



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Annual Report 2005



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “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 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 of Hong Kong Limited takes no responsibility for the contents of this annual report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this annual report.

This annual 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 annual 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 annual report misleading; and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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EXECUTIVE DIRECTORS

Lok Wai Man (*Chairman*)
So Yiu King
Chow Chi Ming, Daniel

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tse Lin Chung
Lee Kar Wai
Mak Wing Kwong, David

COMPANY SECRETARY

Leung Wai Cheung

QUALIFIED ACCOUNTANT

Leung Wai Cheung

COMPLIANCE OFFICER

So Yiu King

AUTHORISED REPRESENTATIVES

Lok Wai Man
So Yiu King

AUDIT COMMITTEE

Tse Lin Chung
Lee Kar Wai
Mak Wing Kwong, David

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

12th Floor, North Block
Skyway House
3 Sham Mong Road
Tai Kok Tsui, Kowloon
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 G.T.
George Town
Grand Cayman
British West Indies

COMPANY HOMEPAGE

www.flexsystem.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited
Butterfield House, Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

BUSINESS REVIEW

In financial year 2004/2005, the overall IT industry was challenging. The Group recorded a turnover of approximately HK\$63,826,000 (2004: HK\$51,828,000), and loss attributable to shareholders approximately HK\$2,298,000 (2004: HK\$7,022,000). The increase of both revenue and cost is mainly due to company expansion on the aspects of new sales force and new software products.

RESEARCH AND DEVELOPMENT

The first phase of FlexSystem's software development framework has been completed at year 2004. Based on this technology, new software products have been developed and launched into the market. To further improve our software quality for better productivity, the Group has been working on the next stage of software framework. Once this phase of framework is finished within this year, the Group expect the productivity gain with not less than 30% can be achieved.

SALES AND MARKETING

New sales force has been equipped for future business growth. More sales and marketing activities will be carried out in this year.

FINAL DIVIDEND

The board of Directors does not recommend a final dividend payment for the year ended 31 March 2005.

OUTLOOK

The Group believe the long term growth of a software developer is to build high quality software with minimal cost. After several years of technology investment, the effect of productivity gain is showing up gradually. We will continue to focus on investing our technology in order to produce higher quality software, resulting in revenue growth.

Finally, I would like to thank all my fellow directors and staff for their contribution in this year.

Lok Wai Man
Chairman

Hong Kong, 27 June, 2005

FINANCIAL REVIEW

During the year 31 March, 2005, turnover of approximately 64 million and loss attributable to shareholders of approximately HK\$2.3 million were recorded. The increase in turnover of 23% as compared with the previous year was principally due to the recovery of the IT sector.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 March, 2005, the shareholders' funds of the Group amounted to approximately HK\$34 million. Current assets were approximately HK\$55 million, mainly comprising bank balances and cash of approximately HK\$39 million, inventories of approximately HK\$1 million and trade and other receivables of approximately HK\$14 million. Current liabilities were approximately HK\$26 million, mainly comprising trade and other payables of approximately HK\$21 million and taxation payable of approximately HK\$5 million. The net asset value per share was HK\$0.05. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31 March, 2005, 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 2.1:1 (As at 31 March, 2004: 2.3:1), reflecting the adequacy of financial resources.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

During the year ended 31 March, 2005, 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 currency. 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 AND DISPOSAL

During the year ended 31 March, 2005, the Group disposed of its entire equity interests in Norray Professional Computer (Australia) Pty Limited, Mega Wise Consultants Limited and Net-Accounting Services Limited. The results of the subsidiaries disposed of in the year ended 31 March, 2005 had no significant impact on the Group's consolidated turnover or loss after tax for the year.

During the year ended 31 March, 2005, the Group disposed of the jointly controlled entity in DeloitteFlex e-Business Inc..

The gain and loss on the disposals of the said subsidiaries have been dealt with in the consolidated profit and loss account.

Save as disclosed above, there is no other material acquisitions or disposal of subsidiaries and affiliated companies for the year ended 31 March, 2005.

CAPITAL COMMITMENTS

As at 31 March, 2005, the Group had operating lease commitments in respect of rented office premises of approximately HK\$5,004,000 (2004: HK\$5,677,000). As at 31 March, 2005 and 2004, the Group had no significant capital commitment and has no future plans for material investment.

CONTINGENT LIABILITIES

As at 31 March, 2005, and 2004, the Group had no material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 31 March, 2005 and 2004, the Group had no charges on the Group's assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March, 2005, the Group had 237 employees (2004: 221). The total remuneration to employees, including that to the directors, for the year ended 31 March, 2005 amounted to approximately HK\$31.8 million (2004: HK\$28.6 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 and Singapore.

SEGMENTAL INFORMATION

Business segments

During the year under review, the turnover of maintenance services has increased by approximately 13.6% as the number of customers have increased as compared with that for the previous year. Moreover, the turnover of software sales has also increased by approximately 18.6% as the market sentiment of the software industry has recovered.

Geographical segments

The major contribution of turnover is still from Hong Kong. Turnover from the Hong Kong segment represented approximately 77% of the total turnover (2004: 75%). The high percentage of the Hong Kong segment is mainly due to the fact that the Group deploys more resources on the local market.

In the PRC, the turnover has slightly increased by approximately 4% to approximately HK\$8.7 million as compared with the previous year as our Group also deploys more sales efforts on the PRC market.

DIRECTORS

Executive Directors

Mr. Lok Wai Man, aged 45, is the founder and chief executive officer of the Group. Mr. Lok is responsible for the Group's overall strategic planning and development. He has over 19 years of experience in the field of computer software industry and worked as a systems engineer in a software company in Hong Kong. Mr. Lok initiated and has been directly involved in the development of the FlexAccount products and the proprietary Internet enabling technology, Soma*AI, of the Group.

