FlexSystem Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8050)

Annual Report 2006

www.flexsystem.com

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.

Contents

Corporate Information

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
26/F
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Chairman's Statement

BUSINESS REVIEW

The Group concluded a challenging year in 2006. The recent economic rebound created an improving market sentiment for business. However, the rising labour cost, rental price and other operation costs constituted a difficult operating environment.

RESEARCH AND DEVELOPMENT

Despite the unfavourable operation conditions, the Group continues to provide the best products and services, while maintaining a healthy cost structure. It is an ongoing strategy of the Group to focus on our research and development capabilities, as we believe the technology innovation is critical to maintain our competitive advantage in the market. In the coming years, our research and development activities will be strived on software development automation technology, resulting in lower product development cost in future.

SALES AND MARKETING

We will go on endeavoring to carry out different kinds of sales and marketing activities in Hong Kong. Besides, in order to reinforce our regional competitive strength, we will conduct a series of sales & marketing activities in PRC, Taiwan and Malaysia.

FINAL DIVIDEND

The board of Directors does not recommend a final dividend payment for the year ended 31 March, 2006.

OUTLOOK

It is anticipated that the adverse factors caused by the significant increase in running costs will continue in 2007. In facing these challenges, the Group will keep to invest our technology development, introduce high quality products and provide professional customer services to increase our profit in the coming future.

On behalf of the Board, I would like to take this opportunity to express my sincere thanks to my fellow directors and staff for their continual support and contribution.

Lok Wai Man
Chairman

Hong Kong, 26 June 2006

FINANCIAL REVIEW

During the year 31 March, 2006, turnover of approximately 71 million and profit attributable to shareholders of approximately HK$2.5 million were recorded. The increase in turnover of 12% as compared with the previous year was principally due to the contribution from the increment of turnover.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 March, 2006, the shareholders' funds of the Group amounted to approximately HK$37 million. Current assets were approximately HK$56 million, mainly comprising bank balances and cash of approximately HK$41 million, inventories of approximately HK$1 million and trade and other receivables of approximately HK$14 million. Current liabilities were approximately HK$24 million, mainly comprising trade and other payables of approximately HK$20 million and taxation payable of approximately HK$4 million. The net asset value per share was HK$0.06. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31 March, 2006, 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 2.3:1 (As at 31st March, 2005: 2.1:1), reflecting the adequacy of financial resources.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

During the year ended 31 March, 2006, 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, 2006, the Group disposed of its entire equity interests in Flexsunland Century Software Limited and Beijing Flexdigisuper Software Co., Ltd. The results of the subsidiaries disposed of in the year ended 31 March, 2006 had no significant impact on the Group's consolidated turnover or profit after tax for the year.

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

Save as disclosed above, there was no other material acquisitions or disposal of subsidiaries and affiliated companies for the year ended 31 March, 2006.

CAPITAL COMMITMENTS

As at 31 March, 2006, the Group had operating lease commitments in respect of rented office premises of approximately HK$3.5 million (2005: HK$5 million). As at 31 March, 2006 and 2005, the Group had no significant capital commitment and has no future plans for material investment.

CONTINGENT LIABILITIES

As at 31 March, 2006, and 2005, the Group had no material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 31 March, 2006 and 2005, the Group had no charges on the Group's assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March, 2006, the Group had 263 employees (2005: 237). The total remuneration to employees, including that to the directors, for the year ended 31 March, 2006 amounted to approximately HK$35.5 million (2005: HK$31.8 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 11.6% 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 25.5% 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 75% of the total turnover (2005: 77%). 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 7.8% to approximately HK$9.4 million as compared with the previous year as our Group also deploys more sales efforts on the PRC market.

1. CORPORATE GOVERNANCE PRACTICES

The Board and senior management are committed to the principles of Corporate Governance and have dedicated significant efforts to provide transparency, accountability and independence.

2. COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the Rules Governing the Listing of Securities on the GEM ("the GEM Listing Rules"). Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the twelve months ended 31 March, 2006.

3. EFFECTIVE AND EXPERIENCED BOARD

Board Composition

The Board currently comprises of the following members:

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

Board Meeting

The Board meets at least four times a year to review financial and operating performance and discuss Group direction and strategy.

Details of the attendance of the board of Director are as follows:

	Attendance/Number of Meetings	
	Board	Audit Committee
Mr. Lok Wai Man	4/4	N/A
Mr. So Yiu King	4/4	N/A
Mr. Chow Chi Ming, Daniel	4/4	N/A
Mr. Tse Lin Chung	4/4	4/4
Mr. Lee Kar Wai	4/4	4/4
Mr. Mak Wing Kwong, David	1/4	1/4

Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of the Board and committee meetings are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors/committee members apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Compliance Officer, Qualified Accountant and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles of Association also contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

4. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separated.

The Company has achieved a high compliance level with the exception of the separation of Mr. Lok Wai Man serving the dual role of Chairman and Chief Executive Officer.

This exception was discussed and the dual role was approved by the Board based on the following reasons:

– In view of the Company size, it is not justified in separating the role of chairman and chief executive officer.,

– The Company has in place internal controls to provide check and balance on the functions.

Mr. Lok Wai Man is primarily responsible for leadership of the Company and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with other Executive Directors and senior management of each business unit.

Thus, the Company considers that this structure will not impair the balance of power and authority between the board and the management of the Company.

