



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT
2003/2004

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, 2003

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Group for the six months ended 30th September, 2003 with the unaudited figures for the corresponding period in 2002 as follows:

		Three months ended 30th September,		Six months ended 30th September,	
		2003	2002	2003	2002
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<u>11,744</u>	13,532	<u>23,418</u>	27,688
Gross profit		<u>8,294</u>	10,505	<u>16,790</u>	21,772
Operating loss		<u>(2,346)</u>	(864)	<u>(3,821)</u>	(1,522)
Share of (loss)/profit of a jointly controlled entity		<u>(50)</u>	259	<u>(131)</u>	88
Share of (loss)/profit of an associated company		<u>-</u>	(202)	<u>-</u>	(407)
Loss before taxation		<u>(2,396)</u>	(806)	<u>(3,952)</u>	(1,841)
Taxation	3	<u>-</u>	(64)	<u>(38)</u>	(127)
Loss after taxation		<u>(2,396)</u>	(870)	<u>3,990</u>	(1,968)
Minority interests		<u>(3)</u>	(53)	<u>(7)</u>	(54)
Loss attributable to shareholders		<u><u>(2,399)</u></u>	<u>(923)</u>	<u><u>(3,997)</u></u>	<u>(2,022)</u>
Loss per share – Basic	4	<u><u>(0.39) cent</u></u>	<u>(0.15) cent</u>	<u><u>(0.67) cent</u></u>	<u>(0.34) cent</u>
Dividend per share		<u><u>Nil</u></u>	<u>0.50 cent</u>	<u><u>Nil</u></u>	<u>0.50 cent</u>

CONSOLIDATED BALANCE SHEET

		As at 30th September, 2003 <i>HK\$'000</i> <i>(unaudited)</i>	As at 31st March, 2003 <i>HK\$'000</i> <i>(audited)</i>
Intangible assets		–	–
Fixed assets		5,004	5,459
Investment in a jointly controlled entity		644	776
Investment in an associated company		–	–
Long-term investments		500	4,365
Other investments		1,001	1,001
		7,149	11,601
Current assets			
Inventories		891	891
Trade and other receivables	5	13,998	15,798
Bank balances and cash		40,010	35,344
		54,899	52,033
Current liabilities			
Trade and other payables	6	16,906	14,606
Taxation payable		5,971	5,866
		22,877	20,472
Net current assets		32,022	31,561
Total assets less current liabilities		39,171	43,162
Financed by:			
Share capital		60,000	60,000
Reserves	7	(21,510)	(17,513)
Shareholders' funds		38,490	42,487
Minority interests		681	675
		39,171	43,162

CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September, 2003 HK\$'000 (unaudited)	For the six months ended 30th September, 2002 HK\$'000 (unaudited)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	<u>1,579</u>	<u>(3,138)</u>
INVESTING ACTIVITIES		
Interest received	144	350
Dividend received	24	22
Purchase of fixed assets	(219)	(231)
Proceeds on disposal of fixed assets	21	1
Proceeds on disposal of investment	3,924	–
Investment in an associated company	(807)	–
Purchases of investment securities	–	(500)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	<u>3,087</u>	<u>(358)</u>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING	4,666	(3,496)
FINANCING ACTIVITIES		
Dividends paid	–	(6,000)
NET CASH USED IN FINANCING ACTIVITIES	<u>–</u>	<u>(6,000)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4,666	(9,496)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	<u>35,344</u>	<u>50,814</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>40,010</u></u>	<u><u>41,318</u></u>

Notes:

1. Basis of presentation

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

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Exchange. The financial statements have been prepared under the historical cost convention except that certain property and investments in securities are stated at fair value.

2. Turnover

The Group is principally engaged in the development, sale and lease of enterprise software products in Hong Kong, mainland China (the "PRC") and other Asian countries. The unaudited consolidated revenue for the six months ended 30th September, 2003 with the unaudited figures for the corresponding period in 2002 are as follows:-

	Three months ended 30th September,		Six months ended 30th September,	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segment:-				
Sale and lease of application software	7,317	8,652	14,469	17,299
Maintenance services	4,150	4,475	8,292	9,368
Sale of hardware	277	405	657	1,021
	<u>11,744</u>	<u>13,532</u>	<u>23,418</u>	<u>27,688</u>
Geographical segment:-				
Hong Kong	9,289	10,075	19,040	22,619
The PRC	1,706	2,510	2,876	3,791
Others	749	947	1,502	1,278
	<u>11,744</u>	<u>13,532</u>	<u>23,418</u>	<u>27,688</u>

3. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2002: 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 (2002: Nil).

4. Loss per share

The calculation of the Group's basic loss per share for the three months and six months ended 30th September, 2003 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$2,399,000 and HK\$3,997,000, respectively, and 600,000,000 Shares in issue during the period.

The calculation of the Group's basic loss 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.