Mr. So Yiu King, aged 44, is the corporate development director of the Group. He is responsible for the finance and corporate development of the Group. He has more than 11 years of experience in accounting and finance and system development in Hong Kong. Prior to 1991, Mr. So worked for listed companies in Hong Kong as a financial controller. Mr. So is one of the founding members and also the president of IT Accountants Association in Hong Kong, an organisation helping the accounting professionals to prepare for the digital challenge. Mr. So is the endorsement certificate holder in Accountancy from Hong Kong Polytechnic. He also completed a marketing management program from National University of Singapore in 1995 and a senior executive management course in Peking University in 1999. Moreover, he is the holder of Professional Diploma in Information Technology from the Hong Kong Management Association. Mr. So joined the Group in May, 2000.

Mr. Chow Chi Ming, Daniel, aged 40, is the technical director of the Group. He is responsible for supervising and coordinating the research and development and technical support functions of the Group. Mr. Chow has over 16 years of experience in developing large-scale tailor-made system and multi-user networking solutions. Prior to joining the Group in 1993, Mr. Chow worked for other software company and IT consulting firm. Mr. Chow is the technology consultant of IT Accountants Association in Hong Kong.

Independent Non-Executive Directors

Mr. Tse Lin Chung, aged 44, is a practising solicitor. He graduated from the University of Hong Kong in 1985 with a Bachelor of Social Sciences degree. In 1988, he obtained a Bachelor of Laws degree from the University of London and in 1989, a Postgraduate Certificate in Laws from the University of Hong Kong. He was qualified as a solicitor in Hong Kong in 1991 and in England and Wales in 1992. He is the founding partner of Yip, Tse & Tang (formerly known as Yip & Tse), solicitors since 1994. He is the chief executive officer of Internet Solicitor.com founded in 1999 and it operates the legal information portal site of solicitor.com.hk founded in 1997. Since early 2000, he has been offering seminars on e-commerce and Internet laws to executives of e-commerce and IT fields. Mr. Tse joined the Group in May, 2000. Mr. Tse does not have any directorship in other public listed company in the past three years.

Mr. Lee Kar Wai, aged 56, is the financial operation director for Kanghong Digital Image (HK) Ltd.. He was previously the company secretary and regional finance controller for CB Richard Ellis Limited and a subsidiary of Dun & Bradstreet Corporation in the U.S.. He is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He graduated with a master degree in accounting science from University of Urbanna, Illinois in the U.S. and a bachelor degree in business administration (accounting) from University of Texas at Arlington in the U.S. in 1976 and 1975 respectively. Mr. Lee joined the Group in November, 2000. He is also an independent non-executive director of Prosticks International Holdings Limited, a listed company in Hong Kong. Saved as disclosed about, he does not have any directorship in other public listed company in the past three years.

DIRECTORS *(continued)***Independent Non-Executive Directors** *(continued)*

Mr. Mak Wing Kwong, David, aged 42, is currently the managing director of Above Technology Ltd. He has 18 years of experiences in managing international sales and marketing especially in information technology and electronics industries. He holds a Master of Science degree in International Marketing from Strathclyde University (MSc IM), Diploma in Management Studies from Hong Kong Polytechnic University (DMS) and Diploma in Company Direction from The Hong Kong Institute of Directors (DipCD). He is the fellow member of the Hong Kong Institute of directors (FHKIod) and member of Chartered Institute of Marketing (MCIM). Apart from his professional qualification, he also serves as director of The Hong Kong Economic & Trade Association. He is the Member of the GuiZhou Provincial Committee of the Chinese People's Political Consultative Conference. He is also serving as Consultant of the ChengDu Overseas Friendship Association and Director of the GuiZhou Province/ChongQing/Tianjin Overseas Friendship Associations. Mr. Mak joined the Group in September, 2004. Mr. Mak does not have any directorship in other public listed company in the past three years.

SENIOR MANAGEMENT

Mr. Leung Wai Cheung, aged 40, is the chief financial officer and company secretary of the Group. Mr. Leung is a qualified accountant and chartered secretary with over 12 years of experience in accounting and auditing and over 4 years of experience in financial management. He graduated from Curtin University with a Bachelor of Commerce degree majoring in accounting and subsequently obtained a postgraduate Diploma in Corporate Administration and a Master of Professional Accounting from The Hong Kong Polytechnic University. He is an associate member of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Companies Secretaries and The Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Mr. Leung joined the Group in May, 2000.

Mr. Cheung Hon Sang, Kevin, aged 40, is the general manager of the Group. He is responsible for the execution of corporate policy formulated by the Board of Directors and also for corporate communications. Mr. Cheung joined the Group in 1989. He holds an Honours Diploma in Business Administration from Shue Yan College.

Mr. Wong Kar Yin, aged 41, is the senior vice president of the Group. He is responsible for the overall business development and ASP business of the Group. He has over 15 years of experience in system and database consultancy. Prior to joining the Group in April, 2000, Mr. Wong worked for Sybase Hong Kong Limited, Telxon Australia Pty. Limited and the Sydney Futures Exchange Limited. He holds a Bachelor of Science degree in Computer Science from the University of Washington.

Mr. Chan Yu Ki, Terrence, aged 39, is the associate director (support division) of the Group. He is responsible for the overall supervision and management of the Group's customer support department. Mr. Chan also helps to coordinate the development and implementation of new products with the Group's marketing efforts. Mr. Chan has over 10 years of experience in customer system support and holds a Diploma in Business Administration from Shue Yan College. Mr. Chan joined the Group in 1992.