5. AUDIT COMMITTEE

The Company established an audit committee since May 2000 with written terms of reference in accordance with Rule 5.28 to 5.33 of the GEM Listing Rules. The audit committee comprises three members – Mr. Tse Lin Chung, Mr. Lee Kar Wai and Mr. Mak Wing Kwong, David all of whom are independent non-executive directors. Mr. Tse Lin Chung is the chairman of the audit committee. Its principal duties are to review and supervise the financial reporting process and internal control procedures of the Group.

The Audit Committee meets four times a year to review with senior management and once to twice a year with the Company's auditors for the Company's audit findings, accounting policies and standards, changes of accounting rules (if any), compliance to listing rules, internal and audit control, and budget and cash flow forecast.

The Group's unaudited quarterly an interim results and annual audited results during the year ended 31 March, 2006 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

6. REMUNERATION COMMITTEE

The remuneration committee was established in November 2005.

The Company adopted that a remuneration committee be established with specific written terms of reference which deal clearly with its authority and duties. The terms of reference will follow the requirement of Code Provision B.1.3.

The composition of the remuneration committee include Chairman, Mr. Lok Wai Man and two independent non-executive directors, Mr. Tse Lin Chung and Mr. Lee Kar Wai.

The remuneration committee meets annually, or on an as needed basis, to review the recommendation from the Chief Executive Officer on the compensation and incentive scheme to be provided to Senior Management.

During the period under review, a meeting of the remuneration committee was held in November 2005. Details of the attendance of members at remuneration committee meeting are as follows:

	Attendance/Number of Meetings
Lok Wai Man	1/1
Tse Lin Chung	1/1
Lee Kar Wai	1/1

The policy for the remuneration of executive directors is:

– To ensure that none of the Directors should determine their own remuneration;

– The remuneration should be broadly aligned with companies with which the Company competes for human resources;

– The Group should aim to attract and retain executives and to motivate them to pursue appropriate growth strategies whilst take into account individual performance;

– The remuneration should reflect the performance, complexity of duties and responsibility of the individual.

7. AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor. During the year under review, the Group has incurred an aggregate of HK$280,000 to the external auditor for its services of auditing.

8. CODE OF CONDUCT AND BUSINESS ETHICS

Guidelines of the Group's business ethical practices are set out in the Company's Staff Handbook applicable to all Directors and staff.

9. DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted procedures governing Directors' securities transactions in compliance with Rules 5.48 to 5.67 of the GEM Listing Rules. Specific confirmation has been obtained from all Directors to confirm compliance with the Rules. Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terns than those set out in Rules. No incident of non-compliance was noted by the Company in 2006.

10. INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of internal controls in the Company and reviewing its effectiveness through the Audit Committee. It has delegated to executive management the implementation of such system of internal controls and reviewing of relevant financial, operational and compliance controls and risk management procedures.

A tailored governance framework with defined lines of responsibility and appropriate delegation of authority is structured so as to increase the risk awareness across the Group's business operations. An Operation Support Group was also established, under the supervision of the Chief Financial Officer, to centralize the function and control exercised over the treasury activities, financial and management reporting, and human resources functions and computer systems.

The Group's Corporate Governance Division ("CGD"), under the supervision of the Group Chief Compliance Officer, independently reviews these controls, and evaluates their adequacy, effectiveness and compliance, and reports regularly to the Audit Committee. A Three-Year Strategic Audit Plan for the internal control review, prepared based on risk assessment methodology, was approved by the Audit Committee at the commencement of the three-year cycle. The scope of the work performed includes financial and operational reviews and productivity efficiency reviews. Internal Control Review Reports are sent to the Chief Executive Officer, Chief Financial Officer, and the relevant management. A summary of major findings is reported at the quarterly Audit Committee Meeting. Follow up on all recommendations is also performed on a periodic basis to ensure all agreed recommendations have been satisfactorily and timely implemented.

Based on the assessments made by senior management, the CGD (internal auditors) and the external auditors in 2006 and up to the date of approval of this report, the Audit Committee is satisfied that:

- The internal controls and accounting systems of the Group are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the accounts are reliable for publication.

- There is an ongoing process in place for identifying, evaluating and managing the significant risks faced by the Group.

Biographical Information of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Lok Wai Man, aged 46, 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 20 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 45, is the corporate development director of the Group. He is responsible for the finance and corporate development of the Group. He has more than 12 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 41, 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 17 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 45, 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 57, 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 43, is currently the managing director of Above Technology Ltd. He has 19 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.

SENIOR MANAGEMENT

Mr. Leung Wai Cheung, aged 41, is the chief financial officer and company secretary of the Group. Mr. Leung is a qualified accountant and chartered secretary with over 16 years of experience in accounting and auditing and over 6 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 41, 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 42, 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 16 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 40, 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 co-ordinate the development and implementation of new products with the Group's marketing efforts. Mr. Chan has over 11 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 42, 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 37, 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 13 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 have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31 March, 2006.

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 16 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 profit by business and geographical segments for the year are set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March, 2006 are set out in the consolidated income statement on page 23.

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, 2006.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in notes 26 and 27 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 the consolidated statement of changes in equity on page 26 and note 28 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 March, 2006, in the opinion of the directors, the Company did not have any distributable reserves.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 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:

	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**71,497**	63,826	51,828	53,799	56,198
Profit/(loss) for the year	**2,566**	(2,298)	(7,022)	(14,464)	(66,724)
Total assets	**60,875**	60,439	58,345	63,634	86,960
Total liabilities	**(24,085)**	(26,430)	(22,038)	(20,472)	(19,812)
Minority interests	**(842)**	(842)	(842)	(675)	(1,197)
Net assets	**36,790**	33,167	35,465	42,487	65,951

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, 2006.

