FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8050)

Annual Report 2007

FlexSystem ... 20 Years of Business Software Development

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

Block A, 4th Floor
Eastern Sea Industrial Building
29-39 Kwai Cheong Road
Kwai Chung
New Territories
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KYI-1111
Cayman Islands

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 Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Chairman's Statement

BUSINESS REVIEW

During the year under review, we have achieved a solid financial performance in the face of intense competition and rising operating expense. We continued to leverage on our proprietary technologies and realized the benefits of significant investment on research and development in past few years. Our high-quality software applications and professional service standards put us in an advantageous position on the market.

Final Dividend

The board of directors recommends a final dividend payment of HK$0.005 per share (2006: NIL) for the year ended 31 March 2007 subject to approval by our shareholders at the Annual General Meeting. Upon approval by the shareholders, the final dividend will be paid on or about 1 August 2007 to shareholders whose names appear on the register of members of the Company on 27 July 2007.

OUTLOOK

In the years ahead, we will face the challenges of maintaining or increasing our profitability while the competition and operating cost are expected to have an upward trend. The steady performance of 2006 reflects we are continuing our strategy to enrich capabilities of our software applications by leveraging our innovative technologies and investing new business opportunities. Much of the benefits from the investment on technology research and development will come in future years.

Finally, on the occasion of FlexSystem's 20th anniversary, I would like to take a moment to acknowledge Flex's people and customers for their continual support and contribution.

Lok Wai Man
Chairman
Hong Kong, 25 June 2007

Management Discussion and Analysis

FINANCIAL REVIEW

During the year 31 March 2007, turnover of approximately 80 million and profit attributable to shareholders of approximately HK$5.7 million were recorded. The increase in turnover by 12% as compared with the previous year was principally due to the contribution from the increment of customer bases.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 March 2007, the shareholders' funds of the Group amounted to approximately HK$42 million. Current assets were approximately HK$38 million, mainly comprising bank balances and cash of approximately HK$21 million, inventories of approximately HK$1 million and trade and other receivables of approximately HK$16 million. Current liabilities were approximately HK$24 million, mainly comprising trade and other payables of approximately HK$21 million and taxation payable of approximately HK$2 million. The net asset value per share was HK$0.07. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31 March 2007, 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 1.6:1 (As at 31 March 2006: 2.3:1), reflecting the adequacy of financial resources.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

During the year ended 31 March 2007, 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

In January 2007, the Group acquired 100% subsidiary in Malaysia, Flexsystem (M) SDN. BHD which is engaged in distribution of FlexAccount products.

Save as disclosed above, there is no other material acquisitions or disposal of subsidiaries and affiliated companies for the year ended 31 March 2007.

CAPITAL COMMITMENTS

As at 31 March 2007, the Group had operating lease commitments in respect of rented office premises of approximately HK$1,569,000 (2006: HK$3,463,000). As at 31 March 2007 and 2006, the Group had no significant capital commitment and has no future plans for material investment.

Management Discussion and Analysis

CONTINGENT LIABILITIES

As at 31 March 2007 and 2006, the Group had no material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 31 March 2007, the Group had no charges on the Group's assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2007, the Group had 257 employees (2006: 263). The total remuneration to employees, including that to the directors, for the year ended 31 March 2007 amounted to approximately HK$37.5 million (2005: HK$35.5 million). Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include share option scheme, contributions to statutory mandatory provident fund scheme and medical scheme to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC and Singapore.

SEGMENTAL INFORMATION

Business segments

During the year under review, the turnover of maintenance services has increased by approximately 16% 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 6.3% 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 80% of the total turnover (2006: 75%). The high percentage of the Hong Kong segment is mainly due to the fact that the Group deploys more resources on the local market.

In the PRC, the turnover has slightly increased by approximately 12.4% to approximately HK$10.5 million as compared with the previous year as our Group also deploys more sales efforts on the PRC market.

Corporate Governance Report

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 2007.

