



# FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Third Quarterly 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 announcement, 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 announcement.*

*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.*

QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31ST DECEMBER, 2003

The board of Directors (“Board”) is pleased to announce the unaudited consolidated results of the Company, together with its subsidiaries (the “Group”), for the nine months ended 31st December, 2003 with the unaudited combined comparative figures for the corresponding period in 2002 as follows:–

	Note	Three months ended 31st December,		Nine months ended 31st December,	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	<u>13,348</u>	13,651	<u>36,767</u>	41,340
Gross profit		<u>8,950</u>	10,697	<u>24,428</u>	32,469
Share of loss of an associated company		-	(197)	-	(604)
Share of profit/(loss) of a jointly controlled entity		<b>(28)</b>	(66)	<b>(159)</b>	21
Loss before taxation		<b>(1,958)</b>	(283)	<b>(5,910)</b>	(2,124)
Taxation	3	<u>-</u>	(60)	<u>(38)</u>	(188)
Loss after taxation		<b>(1,958)</b>	(343)	<b>(5,948)</b>	(2,312)
Minority interests		<u>7</u>	47	<u>-</u>	(6)
Loss attributable to shareholders		<u><b>(1,951)</b></u>	<u>(296)</u>	<u><b>(5,948)</b></u>	<u>(2,318)</u>
Loss per share – Basic	4	<u><b>(0.33) cent</b></u>	<u>(0.05) cent</u>	<u><b>(0.99) cent</b></u>	<u>(0.39) cent</u>
Dividend per share		<u>Nil</u>	Nil	<u>Nil</u>	Nil

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 nine months ended 31st December, 2003 with the unaudited combined figures for the corresponding period in 2002 are as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>31st December,</b>		<b>31st December,</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Turnover				
Sale and lease of application software	<b>8,108</b>	8,944	<b>22,577</b>	26,243
Maintenance services	<b>4,692</b>	4,127	<b>12,984</b>	13,495
Sale of hardware	<b>548</b>	580	<b>1,206</b>	1,602
	<b>13,348</b>	13,651	<b>36,767</b>	41,340

**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 nine months ended 31st December 2003, is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$1,951,000 and HK\$5,948,000, 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 nine months ended 31st December, 2002 is based on the Group's unaudited consolidated loss attributable to shareholders of approximately HK\$296,000 and HK\$2,318,000 respectively, and 600,000,000 Shares in issue.

**5. Reserves movement**

There was no movement in reserves during the period (2002: Nil).

**INTERIM DIVIDEND**

The Directors do not recommend the dividend payment for the nine months ended 31st December, 2003 (nine months ended 31st December, 2002: Nil).

**BUSINESS REVIEW AND PROSPECTS**

**Financial review**

During the period ended 31st December, 2003, turnover decreased by approximately 11% to approximately HK\$37 million as compared with the corresponding period last period. Moreover, the loss attributable to shareholders amounted to approximately HK\$6 million. The loss for the period was principally due to the market sentiment pertaining to the IT industry.

**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. The Group has been working intensively on product enhancement and development of its core solution. The Group also put more effort on marketing of the FlexSystem Enterprise Solutions by increasing additional sales staff.

## OUTLOOK

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 31st December, 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:*

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 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.
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 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 31st December, 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 31st December, 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 31st December, 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 31st December, 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 February, 2004