SENIOR MANAGEMENT *(continued)*

Ms. Chow Ching Lan, aged 41, is the business development manager of the Group. She is responsible for defining the Group's business model by combining strategic business perspective with full features customer support and extensive technology experience. Ms. Chow is one of the founders of SKY Computers, a system integrator specialised in RDBMS and membership management system with business partners in Hong Kong, Singapore and Malaysia. Ms. Chow graduated from the University of Washington with a bachelor degree in Arts. Ms. Chow joined the Group in June, 2000.

Mr. Lau Tak Shun, Saiki, aged 36, is the associate director (R&D division) of the Group. He is responsible for the overall supervision and management of the Group's development team. He also concentrates on new product development and technology research. Mr. Lau has over 12 years of experience in product development in the Accounting package in Hong Kong and Mainland China. Mr. Lau joined the Group in 1993.

The directors present their annual report and the audited financial statements of the Company for the year ended 31 March, 2005.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 13 to the financial statements.

The Group is principally engaged in the development and sale of enterprise software in Hong Kong, the People's Republic of China (the "PRC") and other Asia Pacific countries. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's turnover and operating loss by business and geographical segments for the year are set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March, 2005 are set out in the consolidated income statement on page 18.

No interim dividend was paid during the year. The directors do not recommend the payment of a final dividend for the year ended 31 March, 2005.

The directors did not recommend the payment of a dividend for the year ended 31 March, 2005.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in notes 22 and 23 to the financial statements, respectively.

PRE-EMPTIVE RIGHT

There are no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in note 24 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March, 2005, in the opinion of the directors, the Company did not have any distributable reserves.

FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 12 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out below:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	63,826	51,828	53,799	56,198	61,898
(Loss)/profit attributable to shareholders	(2,298)	(7,022)	(14,464)	(66,724)	20,014
Total assets	60,439	58,345	63,634	86,960	144,826
Total liabilities	(26,430)	(22,038)	(20,472)	(19,812)	(21,997)
Minority interests	(842)	(842)	(675)	(1,197)	(447)
Net assets	33,167	35,465	42,487	65,951	122,382

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March, 2005.

SHARE OPTION SCHEME

The detailed disclosures relating to the Company's share option scheme have been set out in note 23 to the financial statements.

No share options were granted by the Company or outstanding at any time during the years ended 31 March, 2004 and 2005.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Lok Wai Man

Mr. So Yiu King

Mr. Chow Chi Ming, Daniel

Independent non-executive directors

Mr. Tse Lin Chung

Mr. Lee Kar Wai

Mr. Mak Wing Kwong, David *(appointed on 22 September, 2004)*

The Company has received annual confirmations from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

In accordance with Article 87 of the Company's Articles of Association and Rule A.4.2 of Appendix 15 of the GEM listing Rules, Mr. Tse Lin Chung and Mr. Lee Kar Wai will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of two years commencing from 1 July, 2000 and which will continue thereafter until terminated by three months' notice in writing served by either party on the other.

Three of the independent non-executive directors were appointed for a term of two years commencing from their appointment date. One of the independent non-executive directors was appointed for an initial fixed term of one year commencing from his appointment date and which will be automatically renewed thereafter until terminated by three months' notice in writing served by either party on the other.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 7 to 9.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 March, 2005, which do not constitute connected transactions under the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") are disclosed in note 27 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 March, 2005, the interests and short positions of the directors and 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 by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Name of director/ chief executive	Personal interests	Number of shares		Total	Percentage of issued share capital
		Corporate interests			
Mr. Lok Wai Man (<i>Note 1</i>)	3,798,000	475,500,000 (<i>Note 2</i>)		479,298,000	79.88%
Mr. So Yiu King (<i>Note 1</i>)	2,000	3,600,000 (<i>Note 2</i>)		3,602,000	0.60%
Mr. Chow Chi Ming, Daniel (<i>Note 1</i>)	2,000	3,600,000 (<i>Note 2</i>)		3,602,000	0.60%
Mr. Leung Wai Cheung (<i>Note 1</i>)	Nil	1,000,000 (<i>Note 2</i>)		1,000,000	0.17%

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 and Mr. Chow Chi Ming, Daniel are executive directors of the Company and Mr. Leung Wai Cheung is the executive 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..

No share options were granted by the Company and no debt securities were issued by the Company at any time during the year ended 31 March, 2005.

Save as disclosed above, as at 31 March, 2005, none of the directors or their respective associates and the chief executive of the Company 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 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 directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 March, 2005, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company 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:

	Personal interests	Number of shares		Percentage of issued share capital
		Corporate interests	Total	
SomaFlex Holdings Inc. (<i>Note 1</i>)	Nil	475,500,000	475,500,000	79.25%
Mr. Lok Wai Man (<i>Note 2</i>)	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, as to 0.76% by Mr. So Yiu King, as to 0.76% by Mr. Chow Chi Ming, Daniel and as to 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 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..

Save as disclosed above, as at 31 March, 2005, 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 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 March, 2005, the largest and the five largest suppliers of the Group accounted for approximately 36% and 59% of the Group's total purchases respectively. Sales to the Group's five largest customers accounted for less than 30% of the total sales for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

BOARD PRACTICES AND PROCEDURES

During the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January, 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31 March, 2006.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less than exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 March, 2005. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and the required standard of dealings throughout the year ended 31 March, 2005.

AUDIT COMMITTEE

The audit committee has been established since May 2000. 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 Institute of Certified Public Accountants.

The principal duties of the audit committee include the review and supervision of the Company's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors, namely Mr. Tse Lin Chung, Mr. Lee Kar Wai and Mr. Mak Wing Kwong, David. The audited financial statements for the year ended 31 March, 2005 have been reviewed by the audit committee.