SHARE OPTION SCHEME

The detailed disclosures relating to the Company's share option scheme have been set out in note 27 to the financial statements.

No share options were granted by the Company or outstanding at any time during the years ended 31 March, 2005 and 2006.

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

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. Lee Kar Wai and Mr. Mak Wing Kwong, David 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.

Two 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 12 to 14.

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, 2006, which do not constitute connected transactions under the GEM Listing Rules are disclosed in note 31 to the financial statements.

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

As at 31 March, 2006, 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	Number of shares: Personal interests	Number of shares: Corporate interests	Total	Percentage of issued share capital
Mr. Lok Wai Man *(Note 1)*	3,798,000	475,500,000 *(Note 2)*	479,298,000	79.88%
Mr. So Yiu King *(Note 1)*	2,000	3,600,000 *(Note 2)*	3,602,000	0.60%
Mr. Chow Chi Ming, Daniel *(Note 1)*	2,000	3,600,000 *(Note 2)*	3,602,000	0.60%
Mr. Leung Wai Cheung *(Note 1)*	Nil	1,000,000 *(Note 2)*	1,000,000	0.17%

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 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.

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 and 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 shareholdings 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, 2006.

Save as disclosed above, as at 31 March, 2006, 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, 2006, 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:

	Number of shares			
	Personal interests	Corporate interests	Total	% of issued share capital
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, 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, 2006, 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, 2006, the largest and the five largest suppliers of the Group accounted for approximately 27% and 72% 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 all the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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, 2006. 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, 2006.

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, 2006 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, 2006, and provide advice and comments to the board of directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 March, 2006, 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 four 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, 26 June, 2006

Auditors' Report

HLB 國衛會計師事務所
Hodgson Impey Cheng

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 23 to 68 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 Hong Kong Standards on Auditing 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, 2006 and of the profit 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, 26 June, 2006

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH, 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	6	**71,497**	63,826
Cost of sales		**(18,130)**	(19,724)
Gross profit		**53,367**	44,102
Other income and gains	6	**1,024**	359
Distribution costs		**(15,423)**	(13,421)
Administrative expenses		**(34,157)**	(31,137)
Other operating expenses		**(2,882)**	(1,683)
Operating profit/(loss)	7	**1,929**	(1,780)
Share of loss of a jointly controlled entity		**–**	(347)
Loss on disposal of subsidiaries	29(b)	**(48)**	(37)
Loss on disposal of a jointly controlled entity		**–**	(62)
Profit/(loss) before income tax		**1,881**	(2,226)
Income tax	8	**685**	(72)
Profit/(loss) for the year		**2,566**	(2,298)
Attributable to:			
Equity holders of the Company	9	**2,566**	(2,298)
Minority interests		**–**	–
		2,566	(2,298)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year – basic and diluted	10	**0.43 cents**	(0.38) cents

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

Consolidated Balance Sheet

AS AT 31 MARCH, 2006

	Note	**2006** ***HK$'000***	2005 *HK$'000*
Non-current assets			
Property, plant and equipment	*15*	**3,386**	4,023
Intangible assets	*14*	**–**	–
Interest in an associated company	*17*	**–**	–
Investments			
– Available-for-sale financial assets	*18*	**1,779**	–
– Loans and receivables	*19*	**13**	–
– Long-term investments	*20*	**–**	15
– Other investments	*21*	**–**	1,560
		5,178	5,598
Current assets			
Inventories	*22*	**1,094**	1,312
Trade and other receivables	*23*	**13,984**	14,156
Bank balances and cash	*24*	**40,619**	39,373
		55,697	54,841
Total assets		**60,875**	60,439
Less: Current liabilities			
Trade and other payables	*25*	**19,790**	21,367
Income tax payable		**4,295**	5,063
		24,085	26,430
Net current assets		**31,612**	28,411
Net assets		**36,790**	34,009
Capital and reserves			
Equity attributable to equity holders of the Company			
Share capital	*26*	**60,000**	60,000
Reserves		**(24,052)**	(26,833)
		35,948	33,167
Minority interests		**842**	842
Total equity		**36,790**	34,009

The financial statements on pages 23 to 68 were approved and authorised for issue by the Board of Directors on 26 June, 2006 and signed on its behalf by:

Lok Wai Man
Director

So Yiu King
Director

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

Balance Sheet

AS AT 31 MARCH, 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Interests in subsidiaries	16	10,254	9,204
Investments			
– Available-for-sale financial assets	18	1,764	–
– Other investments	21	–	1,560
		12,018	10,764
Current assets			
Prepayments	23	112	143
Bank balances and cash		29,053	29,849
		29,165	29,992
Total assets		41,183	40,756
Less: Current liabilities			
Accruals	25	407	231
		407	231
Net current assets		28,758	29,761
Net assets		40,776	40,525
Capital and reserves			
Equity attributable to equity holders of the Company			
Share capital	26	60,000	60,000
Reserves	28	(19,224)	(19,475)
Total equity		40,776	40,525

The financial statements on pages 23 to 68 were approved and authorised for issue by the Board of Directors on 26 June, 2006 and signed on its behalf by:

Lok Wai Man	So Yiu King
Director	*Director*

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH, 2006

	Attributable to equity holders of the Company								
		Reserves							
	Share capital *HK'000* *(Note 26)*	Share premium *HK'000*	Merger reserve *HK'000* *(Note)*	Exchange reserve *HK'000*	Available-for-sale financial assets revaluation reserve *HK'000*	Accumulated losses *HK'000*	Total reserves *HK$'000*	Minority interests *HK'000*	Total equity *HK'000*
As at 1 April, 2004									
As previously reported as equity	60,000	83,955	(47,430)	(55)	–	(61,005)	(24,535)	–	35,465
As previously separately reported as minority interests	–	–	–	–	–	–	–	842	842
As at 1 April, 2004, as restated	60,000	83,955	(47,430)	(55)	–	(61,005)	(24,535)	842	36,307
Loss for the year	–	–	–	–	–	(2,298)	(2,298)	–	(2,298)
Total income and expense for the year	–	–	–	–	–	(2,298)	(2,298)	–	(2,298)
As at 31 March, 2005	60,000	83,955	(47,430)	(55)	–	(63,303)	(26,833)	842	34,009
As at 1 April, 2005, as per above	60,000	83,955	(47,430)	(55)	–	(63,303)	(26,833)	842	34,009
Opening adjustment for the adoption of HKAS 39 *(Note 2(i))*	–	–	–	–	(397)	397	–	–	–
As at 1 April, 2005, as restated	60,000	83,955	(47,430)	(55)	(397)	(62,906)	(26,833)	842	34,009
Changes in fair value of available-for-sale financial assets	–	–	–	–	204	–	204	–	204
Exchange realignment	–	–	–	11	–	–	11	–	11
Total income and expense recognised directly in equity	–	–	–	11	204	–	215	–	215
Profit for the year	–	–	–	–	–	2,566	2,566	–	2,566
Total income and expense for the year	–	–	–	11	204	2,566	2,781	–	2,781
As at 31 March, 2006	60,000	83,955	(47,430)	(44)	(193)	(60,340)	(24,052)	842	36,790

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.

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

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH, 2006

	Note	2006 *HK$'000*	2005 *HK$'000*
Operating activities			
Net cash generated from operating activities	*29(a)*	2,947	2,862
Investing activities			
Interest received		943	162
Dividends received		81	45
Purchase of property, plant and equipment		(636)	(937)
Disposal of subsidiaries	*29(b)*	(92)	(10)
Advance to an associated company		(1,107)	(298)
Sale of long-term investments		–	483
Advances to investee companies		(862)	(254)
Net cash used in investing activities		(1,673)	(809)
Net increase in cash and cash equivalents		1,274	2,053
Cash and cash equivalents at beginning of the year		39,373	37,320
Effect of foreign exchange rate change, net		(28)	–
Cash and cash equivalents at end of the year		40,619	39,373
Analysis of balances of cash and cash equivalents			
Bank balances and cash		40,619	39,373

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

1 CORPORATE INFORMATION

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").

In the opinion of the directors, the parent and ultimate holding company of the Group is SomaFlex Holdings Inc., which is incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services.

These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest thousand (HK$'000) unless otherwise stated.

2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") 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 of the Stock Exchange. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of the financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5 to the financial statements.

2 BASIS OF PREPARATION *(continued)*

Adoption of new/revised HKFRSs

For the year ended 31 March, 2006, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 31, 33, 36, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

2 BASIS OF PREPARATION *(continued)*

Adoption of new/revised HKFRSs *(continued)*

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January, 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January, 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parities and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(i) *HKAS 32 and HKAS 39 – Financial Instruments*

In prior years, the Group classified its investments in unlisted equity securities as long-term investments, which were held for non-trading purposes and were stated at cost less any provision for impairment losses. The investments in listed securities are classified as other investments and stated at fair value and the gains or losses arising from changes in the fair values of such securities were credited or charged to the income statement in the period in which they arose.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 required retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Upon the adoption of HKASs 32 and 39, debt securities, investments in listed securities, and investments in unlisted equity securities are classified as held-to-maturity financial assets, financial assets at fair value through profit or loss, and available-for-sale financial assets, respectively. Held-to-maturity financial assets are stated at amortised cost less impairment losses. Available-for-sale financial assets are classified at fair value, where an active market exists, with any realised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Financial assets at fair value through profit or loss are carried at fair value.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Trade and other receivables were previously carried at cost less impairment of receivables.

2 BASIS OF PREPARATION *(continued)*

Adoption of new/revised HKFRSs *(continued)*

(i) HKAS 32 and HKAS 39 – Financial Instruments (continued)

The effect of the above changes are summarised below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

The adoption of HKAS 39 resulted in an decrease in opening reserves at 1 April, 2005:

Decrease in available-for-sale financial assets revaluation reserve	HK$397,000
Decrease in accumulated losses	HK$397,000

The details of the adjustments to the balance sheet as at 31 March, 2006 and the income statement for the year then ended are as follows:

Increase in available-for-sale financial assets	HK$1,779,000
Increase in loans and receivables	HK$13,000
Decrease in long-term investments	HK$1,777,000
Decrease in other investments	HK$15,000
Decrease in unrealised gains on other investments	HK$204,000
Increase in available-for-sale financial assets revaluation reserve	HK$204,000
Decrease in basic and diluted earnings per share	0.034 HK$ cents

(ii) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions prior to 1 April, 2001 was written off against reserves and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 April, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April, 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against reserves remains eliminated against reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

2 BASIS OF PREPARATION *(continued)*

Adoption of new/revised HKFRSs *(continued)*

The Group has not applied the following new/revised HKFRSs, that have been issued but are not yet effective, to these financial statements:

HKAS 1 Amendment	Capital Disclosures *(Note (a))*
HKAS 21 Amendment	Net Investment on a Foreign Operation *(Note (b))*
HKAS 39 Amendment	The Fair Value Option *(Note (b))*
HKFRS 7	Financial Instruments: Disclosures *(Note (a))*

Notes:

(a) Effective for accounting periods beginning on or after 1 January, 2007

(b) Effective for accounting periods beginning on or after 1 January, 2006

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January, 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

(i) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of consolidation *(continued)*

(i) Subsidiaries (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits of losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a. Basis of consolidation *(continued)*

(ii) Associates (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(iii) Jointly-controlled entities

A jointly-controlled entity is joint venture that is subject to joint control, resulting in none of the participating parties have unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

b. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c. 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 using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

iv. Dividend income is recognised when the shareholders' right to receive payment is established.

d. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of leasehold improvements are calculated to write off their cost on a straight-line basis over the unexpired period of the lease.

Depreciation of other property, plant and equipment is calculated to write off their cost on a reducing balance basis to their residual values over their expected useful lives to the Group. The principal annual rates used for each of the categories of property, plant and equipment are as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d. Property, plant and equipment *(continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

e. Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(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 assets and have definite useful lives. The costs are 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 expenses are not recognised as assets in a subsequent period.

f. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Investments

From 1 April, 2004 to 31 March, 2005:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as long-term investments and other investments.

(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.

From 1 April, 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Investments *(continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. Investments *(continued)*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

h. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

i. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j. Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

k. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

l. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

m. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

m. Foreign currency translation *(continued)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n. Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

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. Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

4 FINANCIAL RISK MANAGEMENT

a. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Market risk

(1) Foreign exchange risk

The Group operates mainly in Hong Kong and the exposure to foreign exchange risk is limited arising from various currency exposures. Foreign exchange risk mainly arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The management of the Group considers the foreign exchange risk of the Group is not significant, and thus does not have any active policies to hedge against the foreign exchange risk.

(2) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that credits are granted to customers with an appropriate credit history.

In addition, the Group reviews the recoverable amounts of each individual trade debt at each balance sheet date to ensure the adequate impairment losses are made for irrecoverable amounts. The Group has maintained relationship with various financial institutions, and has policies that limit the amount of credit exposure to any financial institution.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. Due to the dynamic nature of the underlying businesses, the Group employs a prudent liquidity policy.

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

4 FINANCIAL RISK MANAGEMENT *(continued)*

b Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of available-for-sale financial assets

The Group had available-for-sale financial assets which were stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual basis. Any gains or losses are recognised as a separate component of equity until the financial asset is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Management has to consider whether it is appropriate to charge the cumulative loss to income statement.

In making its judgement, the Group considers (i) the future prospect of the underlying investments; and (ii) the underlying financial position of the investments. Management considers that no objective evidence of impairment exists and the cumulative loss was not charged to the income statement.

6 TURNOVER, OTHER INCOME AND GAINS, 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:

	2006 *HK$'000*	2005 *HK$'000*
Turnover		
Software	**45,343**	36,118
Services	**22,394**	20,069
Other operations	**3,760**	7,639
	71,497	63,826
Other income and gains		
Interest income	**943**	162
Net unrealised holding gains on other investments	**–**	152
Dividend income from listed investments	**81**	45
	1,024	359

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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

6 TURNOVER, OTHER INCOME AND GAINS, AND SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments

Income statement	Software 2006 *HK$'000*	Services 2006 *HK$'000*	Other operations 2006 *HK$'000*	Group 2006 *HK$'000*
Turnover	45,343	22,394	3,760	71,497
Segment results	1,509	4,313	(993)	4,829
Unallocated corporate expenses				(2,900)
Operating profit				1,929
Loss on disposal of subsidiaries				(48)
Profit before income tax				1,881
Income tax				685
Profit for the year				2,566
Balance sheet				
Segment assets	–	–	1,094	1,094
Unallocated corporate assets				59,781
Total assets				60,875
Segment liabilities	6,377	6,962	–	13,339
Unallocated corporate liabilities				10,746
Total liabilities				24,085

6 TURNOVER, OTHER INCOME AND GAINS, AND SEGMENT INFORMATION *(continued)*

Primary reporting format – business segments *(continued)*

Income statement	Software 2005 *HK$'000*	Services 2005 *HK$'000*	Other operations 2005 *HK$'000*	Group 2005 *HK$'000*
Turnover	36,118	20,069	7,639	63,826
Segment results	139	2,983	(2,333)	789
Unallocated corporate expenses				(2,569)
Operating loss				(1,780)
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 income tax				(2,226)
Income tax				(72)
Loss for the year				(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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

6 TURNOVER, OTHER INCOME AND GAINS, AND SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments

Income statement	**Hong Kong 2006** *HK$'000*	**PRC 2006** *HK$'000*	**Others 2006** *HK$'000*	**Group 2006** *HK$'000*
Turnover	**53,960**	**9,401**	**8,136**	**71,497**
Segment results	**5,343**	**1,145**	**(1,659)**	**4,829**
Unallocated corporate expenses				**(2,900)**
Operating profit				**1,929**
Balance sheet				
Segment assets	**49,657**	**6,161**	**5,057**	**60,875**

