

As at 30th September, 2002, the Group had no charges on the Group's assets.

Capital structure

The Group remains a debt free capital structure and will utilise internal funding for its business operations and development. The Group will also consider external funding when the cost of internal funding exceeds the cost of external funding.

Segmental information

Business segment

During the period under review, the turnover of maintenance services slightly has increased by approximately 2% as the number of customers have increased as compared with the previous period. However, the turnover of software sale has slightly decreased by approximately 4% as the market sentiment of the software industry has not yet recovered. The IT industry is far from getting back on its feet and the demand of enterprise application software has not improved much.

Geographical segments

The major contribution of turnover is still from Hong Kong. Turnover from the Hong Kong segment represented approximately 82% of the total turnover (2001: 90%). The high percentage of the Hong Kong segment is mainly due to the fact that the market sentiment of Asian markets has not yet recovered.

In the PRC, the turnover has increased by approximately 81% to approximately HK\$3,791,000 as compared with the previous period. The increment was contributed by the efforts of the Group's sale and marketing team in the PRC.

Employees and remuneration policies

As at 30th September, 2002, the Group had 194 employees and the total remuneration for the period was approximately HK\$9,548,000. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include share option scheme, contributions to statutory mandatory provident fund scheme and medical scheme to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

Business review

The poor economic condition is still the biggest odd that holds back the IT market from recovery. IT expenditure is diminishing, which led to even more severe competition. Yet, the Group witnessed a spurting of ERP solution providers in the local area. One reason is that users are looking for cheaper solutions from local vendors. The other reason is that vendors' solutions are mostly modular and highly specialised, hence companies can choose to implement the system in several phases. As a result, they can retain a better budget control over its automation projects.

Although the Group recorded a loss during the period, the Directors are confident that the setback is relatively small. Instead of constricting its investment on R&D, the Group has continued allocating resources onto its R&D division to prepare the Group for a transition to a new ERP era. It will be an era in which computing power is highly distributed and causal-users are beginning to be entrusted with more sophisticated computing tasks. The Group has completed the development of new products as well as renovated its flagship solution. New applications are expected to be launched later this year.

Business development

Enterprise software

The Group saw new business opportunities in the BI (Business Intelligence) market and was one of the few pioneers in the industry who initiate its own BI development project that started a new product line — ECSS (Enterprise Computing Support System). The Directors believe that seeds that were being sowed during the past 12 months are beginning to blossom and the Group has hosted several product pre-view sessions for its corporate customers and have reached very positive feedbacks. At the same time, the development of the next generation accounting system has reached the final testing stage. Both products are expected to be launched by the end of this year and the Group expects them to bring forth new business to the Group.

ASP business

The Group has refined its thin-client framework and has deployed the technology on its accounting suite, enabling every module within its accounting suite to be run on a thin-client mode. The Group's ASP business in the PRC region remains active and strong.

Geographical expansion

The PRC

The restructuring of the Group's PRC operations noted an encouraging result, as the regional offices recorded a positive growth in the last 6 months. Unlike in Hong Kong where installation sites have always been the starting point, a majority of the business in the PRC is on a referral basis. And in order to promote the PRC branches, the Group has implemented several marketing campaigns in Hong Kong, which are targeted at its existing customers.

Other Asian countries

The Taipei office remains an active ERP vendor in the district, with a primary focus on international business entities. In many cases, the Taipei office will work together with the Hong Kong and PRC offices to implement its automation projects for its Greater China customers. The Taipei office is also responsible for the localisation of the Group's products.

Research and development

The Group's research and development road path is heading towards two directions — BI (Business Intelligence) team and V10 Team. The BI team specialises in areas like design and implementation of BI for different industries, computer grid frame working, database optimisation, and system enhancement. On the other hand, the V10 development team will continue the V10 accounting suite development and then will commence on the V10 trading system development. In addition, the Group has started to conduct studies on Microsoft Web Services, a technology that promises corporate users a more easily connection to and use data on sever via Internet.

COMPARISON OF USE OF PROCEEDS

	Amount to be used up to 30th September, 2002 as disclosed in the prospectus dated 18th July, 2000 (HK\$m)	Actual approximate amount used up to 30th September, 2002 (HK\$m)
Strategic acquisition and investment	30	30
Geographic expansion	23	19
Research and development	23	17
ASP business	22	4
Marketing and promotional activities	9	8
	<hr/>	<hr/>
	107	78
	<hr/> <hr/>	<hr/> <hr/>

The under-utilisation is mainly attributable to the proportion of proceeds set aside for ASP business which has not been utilised as expected during the year taking into account the unfavourable market sentiment which hindered the growth of the ASP business.

The unused proceeds have been placed into the bank accounts of the Group maintained in licensed banks in Hong Kong.

Comparison of business objectives with actual business progress

Product development

Objective: Develop the next generation FlexAccount products

Actual: The Group had finished the beta version of FlexAccount V10 and ECSS according to its development timeline. The Group has hosted several pre-launched product showcases. Two products were greeted with equally great interests and good responses were received from the Group's existing customers.

Objective: Enhance the functionality of FlexAccount products

Actual: Resources has been allocated on product enhancement. Some of the latest enhancements include BI (Business Intelligence) integration and Web Services integration into the accounting suite.

Objective: Develop application to handle time billing and job costing

Actual: The Group has finished the job costing module and will continue to enhance the time billing module.

Objective: Develop application for insurance industry

Actual: The Group has been re-focusing on its core development, which is accounting and BI solution. Hence, the Group will put the development plan on hold, until the market condition is being deemed appropriate.

Objective: Develop Linux application for FlexAccount products

Actual: The Group has conducted a preliminary study regarding the Linux based business application market and concluded that the market is not yet ready for this product. The Group will have the development plan pending for the time being, until the market sector of this industry recovers.