The audit committee has met four times to discuss and review the Company's annual report and accounts, interim and quarterly reports during the year ended 31 March, 2005, and provide advice and comments to the board of directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 March, 2005, none of the directors or the initial management shareholders or substantial shareholders or their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with or might compete with the business of the Group.

AUDITORS

HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of PricewaterhouseCoopers with effect from 7 March, 2003. Save as aforesaid, there have been no other changes of the Company's auditors in the past three financial years.

A resolution for the re-appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lok Wai Man

Chairman

Hong Kong, 27 June, 2005



Chartered Accountants
Certified Public Accountants

31/F., Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF FLEXSYSTEM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 18 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March, 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 27 June, 2005

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH, 2005

	Note	2005 HK\$'000	2004 HK\$'000
Turnover	4	63,826	51,828
Cost of sales		(19,724)	(15,144)
Gross profit		44,102	36,684
Other revenues	4	207	224
Other income	5	152	466
Distribution costs		(13,421)	(9,910)
Administrative expenses		(31,137)	(31,397)
Other operating expenses		(1,429)	(1,843)
Operating loss	5	(1,526)	(5,776)
Provision for amounts due from investee companies	16	(254)	(584)
Share of loss of a jointly controlled entity		(347)	(107)
Share of loss of an associated company		–	(858)
Loss on disposal of subsidiaries	25(b)	(37)	–
Loss on disposal of a jointly controlled entity	14	(62)	–
Loss before taxation		(2,226)	(7,325)
Income tax	6	(72)	470
Loss after taxation		(2,298)	(6,855)
Minority interests		–	(167)
Loss attributable to shareholders	7	(2,298)	(7,022)
Loss per share, basic	8	(0.38) cents	(1.17) cents

All of the Group's operations are classified as continuing.

The accompanying notes form an integral part of these financial statements.

AS AT 31 MARCH, 2005

	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Intangible assets	11	–	–
Fixed assets	12	4,023	4,342
Investment in a jointly controlled entity	14	–	669
Investment in an associated company	15	–	–
Long-term investments	16	15	515
Other investments	17	1,560	1,408
		5,598	6,934
Current assets			
Inventories	18	1,312	947
Trade and other receivables	19	14,156	13,144
Bank balances and cash	20	39,373	37,320
		54,841	51,411
Less: Current liabilities			
Trade and other payables	21	21,367	16,664
Taxation payable		5,063	5,374
		26,430	22,038
Net current assets		28,411	29,373
Total assets less current liabilities		34,009	36,307
<i>Financed by:</i>			
Share capital	22	60,000	60,000
Reserves	24	(26,833)	(24,535)
Shareholders' funds		33,167	35,465
Minority interests		842	842
		34,009	36,307

On behalf of the Board

Lok Wai Man
DirectorSo Yiu King
Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet

AS AT 31 MARCH, 2005

	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Investments in subsidiaries	13	9,204	8,958
Other investments	17	1,560	1,408
		10,764	10,366
Current assets			
Prepayments	19	143	–
Bank balances and cash		29,849	30,746
		29,992	30,746
Less: Current liabilities			
Accruals	21	231	260
		231	260
Net current assets		29,761	30,486
Total assets less current liabilities		40,525	40,852
<i>Financed by:</i>			
Share capital	22	60,000	60,000
Reserves	24	(19,475)	(19,148)
Shareholders' funds		40,525	40,852

On behalf of the Board

Lok Wai Man
DirectorSo Yiu King
Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

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FOR THE YEAR ENDED 31 MARCH, 2005

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Total equity as at 1 April, 2004/2003	35,465	42,487
Loss attributable to shareholders for the year	(2,298)	(7,022)
Total equity as at 31 March, 2005/2004	33,167	35,465

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH, 2005

	Note	2005 HK\$'000	2004 HK\$'000
Net cash from operating activities	25(a)	2,862	422
Investing activities			
Interest received		162	179
Dividends received		45	45
Purchase of fixed assets		(937)	(290)
Sale of fixed assets		–	31
Disposal of subsidiaries	25(b)	(10)	–
Advance to an associated company		(298)	(1,736)
Sale of long-term investments		483	3,924
Purchase of long-term investments		–	(15)
Advance to investee companies		(254)	(584)
Net cash (used in)/from investing activities		(809)	1,554
Net increase in cash and cash equivalents		2,053	1,976
Cash and cash equivalents at the beginning of the year		37,320	35,344
Cash and cash equivalents at the end of the year		39,373	37,320
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		39,373	37,320

The accompanying notes form an integral part of these financial statements.

1 CORPORATE INFORMATION AND BASIS OF PREPARATION

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 shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 GEM. The financial statements have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investments in securities are stated at fair value.

2 IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "new HKFRSs"), which are effective for accounting periods beginning on or after 1 January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March, 2005. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less any provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Jointly controlled entity

A jointly controlled entity is an entity which operates under a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated income statement includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(c) Associated company

An associated company is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Fixed assets

Leasehold improvements are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off their cost on a straight-line basis over the unexpired period of the lease.

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated to write off their cost on a reducing balance basis over their expected useful lives to the Group. The principal annual rates used for each of the categories of fixed assets are as follows:

Plant and machinery	20%
Furniture and fixtures	20%
Motor vehicles	20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the income statement over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Assets under leases *(continued)*

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(f) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries/jointly controlled entity/associated company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 April, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1 April, 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 "Business combinations" and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of assets".

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 April, 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the income statement.

(ii) Research and development costs

Research and development costs are expensed as incurred, except where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than three years to reflect the pattern in which the related economic benefits are recognised. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Investment securities

(i) Long-term investments

Long-term investments are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investments will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in-first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Income taxes

Income tax represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) Revenue from the sale of enterprise software and hardware products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (ii) Maintenance service income is recognised over the life of the agreement on a straight-line basis. The unearned portion of the maintenance service income received is stated as deferred income in the balance sheet.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (iv) Dividend income is recognised when the shareholders' right to receive payment is established.