Income statement	Hong Kong 2005 *HK$'000*	PRC 2005 *HK$'000*	Others 2005 *HK$'000*	Group 2005 *HK$'000*
Turnover	48,988	8,723	6,115	63,826
Segment results	(76)	1,814	(949)	789
Unallocated corporate expenses				(2,569)
Operating loss				(1,780)
Balance sheet				
Segment assets	42,793	6,599	11,047	60,439

7 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging the following:

	2006 HK$'000	2005 HK$'000
Salaries, wages and other benefits	33,608	30,286
Contributions to defined contribution scheme	1,872	1,490
Total staff costs (including directors' remuneration)	35,480	31,776
Depreciation of owned property, plant and equipment	1,152	1,195
Cost of inventories	3,060	6,732
Operating lease rentals in respect of rented premises	2,359	2,311
Auditors' remuneration	280	260
Loss on disposal of a long-term investment	–	17
Provision for impaired receivables	1,326	1,224
Provision of impairment for amount due from an associate company	1,107	298
Provision of impairment for amounts due from investee companies	849	254

8 INCOME TAX

Current tax

Hong Kong profits tax is calculated at the rate of 17.5% (2005: 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 (credited)/charged to the consolidated income statement represents:

	2006 HK$'000	2005 HK$'000
Hong Kong profits tax	–	–
Overseas income tax	39	385
Over-provision in prior years	(724)	(313)
	(685)	72

8 INCOME TAX *(continued)*

Current tax *(continued)*

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

	2006	2005
	HK$'000	*HK$'000*
Profit/(loss) before income tax	**1,881**	(2,226)
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	**329**	(390)
Tax effect of income not taxable for tax purpose	**(934)**	(788)
Tax effect of share of results of a jointly controlled entity	**–**	61
Tax effect of expenses that are not deductible in determining taxable profit	**856**	811
Tax effect of tax losses not recognised	**249**	734
Utilisation of previously unrecognised tax losses	**(441)**	–
Over-provision for current tax	**(724)**	(313)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(20)**	(43)
Tax (credit)/charge for the year	**(685)**	72

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, 2005 and 2006.

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, 2006, the unprovided deferred tax asset of the Group and of the Company are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax effect of temporary difference attributable to estimated tax losses	**7,352**	7,544	**701**	549

9 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$47,000 (2005: loss of HK$327,000).

10 EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net profit/(loss) of the Group attributable to equity holders of the Company of approximately HK$2,566,000 (2005: loss of HK$2,298,000) and the weighted average number of 600,000,000 (2005: 600,000,000) ordinary shares in issue during the year.

There is no diluted earnings/(loss) per share since the Company has no dilutive potential ordinary shares in existence for the years ended 31 March, 2005 and 2006.

11 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, 2005 and 2006, there were no material contributions forfeited.

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% (2005: 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% (2005: 32%) of an employee's ordinary wages.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

12 DIRECTORS' REMUNERATION

	2006	2005
	HK$'000	*HK$'000*
Directors' fees paid to Independent Non-executive Directors	**90**	75
Other emoluments paid to Executive Directors		
Salaries, allowances and benefits in kind	**2,404**	2,175
Contributions to defined contribution scheme	**49**	49
Total emoluments	**2,543**	2,299

The remuneration of every Director for the year ended 31 March, 2006 is set out below:

Name of Director	Fee	Salaries, allowances, and benefits in kind	Contributions to defined contribution scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lok Wai Man	–	981	12	993
Mr. So Yiu King	–	883	12	895
Mr. Chow Chi Ming, Daniel	–	540	25	565
Independent non-executive directors				
Mr. Tse Lin Chung	30	–	–	30
Mr. Lee Kar Wai	30	–	–	30
Mr. Mak Wing Kwong, David	30	–	–	30
	90	2,404	49	2,543

12 DIRECTORS' REMUNERATION *(continued)*

The remuneration of every Director for the year ended 31 March, 2005 is set out below:

Name of Director	Fee	Salaries, allowances, and benefits in kind	Contributions to defined contribution scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lok Wai Man	–	880	12	892
Mr. So Yiu King	–	755	12	767
Mr. Chow Chi Ming, Daniel	–	540	25	565
Independent non-executive directors				
Mr. Tse Lin Chung	30	–	–	30
Mr. Lee Kar Wai	30	–	–	30
Mr. Mak Wing Kwong, David *(Note)*	15	–	–	15
	75	2,175	49	2,299

Note: Appointed on 22 September, 2004

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office (2005: Nil). None of the Directors waived or agreed to waive any remuneration during the year (2005: Nil).

13 EMPLOYEES' EMOLUMENTS

The five highest paid employees during the year included two (2005: two) Directors, details of whose remuneration are set out in Note 12 to the financial statements. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,944**	1,917
Contributions to defined contribution scheme	**63**	63
	2,007	1,980

13 EMPLOYEES' EMOLUMENTS *(continued)*

The emoluments were within the following band:

	2006 No. of employees	2005 No. of employees
Nil – HK$1,000,000	**3**	3

14 INTANGIBLE ASSETS

	Group		
	Goodwill *HK$'000*	Deferred development costs *HK$'000*	Total *HK$'000*
31 March, 2006			
As at 1 April, 2005			
Cost, as previously reported	1,566	7,145	8,711
Effect of adopting HKFRS 3 *(Note 2 (ii))*	(1,566)	–	(1,566)
As restated	–	7,145	7,145
Accumulated amortisation and impairment, as previously reported	1,566	7,145	8,711
Effect of adopting HKFRS 3 *(Note 2 (ii))*	(1,566)	–	(1,566)
As restated	–	7,145	7,145
Net carrying amount	–	–	–
Cost as at 1 April, 2005, net of accumulated amortisation and impairment	–	–	–
Net carrying amount as at 31 March, 2006	–	–	–
As at 31 March, 2006			
Cost	–	7,145	7,145
Accumulated amortisation and impairment	–	(7,145)	(7,145)
Net carrying amount	–	–	–
31 March, 2005			
As at 1 April, 2004 and 31 March, 2005			
Cost	1,566	7,145	8,711
Accumulated amortisation and impairment	(1,566)	(7,145)	(8,711)
Net carrying amount	–	–	–

There were no movements in the intangible assets for the years ended 31 March, 2005 and 2006.