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 *(Note)*	N/A
Mr. So Yiu King	4/4 *(Note)*	N/A
Mr. Chow Chi Ming, Daniel	4/4 *(Note)*	N/A
Mr. Tse Lin Chung	4/4 *(Note)*	4/4
Mr. Lee Kar Wai	4/4 *(Note)*	4/4
Mr. Mak Wing Kwong, David	4/4 *(Note)*	4/4

Corporate Governance Report

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 2007 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.

Corporate Governance Report

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 February 2007. Details of the attendance of members at remuneration committee meeting are as follows:

	Attendance/Number of Meetings
Mr. Lok Wai Man	1/1
Mr. Tse Lin Chung	1/1
Mr. 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 approximately HK$290,000 and HK$84,000 to the external auditor for its auditing services and non-auditing services respectively.

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 2007.

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 2007 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 47, is the founder and chief executive office of the Group. Mr. Lok is responsible for the Group's overall strategic planning and development. He has over 21 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 46, is the corporate development director of the Group. He is responsible for the finance and corporate development of the Group. He has more than 13 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 organization 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 42, 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 18 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 46, is a practicing 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.

Biographical Information of Directors and Senior Management

Mr. Lee Kar Wai, aged 58, 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. Save as disclosed above, he does not have any directorship in other public listed company in the past three years.

Mr. Mak Wing Kwong, David, aged 44, is currently the managing director of Above Technology Ltd.. He has 20 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 42, is the chief financial officer and company secretary of the Group. Mr. Leung is a qualified accountant and chartered secretary with over 17 years of experience in accounting and auditing and over 7 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 42, 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.

Biographical Information of Directors and Senior Management

Mr. Wong Kar Yin, aged 43, 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 17 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 41, 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 12 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.

Ms. Chow Ching Lan, aged 43, 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 specialized 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 38, 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 14 years of experience in product development in the Accounting package in Hong Kong and the PRC. Mr. Lau joined the Group in 1993.

Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31 March 2007.

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 17 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 5 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 24.

No interim dividend was paid during the year.

The directors recommend the payment of a final dividend of HK$0.005 per ordinary share, totalling HK$3,000,000 for the year ended 31 March 2007.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in Notes 25 and 26 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 27 and Note 27 to the financial statements respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 March 2007, in the opinion of the directors, the Company's reserve available for distribution to shareholders (comprising share premium) amounted to approximately HK$85,872,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group 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:

	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**79,982**	71,497	63,826	51,828	53,799
Profit/(loss) for the year	**5,722**	2,566	(2,298)	(7,022)	(14,464)
Total assets	**66,041**	60,875	60,439	58,345	63,634
Total liabilities	**(23,839)**	(24,085)	(26,430)	(22,038)	(20,472)
Minority interests	**(634)**	(842)	(842)	(842)	(675)
Net assets	**41,568**	35,948	33,167	35,465	42,487

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 2007.

SHARE OPTION SCHEME

The detailed disclosures relating to the Company's share option scheme have been set out in Note 26 to the financial statements.

No share options were granted by the Company or outstanding at any time during the years ended 31 March 2007 and 2006.

Report of the Directors

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. Tse Lin Chung 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.

Report of the Directors

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 2007, 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 2007, 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:

	Number of shares			Percentage
Name of director/ chief executive	Personal interests	Corporate interests	Total	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, 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 2007.

Save as disclosed above, as at 31 March 2007, 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 2007, 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%

Report of the Directors

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 2007, 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 2007, the largest and the five largest suppliers of the Group accounted for approximately 63% and 84% 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 2007. 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 2007.

Report of the Directors

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 2007 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 2007, and provide advice and comments to the board of directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 March 2007, 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

The accompanying financial statements were audited by Messrs. HLB Hodgson Impey Cheng.