(o) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Group's contributions to the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme") are expensed as incurred and reduced by the Group's voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund. Apart from the MPF scheme, the Group also contributes to other defined contribution retirement schemes. The contributions are expensed as incurred.
- (iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) **Contingent liabilities and contingent assets** *(continued)*

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

(r) **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(s) **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segments information be presented as the primary reporting format and geographical segments information as the secondary reporting format for the purposes of these financial statements.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

4 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services. Revenues recognised during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Software	36,118	30,456
Services	20,069	17,660
Other operations	7,639	3,712
	63,826	51,828
Other revenues		
Interest income	162	179
Dividend income from listed investments	45	45
	207	224
Total revenues	64,033	52,052

Primary reporting format – business segments

The Group is organised into two main business segments:

- Software – sale of enterprise software
- Services – rendering of maintenance services

Other operations of the Group mainly comprise sale of hardware products.

There are no sales or other transactions between the business segments.

Secondary reporting format – geographical segments

The Group's business segments mainly operate in Hong Kong, the People's Republic of China (the "PRC") and other Asia Pacific countries.

There are no sales or other transactions between the geographical segments.

4 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments

	Software 2005 HK\$'000	Services 2005 HK\$'000	Other operations 2005 HK\$'000	Group 2005 HK\$'000
Income statement				
Turnover	36,118	20,069	7,639	63,826
Segment results	139	2,983	(2,333)	789
Unallocated corporate expenses				(2,315)
Operating loss				(1,526)
Provision for amounts due from investee companies				(254)
Share of loss of a jointly controlled entity	(347)	–	–	(347)
Loss on disposal of subsidiaries				(37)
Loss on disposal of a jointly controlled entity				(62)
Loss before taxation				(2,226)
Income tax				(72)
Loss after taxation				(2,298)
Minority interests				–
Loss attributable to shareholders				(2,298)
Balance sheet				
Segment assets	–	–	1,312	1,312
Unallocated corporate assets	–	–	–	59,127
Total assets				60,439
Segment liabilities	8,665	5,984	–	14,649
Unallocated corporate liabilities				11,781
Total liabilities				26,430

4 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*Primary reporting format – business segments *(continued)*

	Software 2004 HK\$'000	Services 2004 HK\$'000	Other operations 2004 HK\$'000	Group 2004 HK\$'000
Income statement				
Turnover	30,456	17,660	3,712	51,828
Segment results	(1,122)	(818)	(927)	(2,867)
Unallocated corporate expenses				(2,909)
Operating loss				(5,776)
Provision for amounts due from investee companies				(584)
Share of loss of				
a jointly controlled entity	(107)	–	–	(107)
an associated company	(858)	–	–	(858)
Loss before taxation				(7,325)
Income tax				470
Loss after taxation				(6,855)
Minority interests				(167)
Loss attributable to shareholders				(7,022)
Balance sheet				
Segment assets	–	–	947	947
Investment in a jointly controlled entity	669	–	–	669
Unallocated corporate assets				56,729
Total assets				58,345
Segment liabilities	5,374	5,613	–	10,987
Unallocated corporate liabilities				11,051
Total liabilities				22,038

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2005

4 TURNOVER, REVENUES AND SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments

	Hong Kong 2005 <i>HK\$'000</i>	PRC 2005 <i>HK\$'000</i>	Others 2005 <i>HK\$'000</i>	Group 2005 <i>HK\$'000</i>
Income statement				
Turnover	48,988	8,723	6,115	63,826
Segment results	(76)	1,814	(949)	789
Unallocated corporate expenses				(2,315)
Operating loss				(1,526)
Balance sheet				
Segment assets	42,793	6,599	11,047	60,439
	Hong Kong 2004 <i>HK\$'000</i>	PRC 2004 <i>HK\$'000</i>	Others 2004 <i>HK\$'000</i>	Group 2004 <i>HK\$'000</i>
Income statement				
Turnover	38,997	8,367	4,464	51,828
Segment results	(2,408)	1,223	(1,682)	(2,867)
Unallocated corporate expenses				(2,909)
Operating loss				(5,776)
Balance sheet				
Segment assets	46,702	5,677	5,966	58,345

5 OPERATING LOSS

Operating loss is stated after charging and crediting the following:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<i>Charging</i>		
Salaries, wages and other benefits	30,286	27,125
Contributions to defined contribution schemes (<i>note 9</i>)	1,490	1,438
Total staff costs (including directors' remuneration)	31,776	28,563
Depreciation of owned fixed assets	1,195	1,334
Cost of inventories	6,732	2,556
Operating lease rentals in respect of rented premises	2,311	2,165
Auditors' remuneration	260	270
Loss on disposal of a long-term investment	17	–
Loss on disposal of fixed assets	–	42
Provision for doubtful debts	150	593
Bad debts written off	1,074	894
<i>Crediting</i>		
Gain on disposal of long-term investments	–	59
Net unrealised holding gain on other investments	152	407

6 INCOME TAX

Current tax

Hong Kong profits tax is calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in Hong Kong for the year. No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profits in both current and prior years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of income tax charged/(credited) to the consolidated income statement represents:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong profits tax	–	–
Overseas income tax	385	75
Over-provision in prior years	(313)	(545)
	72	(470)

A reconciliation between tax charge/(credit) and accounting loss at applicable tax rate is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Loss before taxation	(2,226)	(7,325)
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	(390)	(1,282)
Tax effect of income not taxable for tax purpose	(788)	(274)
Tax effect of share of results of an associated company	–	150
Tax effect of share of results of a jointly controlled entity	61	19
Tax effect of expenses that are not deductible in determining taxable profit	811	231
Tax effect of general allowance for doubtful debts not recognised	–	104
Tax effect of tax losses not recognised	734	1,157
Over-provision for current tax	(313)	(545)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(43)	(30)
Tax charge/(credit) for the year	72	(470)

No deferred tax liabilities are recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31 March, 2004 and 2005.