15 PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 March, 2006					
As at 1 April, 2005					
Cost	3,013	4,899	3,931	167	12,010
Accumulated depreciation	(1,994)	(3,030)	(2,820)	(143)	(7,987)
Net carrying amount	1,019	1,869	1,111	24	4,023
As at 1 April, 2005, net of accumulated depreciation	1,019	1,869	1,111	24	4,023
Additions	55	56	337	188	636
Depreciation for the year	(467)	(365)	(310)	(10)	(1,152)
Disposal of subsidiaries	–	(135)	(16)	–	(151)
Exchange realignment	9	–	21	–	30
As at 31 March, 2006, net of accumulated depreciation	616	1,425	1,143	202	3,386
As at 31 March, 2006					
Cost	3,096	4,731	4,300	355	12,482
Accumulated depreciation	(2,480)	(3,306)	(3,157)	(153)	(9,096)
Net carrying amount	616	1,425	1,143	202	3,386
31 March, 2005					
As at 1 April, 2004					
Cost	2,544	4,885	3,605	167	11,201
Accumulated depreciation	(1,590)	(2,562)	(2,564)	(143)	(6,859)
Net carrying amount	954	2,323	1,041	24	4,342
As at 1 April, 2004, net of accumulated depreciation	954	2,323	1,041	24	4,342
Additions	469	101	367	–	937
Depreciation for the year	(404)	(504)	(287)	–	(1,195)
Disposal of subsidiaries	–	(51)	(10)	–	(61)
As at 31 March, 2005, net of accumulated depreciation	1,019	1,869	1,111	24	4,023
As at 31 March, 2005					
Cost	3,013	4,899	3,931	167	12,010
Accumulated depreciation	(1,994)	(3,030)	(2,820)	(143)	(7,987)
Net carrying amount	1,019	1,869	1,111	24	4,023

16 INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**47,550**	47,550
Amounts due from subsidiaries	**65,704**	64,654
	113,254	112,204
Impairment	**(103,000)**	(103,000)
	10,254	9,204

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the amounts due from subsidiaries approximate their fair values.

The following is a list of the principal subsidiaries of the Company as at 31 March, 2006:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
Subsidiary held directly				
SomaFlex International Inc.	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Subsidiaries held indirectly				
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. *(Note)*	PRC	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%

16 INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
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%
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 establish 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.

17 INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2006	2005
	HK$'000	*HK$'000*
Share of net liabilities	**(2,299)**	(2,299)
Amount due from an associated company	**5,977**	4,870
	3,678	2,571
Provision for amount due from the associated company	**(3,678)**	(2,571)
	–	–

The amount due from the associated company is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the amount due from an associated company approximate its fair value.

Details of the associated company of the Group as at 31 March, 2006 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%

The following table illustrates the summarised financial information of the associate of the Group as extracted from its financial statements:

	2006	2005
	HK$'000	*HK$'000*
Total assets	**2,867**	–
Total liabilities	**8,903**	4,925
Revenues	**1,129**	1,738
Loss	**(1,111)**	(301)

The Group has not recognised losses amounting to approximately HK$556,000 (2005: HK$150,000) for the above associated company. The accumulated losses not recognised were approximately HK$706,000 (2005: HK$150,000)

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group 2006 *HK$'000*	Company 2006 *HK$'000*
Opening adjustment for the adoption of HKAS 39 *(Note2(i))*	1,575	1,560
Revaluation surplus transfer to equity	204	204
	1,779	1,764

There were no disposals on available-for-sale financial assets in 2006.

Available-for-sale financial assets including the following:

	Group 2006 *HK$'000*	Company 2006 *HK$'000*
Listed securities		
Equity securities – Hong Kong	1,764	1,764
Unlisted securities		
Equity securities traded on inactive markets and of private issuers	15	–
	1,779	1,764
Market value of listed securities	1,764	1,764

19 LOANS AND RECEIVABLES

	Group 2006 *HK$'000*
Amounts due from investee companies	15,296
Less: Provision of impairment for amounts due from investee companies	(15,283)
	13

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

20 LONG-TERM INVESTMENTS

	Group 2005 HK$'000
Unlisted equity securities, at cost	12,098
Impairment	(12,083)
Amounts due from investee companies	14,434
	14,449
Provision of impairment for amounts due from investee companies	(14,434)
	15

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

21 OTHER INVESTMENTS

	Group and Company 2005 HK$'000
Equity securities listed in Hong Kong, at market value	1,560

22 INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Merchandise	**1,094**	1,312

23 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(Note (b),(c) & (d))*	**10,306**	9,086	**–**	–
Prepayments, deposits and other receivables *(Note (c))*	**2,422**	3,802	**112**	143
Advances to staff *(Note (a) & (c))*	**1,256**	1,268	**–**	–
	13,984	14,156	**112**	143

Notes:

(a) The advances to staff were unsecured, interest-free and have no fixed terms of repayment.