5. Trade and other receivables

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Debtors, deposits and prepayments comprise:		
Trade debtors	8,217	10,246
Other debtors, deposits and prepayments	5,781	5,552
	<u>13,998</u>	<u>15,798</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, 2003 HK\$'000	31st March, 2003 HK\$'000
0-30 days	2,397	2,584
31-60 days	507	1,516
61-90 days	483	1,665
91-180 days	1,101	111
181-365 days	2,998	1,798
Over 365 days	731	2,572
	8,217	10,246

6. Creditors, accruals and deposits

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Creditors, accruals and deposits comprise:-		
Trade creditors	209	319
Other creditors, deferred income and deposits	16,697	14,287
	16,906	14,606

The following is an aging analysis of trade creditors:–

	30th September, 2003 HK\$'000	31st March, 2003 HK\$'000
0-30 days	104	227
31-60 days	–	19
61-90 days	–	3
91-180 days	–	25
181-365 days	61	3
Over 365 days	44	42
	<u>209</u>	<u>319</u>

7. RESERVES

	Share premium HK\$'000	Merger reserve HK\$'000 (Note)	Group Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1st April, 2002	92,955	(47,430)	(55)	(39,519)	5,951
2002 final dividend paid	(6,000)	–	–	–	(6,000)
2003 interim dividend paid	(3,000)	–	–	–	(3,000)
Loss attributable to shareholders for the year	–	–	–	(14,464)	(14,464)
	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(53,983)</u>	<u>(17,513)</u>
As at 31st March, 2003 (Audited)	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(53,983)</u>	<u>(17,513)</u>
As at 1st April, 2003	83,955	(47,430)	(55)	(53,983)	(17,513)
Loss attributable to shareholders for the period	–	–	–	(3,997)	(3,997)
	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(57,980)</u>	<u>(21,510)</u>
As at 30th September, 2003	<u>83,955</u>	<u>(47,430)</u>	<u>(55)</u>	<u>(57,980)</u>	<u>(21,510)</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2003 (six months ended 30th September, 2002: HK0.50 cent per share).

BUSINESS REVIEW AND PROSPECTS

Financial review

During the period ended 30th September, 2003, turnover decreased by approximately 15% to approximately HK\$23 million as compared with the corresponding period last period. Moreover, the loss attributable to shareholders amounted to approximately HK\$4 million. The loss for the period was principally due to the market sentiment pertaining to the IT industry.

Financial resources and liquidity

As at 30th September, 2003, the shareholders' funds of the Group amounted to approximately HK\$38 million. Current assets amounted to approximately HK\$55 million, of which approximately HK\$40 million were cash and bank deposits and approximately HK\$15 million were debtors, deposits, prepayments and inventory. Its current liabilities amounted to approximately HK\$23 million, mainly comprise of creditors, accruals and deposits received and taxation payable amounted to approximately HK\$17 million and HK\$6 million respectively. The net asset value per share was approximately HK\$0.06. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30th September, 2003, 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 2.4:1 (As at 31st March, 2003: 2.5:1), reflecting the adequacy of financial resources.

Exposure to exchange rate fluctuations

During the period ended 30th September, 2003, 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, 2003, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 30th September, 2003, the Group had no material investment.

Capital commitments

As at 30th September, 2003, the Group had no future plans for material investment.

Contingent liabilities

As at 30th September, 2003, the Group had no material contingent liabilities.

Charges on the Group's assets

As at 30th September, 2003, 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 has decreased by approximately 11% as the number of customers have decreased as compared with the previous period. Moreover, the turnover of software sale has also decreased by approximately 16% 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 81% of the total turnover (2002: 82%). 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 decreased by approximately 24% as compared with the previous period. The decreased was attributed to the software market in the PRC has not yet recovered.

Employees and remuneration policies

As at 30th September, 2003, the Group had 220 employees (2002: 194) and the total remuneration for the period was approximately HK\$10 million (2002: HK\$9.5 million). 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.

Although the Group recorded a loss during the period, the Directors are confident that the setback is relatively small. Instead of constructing 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.

OUTLOOK

The current crisis in Hong Kong will be challenging to all business, given the already difficult market environment. We will continue to dedicate efforts on research and development with an aim to enhance existing products as well as to expand our product suite. For the remainder of the year, we believe that our group will weather the difficult economic conditions.

DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SECURITIES

As at 30th September, 2003, the interests or short positions of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were as follows:

	Number of shares		
	Personal interests	Corporate interests	Total
Mr. Lok Wai Man (<i>Note 1</i>)	3,798,000	475,500,000 <i>(Note 2)</i>	479,298,000
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

Notes:

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

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

OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

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

No share options were granted by the Company during the period ended 30th September, 2003.

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

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

SUBSTANTIAL SHAREHOLDERS

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

	Number of shares			Percentage of issued share capital
	Personal interests	Corporate interests	Total	
SomaFlex Holdings Inc. (Note 1)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (Note 2)	3,798,000	475,500,000	479,298,000	79.88%

Notes:

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

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

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.

By order of the Board
Lok Wai Man
Chairman

Hong Kong, 12th November, 2003