6 INCOME TAX *(continued)***Current tax** *(continued)*

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 March, 2005, the unprovided deferred tax asset of the Group and of the Company are as follows:

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of temporary difference attributable to estimated tax losses	7,544	6,950	549	528

7 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately HK\$327,000 (2004: HK\$103,193,000).

8 LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to shareholders of approximately HK\$2,298,000 (2004: HK\$7,022,000) and the weighted average of 600,000,000 (2004: 600,000,000) ordinary shares in issue during the year.

There is no diluted loss per share since the Company has no dilutive potential ordinary shares in existence for the years ended 31 March, 2004 and 2005.

9 RETIREMENT SCHEMES

The Group operated a defined contribution scheme (the "Old Scheme") for all qualified employees in Hong Kong prior to 1 December, 2000. With the implementation of the MPF Scheme effective from 1 December, 2000, the Old Scheme was terminated and the accumulated contributions of the Old Scheme were transferred to the MPF Scheme as the Group's voluntary contributions.

Under the MPF Scheme, monthly contributions are made at 5% of an employee's gross salary or HK\$1,000, whichever is lower.

The Group's voluntary contributions forfeited by qualified employees in Hong Kong who left the MPF Scheme prior to vesting fully in such contributions can be used to reduce the Group's future contributions to the MPF Scheme. During the years ended 31 March, 2004 and 2005, there were no material contributions forfeited.

9 RETIREMENT SCHEMES *(continued)*

The PRC subsidiary of the Group has participated in an employees' retirement scheme implemented by the Shanghai Municipal Government. Contributions are made to the scheme based on 28% (2004: 28%) of the applicable basic payroll costs.

The Singapore subsidiary of the Group has participated in the Central Provident Fund. Contributions are made at 32% (2004: 32%) of an employee's ordinary wages.

10 DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION**(a) Directors' remuneration**

The aggregate amounts of remuneration payable to directors of the Company during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Fees	75	60
Other emoluments		
Basic salaries, allowances and benefits in kind	2,175	2,435
Contributions to defined contribution scheme	49	59
	2,299	2,554

The executive directors received individual emoluments for the year ended 31 March, 2005 of approximately HK\$892,000 (2004: HK\$892,000), HK\$767,000 (2004: HK\$597,000) and HK\$565,000 (2004: HK\$565,000) respectively.

Three independent non-executive directors who are also members of the audit committee of the Company received a director's fee of HK\$30,000 (2004: HK\$30,000), HK\$30,000 (2004: HK\$30,000) and HK\$15,000 (2004: Nil) for the year ended 31 March, 2005. The independent non-executive directors did not receive any other emoluments.

There has been no arrangement under which a director has waived or agreed to waive any emoluments for the year ended 31 March, 2005 (2004: Nil).

10 DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (continued)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include two (2004: one) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: four) individuals during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Basic salaries, allowances and benefits in kind	1,917	2,843
Contributions to defined contribution scheme	63	90
	1,980	2,933

The emoluments of these individuals fell within the following band:

	Number of individuals	
	2005	2004
Nil - HK\$1,000,000	3	4

No emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11 INTANGIBLE ASSETS

	Group		
	Goodwill	Deferred development costs	Total
	HK\$'000	HK\$'000	HK\$'000
As at 31 March, 2004 and 2005			
Cost	1,566	7,145	8,711
Accumulated amortisation and impairment	(1,566)	(7,145)	(8,711)
Net book amount	-	-	-

There were no movements in the intangible assets for the year.

12 FIXED ASSETS

	Group				Total HK\$'000
	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	
Cost					
As at 1 April, 2004	2,544	4,885	3,605	167	11,201
Additions	469	101	367	–	937
Disposal of a subsidiary	–	(87)	(41)	–	(128)
As at 31 March, 2005	3,013	4,899	3,931	167	12,010
Accumulated depreciation					
As at 1 April, 2004	1,590	2,562	2,564	143	6,859
Charge for the year	404	504	287	–	1,195
Disposal of a subsidiary	–	(36)	(31)	–	(67)
As at 31 March, 2005	1,994	3,030	2,820	143	7,987
Net book value					
As at 31 March, 2005	1,019	1,869	1,111	24	4,023
As at 31 March, 2004	954	2,323	1,041	24	4,342

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	47,550	47,550
Amounts due from subsidiaries	64,654	64,408
	112,204	111,958
Impairment	(103,000)	(103,000)
	9,204	8,958

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of the principal subsidiaries of the Company as at 31 March, 2005:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
<i>Subsidiary held directly</i>				
SomaFlex International Inc.	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US\$1 each	100%
<i>Subsidiaries held indirectly</i>				
FlexSystem Limited	Hong Kong	Development and distribution of FlexAccount products in Hong Kong	120,000 ordinary shares of HK\$1 each	100%
FlexSystem (Shanghai) Co., Ltd.	PRC (Note)	Development and distribution of FlexAccount products in the PRC	Registered capital of US\$400,000	100%
FlexSystem Software Limited	Macau	Research and development in Macau	Registered capital of MOP\$30,000	100%
Norray Professional Computer Limited	Hong Kong	Sales of computer equipment, computer programming, and provision of computer maintenance and tuition services in Hong Kong	200,000 ordinary shares of HK\$1 each	70%