(b) In view of the aforementioned and that Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

(c) The fair values of the Group's and Company's trade receivables, prepayments, deposits, and other receivables, and advances to staff included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

(d) 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 aging analysis of trade receivables net of provision for impairment:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**2,965**	2,619
31 – 60 days	**1,449**	1,018
61 – 90 days	**915**	479
91 – 180 days	**1,122**	1,189
181 – 365 days	**2,975**	3,343
Over 365 days	**880**	438
	10,306	9,086

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH, 2006

24 BANK BALANCES AND CASH

As at 31 March, 2006, the Group had bank balances and cash of approximately HK$4,616,000 (2005: HK$5,016,000) 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.

25 TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts due to investee companies *(Notes (a)&(b))*	**139**	158	–	–
Trade payables *(Notes (b) & (c))*	**548**	1,146	–	–
Other payables and accruals *(Note (b))*	**5,764**	5,413	**407**	231
Deferred income *(Note (b))*	**6,962**	5,985	–	–
Sales deposits received *(Note (b))*	**6,377**	8,665	–	–
	19,790	21,367	**407**	231

Notes:

(a) The amounts due to investee companies are unsecured, interest-free and have no fixed terms of repayment.

(b) The fair values of the Group's amounts due to investee companies, trade payables, other payables and accruals, deferred income, and sales deposits received included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

(c) Aging analysis of trade payables is as follows:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**481**	456
31 – 60 days	**36**	677
61 – 90 days	–	1
91 – 180 days	**3**	1
181 – 365 days	**15**	–
Over 365 days	**13**	11
	548	1,146

26 SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
600,000,000 ordinary shares of HK$0.10 each	**60,000**	60,000

27 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, 2005 and 2006.

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28 RESERVES

	Company			
	Share premium *HK'000*	Available-for-sale financial assets revaluation reserve *HK'000*	Accumulated losses *HK'000*	Total reserves *HK'000*
As at 1 April, 2004	85,872	–	(105,020)	(19,148)
Loss for the year	–	–	(327)	(327)
Total income and expense for the year	–	–	(327)	(327)
As at 31 March, 2005	85,872	–	(105,347)	(19,475)
As at 1 April, 2005,				
As previously reported as equity	85,872	–	(105,347)	(19,475)
Opening adjustments for the adoption of HKAS 39 *(Note 2(ii))*	–	(397)	397	–
As restated	85,872	(397)	(104,950)	(19,475)
Changes in fair value of available-for-sale financial assets	–	204	–	204
Total income and expense recognised directly in equity	–	204	–	204
Profit for the year	–	–	47	47
Total income and expense for the year	–	204	47	251
As at 31 March, 2006	85,872	(193)	(104,903)	(19,224)

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006 *HK$'000*	2005 *HK$'000*
Operating profit/(loss)	**1,929**	(1,780)
Depreciation	**1,152**	1,195
Net unrealised holding gains on other investments	**–**	(152)
Interest income	**(943)**	(162)
Dividend income	**(81)**	(45)
Interest expenses	**5**	–
Provision of impairment for amount due from investee companies	**849**	254
Provision of impairment for amount due from an associated company	**1,107**	298
Loss on disposal of a long term investment	**–**	17
Operating profit/(loss) before changes in working capital	**4,018**	(375)
Decrease/(increase) in inventories	**184**	(387)
Increase in trade and other receivables	**(959)**	(816)
(Decrease)/increase in trade and other payables	**(208)**	4,823
Cash from operations	**3,035**	3,245
Interest paid	**(5)**	–
Overseas taxation paid	**(83)**	(383)
Net cash generated from operating activities	**2,947**	2,862

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

(b) Disposal of subsidiaries

During the year ended 31 March, 2006, the Group disposed of its entire equity interests in Flexsunland Century Software Limited and Beijing Flexdigisuper Software Co., Ltd. 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 years ended 31 March, 2005 and 2006 had no significant impact on the Group's consolidated turnover or profit after tax for the years.

	2006	2005
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	**151**	61
Inventories	**34**	22
Trade and other receivables	**1,131**	64
Bank balances and cash	**92**	10
Exchange reserve	**9**	–
Trade and other payables	**(1,369)**	(120)
	48	37
Loss on disposal of subsidiaries	**(48)**	(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 cash equivalents disposed of	**(92)**	(10)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(92)**	(10)

30 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments under operating leases

As at 31 March, 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Not later than one year	**2,424**	2,998
Later than one year and not later than five years	**1,039**	2,006
	3,463	5,004

(b) As at 31 March, 2006, the Company had no significant capital commitment and commitment under operating lease.

(c) As at 31 March, 2006, the Group and the Company had no significant contingent liabilities.

31 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	**2006**	2005
		HK$'000	*HK$'000*
Software royalty expenses paid to Flex-Logic Limited	*(i) & (iii)*	**1,129**	1,738
Software royalty expenses paid to i-Global Solutions Limited	*(ii) & (iii)*	**217**	612
Commission and computer expenses paid to Global Information Technology Limited	*(ii) & (iii)*	**12**	19

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.

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31 RELATED PARTY TRANSACTIONS *(continued)*

Compensation to key management personnel

	Group	
	2006	2005
	HK$'000	*HK$'000*
Short-term employee benefits	**5,310**	5,053
Post-employment benefits	**171**	169
	5,481	5,222

Further details of directors' emoluments are included in Note 12 to the financial statements.