Objective: Perform localisation of FlexAccount products for the Australian Market

Actual: The Group had restructured its Australian operations and instead of focusing on FlexAccount, the Group has looked into new business areas like multimedia design and presentation.

Research

Objective: To research and implement new technology on FlexAccount products

Actual: The Group has utilised its BI expertise to build a more comprehensive analytical/ reporting engine, and has applied it on the latest FlexAccount suite.

Objective: To develop solutions to enable wireless applications on platforms such as WAP

Actual: The Group has suspended the development until the business sector recovers.

Objective: To develop new Internet enabling technologies for deployment on the next generation of Soma*AI

Actual: The Group has started to conduct studies on Web Services and will integrate the said technology with its Soma*AI framework.

Objective: To enhance the functionality of FlexAccount Data Center

Actual: The Group will continue deploying new Internet technology such as Soma*AI and Web Services to help improving its Data Center performance.

Objective: To research and implement new technology for ASP business

Actual: The Group is working on a new OLAP server and will have it integrated with the thin client technology. The new product is targeted to deliver significant improvement on massive data processing.

Objective: To develop the next generation of Soma*AI

Actual: The Group will deploy its studying of the Web Services to fine-tune its own Soma*AI framework to further expand the accessibility and performance of the next generation SOMA*AI.

ASP Business

Hong Kong

Objective: Promote ASP business by direct marketing to existing corporate users of FlexAccount Products in HK

Actual: The Group will continue the sales and marketing of its Enterprise Server Edition to existing FlexSystem's corporate users via direct sales approaches.

Objective: To recruit international accounting firms and ISPs as value-added partners

Actual: The Group is still in the process of locating business partners.

Objective: To recruit value-added partners who are MPF providers

Actual: The Group has re-structured its ASP business model in the district, and will put more emphasis on the Enterprise Data Center sector, in which the client will host and maintain its own application server. As a result, the Group will halt recruiting value-added partners who are MPF providers for SME clients.

Objective: To recruit value-added partners for its online stock trading service

Actual: The Group is still in the process of recruiting value-added partners.

Other Asian markets

Objective: Expand ASP business in selected Asian Markets, including Taiwan and Japan

Actual: The Group will continue its ASP business in Taiwan, though the main focus will shift back to the selling of enterprise solutions.

Objective: To recruit business partners in Japan for the ASP business

Actual: The Group is looking for and has yet to identify at this stage the recruitment of business partners in Japan and will continue until the market sector recovers.

Objective: To set up call center for its ASP clients in Malaysia and Singapore

Actual: The Group has suspended to set up call center for the time being and will resume when the business sector in the Asian market recovers.

Objective: To recruit business partners in selected markets in the other Asian markets for the ASP business

Actual: The Group has restructured its Asia Pacific market, and has placed focus on the Greater China region and will adopt a more direct sales and marketing approach. The Group has suspended all recruitment of business partner activities in the area and will be resumed until the business sector in Asian market is recovers.

Enterprise Application Business

Objective: To promote FlexAccount products by direct and Internet-based marketing to the general business sector in selected Asian markets

Actual: The Group will continue its direct marketing approach to introduce FlexSystem products to the overseas markets through the regional offices.

Objective: To launch and promote new generation of the FlexAccount Financial Management System and FION

Actual: The Group expects the next generation FlexAccount — FlexAccount V10, and the next generation BI tools — ECSS to be launched by the end of year 2002.

Objective: To launch and promote localised version of FlexAccount products in Japan

Actual: The Group is in the process of formatting a business partnership with a software developes in Japan. The two companies will joint together in the co-development of their enterprise solutions.

Objective: To launch and promote FlexAccount products for wireless applications in selected Asian markets

Actual: The Group's study of the wireless application market indicates an overall unfavorable economic environment. The Group has concluded to postpone the said application development at this stage.

Resources deployment

Objective: To expand research and development team in PRC, Macau and Malaysia

Actual: In view of the number of R&D professional being employed and the development projects as planned, the Group has concluded that R&D expansion has reached a stage of equilibrium, thus will cease its R&D expansion for the time being.

DIRECTORS' INTERESTS IN SECURITIES

As at 30th September, 2002, 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 are regarded as initial management shareholders (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 30th September, 2002, 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 Listing Date to 30th September, 2002.

MANAGEMENT SHAREHOLDERS

Save for the Directors and substantial shareholders as herein disclosed, the Directors are not aware of any persons who as at 30th September, 2002 were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

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

The Company has no redeemed any of its Shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the shares of the Company during the period.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 30th September, 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executive.

	Number of shares			Percentage of Issued share capital
	Personal interests	Corporate interests	Total	
SHI (note 1)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (note 2)	3,414,000	475,500,000	478,914,000	79.82%

Notes:

1. SHI is beneficially owned as to 98.27% by Mr. Lok Wai Man, 0.76 % by Mr. So Yiu King, 0.76% by Mr. Chow Chi Ming, Daniel, and 0.21% by Mr. Leung Wai Cheung.
2. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holding Inc., he is deemed, by virtue of the SDI Ordinance, to be interested in the same 475,500,000 shares held by SomaFlex Holding Inc..

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since its listing on GEM.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the audit committee were prepared and adopted with reference to “A Guide for the Formation of an Audit Committee” published by the Hong Kong Society of Accountants.

The audit committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The committee comprises two independent non-executive Directors, namely Mr. Tse Lin Chung and Mr. Lee Kar Wai.

SPONSOR’S INTERESTS

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 31 March, 2003.

As updated and notified by the Sponsor, 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 as at 30th September, 2002.

Save as disclosed herein, neither the Sponsor nor its Directors or employees or associates, as at 30th September, 2002, had any interest 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, 12 November, 2002