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
<i>Subsidiaries held indirectly (continued)</i>				
Starwise International Computers Limited	Hong Kong	Investment holding in Hong Kong	1,050,000 ordinary shares of HK\$1 each	100%
FlexEducation Technology Limited	Hong Kong	Development of educational software and investment holding in Hong Kong	100 ordinary shares of HK\$1 each	100%
Soma Software Services Limited	Hong Kong	Provision of ASP services in Hong Kong	100 ordinary shares of HK\$1 each	100%
Millenium Magic Sdn. Bhd.	Malaysia	Distribution of computer software products and technology in Malaysia	2 ordinary shares of RM1 each	100%
FlexSystem Limited, Taiwan Branch	Taiwan	Sales of computer equipment, computer programming, and provision of computer maintenance and consultation services in Taiwan	Registered capital of NT\$2,500,000	100%
Maya Systems Consultants Pte. Limited	Singapore	Distribution of FlexAccount products in Singapore	500,000 ordinary shares of S\$1 each	70%
FineStar Pacific Limited	Hong Kong	Investment holding in Hong Kong	10,000 ordinary shares of HK\$1 each	51%
Master Regal Limited	Hong Kong	Investment holding in Hong Kong	100 ordinary shares of HK\$1 each	60%
Flexsunland Century Software Limited	PRC <i>(Note)</i>	Development of educational software and distribution of FlexAccount products in the PRC	Registered capital of RMB2,500,000	51%
Beijing Flexdigisuper Software Co., Ltd.	PRC <i>(Note)</i>	Development of educational software and distribution of FlexAccount products in the PRC	Registered capital of US\$200,000	60%

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
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Subsidiaries held indirectly (continued)

Soma Systems Technology Sdn. Bhd.	Malaysia	Distribution of FlexAccount products in Malaysia	2 ordinary shares of RM1 each	100%
FlexDevelopments (Macau Commercial Offshore) Limited	Macau	Research and development of software in Macau	Registered capital of MOP\$100,000	100%

Note: Wholly foreign-owned enterprise established in the PRC

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	–	626
Amount due from a jointly controlled entity	–	43
	–	669

The amount due from the jointly controlled entity was unsecured, interest-free and had no fixed terms of repayment.

The jointly controlled entity was disposed of during the year ended 31 March, 2005. Details of the jointly controlled entity of the Group as at 31 March, 2004 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of registered capital	Indirect interest Held
DeloitteFlex e-Business Inc.	Taiwan	Development and distribution of FlexAccount products in Taiwan	Registered capital of NT\$10,000,000	50%

15 INVESTMENT IN AN ASSOCIATED COMPANY

	Group	
	2005 HK\$'000	2004 HK\$'000
Share of net liabilities	(2,299)	(2,299)
Amount due from an associated company	4,870	4,572
	2,571	2,273
Provision for amount due from the associated company	(2,571)	(2,273)
	-	-

The amount due from the associated company is unsecured, interest-free and has no fixed terms of repayment.

Details of the associated company of the Group as at 31 March, 2005 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Indirect interest Held
Flex-Logic Limited	Hong Kong	Software development in Hong Kong	2 ordinary shares of HK\$1 each	50%

16 LONG-TERM INVESTMENTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Unlisted equity securities, at cost	12,098	12,678
Impairment	(12,083)	(12,163)
Amounts due from investee companies	14,434	14,180
	14,449	14,695
Provision for amounts due from investee companies	(14,434)	(14,180)
	15	515

The amounts due from the investee companies are unsecured, interest-free and have no fixed terms of repayment.

17 OTHER INVESTMENTS

	Group and Company	
	2005	2004
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at market value	1,506	1,408

18 INVENTORIES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Merchandise, at cost	1,312	947

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables (Note (b))	9,086	7,903	–	–
Prepayments, deposits and other receivables	3,802	3,833	143	–
Advances to staff (Note (a))	1,268	1,408	–	–
	14,156	13,144	143	–

19 TRADE AND OTHER RECEIVABLES (continued)

Notes:

- (a) The advances to staff were unsecured, interest-free and have no fixed terms of repayment.
- (b) 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 receivables, credit evaluations of customers are performed periodically. The following is an ageing analysis of trade receivables net of provision for bad and doubtful debts:

	Group	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	2,619	2,369
31 – 60 days	1,018	963
61 – 90 days	479	663
91 – 180 days	1,189	58
181 – 365 days	3,343	2,982
Over 365 days	438	868
	9,086	7,903

20 BANK BALANCES AND CASH

As at 31 March, 2005, the Group had bank balances and cash of approximately HK\$5,016,000 (2004: HK\$2,876,000) which are denominated in Renminbi. The remittance of these funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

21 TRADE AND OTHER PAYABLES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Due to investee companies (Note (a))	158	190	–	–
Trade payables (Note (b))	1,146	887	–	–
Other payables and accruals	5,413	4,600	231	260
Deferred income	5,985	5,613	–	–
Sales deposits received	8,665	5,374	–	–
	21,367	16,664	231	260

21 TRADE AND OTHER PAYABLES *(continued)**Notes:*

- (a) The amounts due to the investee companies are unsecured, interest-free and have no fixed terms of repayment.
- (b) Ageing analysis of trade payables is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
0 – 30 days	456	581
31 – 60 days	677	40
61 – 90 days	1	–
91 – 180 days	1	220
181 – 365 days	–	35
Over 365 days	11	11
	1,146	887

22 SHARE CAPITAL

	2005 HK\$'000	2004 HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
<i>Issued and fully paid:</i>		
600,000,000 ordinary shares of HK\$0.10 each	60,000	60,000

23 SHARE OPTIONS

Pursuant to the share option scheme for employees which was adopted on 15 July, 2000, the directors of the Company may at their discretion, invite any full-time employees of the Group, including executive directors of any companies in the Group to take up options to subscribe for ordinary shares in the Company. It is believed that the share option scheme will assist the Group in its recruitment and retention of high calibre computer professionals, executives and employees.

Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant. The subscription price of a share in respect of any particular option granted under the share option scheme shall be such price as the board of directors of the Company shall determine save that such price will not be less than the higher of (i) the closing price per share on GEM as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing prices per share on GEM as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

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 employee shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued or issuable under the share option scheme.

An option may be exercised in accordance with the terms of the share option scheme at any time during a period of three years commencing on the expiry of six months after the date of acceptance of the option and expiring on the last day of the three-year period or the tenth anniversary of the date of adoption of the share option scheme, whichever is earlier.

The share option scheme will remain in force for a period of 10 years from the date of adoption of such scheme, or unless terminated earlier by resolution of the board of directors of the Company or by shareholders' resolution, after which period or resolution no further options will be granted but the provisions of the share option scheme shall remain in full force and effect in all other respects.

No share options were granted by the Company or outstanding at any time during the years ended 31 March, 2004 and 2005.

24 RESERVES

	Group				Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000 (Note)	Exchange reserve HK\$'000	Accumulated losses HK\$'000	
As at 1 April, 2003	83,955	(47,430)	(55)	(53,983)	(17,513)
Loss attributable to shareholders for the year	–	–	–	(7,022)	(7,022)
As at 31 March, 2004	83,955	(47,430)	(55)	(61,005)	(24,535)
<i>Representing:</i>					
Company and subsidiaries	83,955	(47,430)	(55)	(58,083)	(21,613)
Jointly controlled entity	–	–	–	(623)	(623)
Associated company	–	–	–	(2,299)	(2,299)
As at 31 March, 2004	83,955	(47,430)	(55)	(61,005)	(24,535)
As at 1 April, 2004	83,955	(47,430)	(55)	(61,005)	(24,535)
Loss attributable to shareholders for the year	–	–	–	(2,298)	(2,298)
As at 31 March, 2005	83,955	(47,430)	(55)	(63,303)	(26,833)
<i>Representing:</i>					
Company and subsidiaries	83,955	(47,430)	(55)	(60,706)	(24,236)
Associated company	–	–	–	(2,597)	(2,597)
As at 31 March, 2005	83,955	(47,430)	(55)	(63,303)	(26,833)

Note: The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the share capital of the Company issued in exchange thereof.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2005

24 RESERVES (continued)

	Company		
	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 April, 2003	85,872	(1,827)	84,045
Loss attributable to shareholders for the year	–	(103,193)	(103,193)
As at 31 March, 2004	85,872	(105,020)	(19,148)
As at 1 April, 2004	85,872	(105,020)	(19,148)
Loss attributable to shareholders for the year	–	(327)	(327)
As at 31 March, 2005	85,872	(105,347)	(19,475)

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash from operating activities

	2005 HK\$'000	2004 HK\$'000
Operating loss	(1,526)	(5,776)
Depreciation	1,195	1,334
Net unrealised holding gain on other investments	(152)	(407)
Interest income	(162)	(179)
Dividend income	(45)	(45)
Gain on disposal of long-term investments	–	(59)
Provision for amount due from an associated company	298	878
Loss on disposal of a long term investment	17	–
Loss on disposal of fixed assets	–	42
Operating loss before changes in working capital	(375)	(4,212)
Increase in inventories	(387)	(56)
(Increase)/decrease in trade and other receivables	(816)	2,654
Increase in trade and other payables	4,823	2,058
Cash from operations	3,245	444
Hong Kong profits tax refunded	–	119
Overseas taxation paid	(383)	(141)
Net cash from operating activities	2,862	422

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of subsidiaries

During the year ended 31 March, 2005, the Group disposed of its entire equity interests in Norray Professional Computer (Australia) Pty Limited, Mega Wise Consultants Limited and Net-Accounting Services Limited. The results of the subsidiaries disposed of in the year ended 31 March, 2005 had no significant impact on the Group's consolidated turnover or loss after tax for the year.

	2005 HK\$'000
Net assets disposed of:	
Plant and machinery	51
Furniture and fixtures	10
Inventories	22
Other receivables	64
Cash and bank balances	10
Other payables	(120)
	37
Loss on disposal of subsidiaries	(37)
	–
An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:	
Cash consideration	–
Cash and bank balances disposed of	(10)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(10)

26 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments under operating leases

As at 31 March, 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Not later than one year	2,998	2,847
Later than one year and not later than five years	2,006	2,830
	5,004	5,677

26 COMMITMENTS AND CONTINGENT LIABILITIES *(continued)*

- (b) As at 31 March, 2005, the Company had no significant capital commitment and commitment under operating lease.
- (c) As at 31 March, 2005, the Group and the Company had no significant contingent liabilities.

27 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the following significant related party transactions have been entered into by the Group during the year:

		Group	
	Note	2005 HK\$'000	2004 HK\$'000
Software royalty expenses paid to Flex-Logic Limited	<i>(i) & (iii)</i>	1,738	–
Software royalty expenses paid to i-Global Solutions Limited	<i>(ii) & (iii)</i>	612	537
Commission paid to Global Information Technology Limited	<i>(ii) & (iii)</i>	19	98

Notes:

- (i) Flex-Logic Limited is an associated company of the Group.
- (ii) i-Global Solutions Limited and Global Information Technology Limited are investee companies of the Group.
- (iii) In the opinion of the directors, the above related party transactions are conducted in the normal course of business at prices and terms comparable with those contracted with independent third party suppliers of the Group.

28 ULTIMATE HOLDING COMPANY

The directors regard SomaFlex Holdings Inc., a company incorporated in the British Virgin Islands, as being the ultimate holding company as at 31 March, 2005.

29 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June, 2005.