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, 25 June 2007

Independent 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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
FLEXSYSTEM HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of FlexSystem Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 70, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditors' Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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, 25 June 2007

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	**79,982**	71,497
Cost of sales		**(21,820)**	(18,130)
Gross profit		**58,162**	53,367
Other income	6	**908**	1,024
Other gains	7	**193**	–
Distribution costs		**(17,683)**	(15,423)
Administrative expenses		**(34,986)**	(34,157)
Other operating expenses		**(2,759)**	(2,882)
Operating profit	8	**3,835**	1,929
Loss on disposal of subsidiaries	29(b)	**–**	(48)
Profit before income tax		**3,835**	1,881
Income tax	9	**1,679**	685
Profit for the year		**5,514**	2,566
Attributable to:			
Equity holders of the Company		**5,722**	2,566
Minority interests		**(208)**	–
		5,514	2,566
Earnings per share for profit attributable to the equity holders of the Company during the year – basic and diluted	11	**0.95 cents**	0.43 cents
Dividends	12	**3,000**	–

Consolidated Balance Sheet

AS AT 31 MARCH 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Leasehold land and land use rights	14	12,742	–
Property, plant and equipment	15	14,641	3,386
Intangible assets	16	–	–
Investment in an associate	18	–	–
Available-for-sale financial assets	19	690	1,779
Amounts due from investee companies	20	–	13
		28,073	5,178
Current assets			
Inventories	21	1,121	1,094
Trade and other receivables	22	15,749	13,984
Bank balances and cash	23	21,098	40,619
		37,968	55,697
Total assets		66,041	60,875
Current liabilities			
Trade and other payables	24	21,480	19,790
Current income tax liabilities		2,359	4,295
		23,839	24,085
Net current assets		14,129	31,612
Total assets less current liabilities		42,202	36,790
Net assets		42,202	36,790
Capital and reserves attributable to the Company's equity holders			
Share capital	25	60,000	60,000
Reserves		(18,432)	(24,052)
		41,568	35,948
Minority interests		634	842
Total equity		42,202	36,790

Lok Wai Man
Director

So Yiu King
Director

Balance Sheet

AS AT 31 MARCH 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Investments in subsidiaries	17	29,385	10,254
Available-for-sale financial assets	19	675	1,764
		30,060	12,018
Current assets			
Prepayments	22	112	112
Bank balances and cash	23	12,428	29,053
		12,540	29,165
Total assets		42,600	41,183
Current liabilities			
Accruals	24	255	407
Net current assets		12,285	28,758
Total assets less current liabilities		42,345	40,776
Net assets		42,345	40,776
Capital and reserves attributable to the Company's equity holders			
Share capital	25	60,000	60,000
Reserves	27	(17,655)	(19,224)
Total equity		42,345	40,776

Lok Wai Man
Director

So Yiu King
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2007

	Attributable to equity holders of the Company								
	Share capital *HK$'000* *(Note 25)*	Share premium *HK$'000*	Merger reserve *HK$'000* *(Note)*	Translation reserve *HK$'000*	Available-for-sale investments reserve *HK$'000*	Accumulated losses *HK$'000*	Total reserves *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
Balance at 1 April 2005	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
Currency translation differences – Group	–	–	–	11	–	–	11	–	11
Total income and expense recognized directly in equity	–	–	–	11	204	–	215	–	215
Profit for the year	–	–	–	–	–	2,566	2,566	–	2,566
Total recognized income and expense for the year	–	–	–	11	204	2,566	2,781	–	2,781
Balance at 31 March 2006 and 1 April 2006	60,000	83,955	(47,430)	(44)	(193)	(60,340)	(24,052)	842	36,790
Changes in fair value of available-for-sale financial assets	–	–	–	–	89	–	89	–	89
Currency translation differences – Group	–	–	–	2	–	–	2	–	2
Total income and expense recognized directly in equity	–	–	–	2	89	–	91	–	91
Net gain transferred to profit or loss on disposal	–	–	–	–	(193)	–	(193)	–	(193)
Profit/(loss) for the year	–	–	–	–	–	5,722	5,722	(208)	5,514
Total recognized income and expense for the year	–	–	–	2	(104)	5,722	5,620	(208)	5,412
Balance at 31 March 2007	**60,000**	**83,955**	**(47,430)**	**(42)**	**(297)**	**(54,618)**	**(18,432)**	**634**	**42,202**
Representing:									
31 March 2007 after proposed final dividend		80,955							
2007 final dividend proposed		3,000							
		83,955							

Note: Pursuant to a group reorganization ("Reorganization"), which was completed on 10 July 2000, to rationalize the Group's structure in preparation for a listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company acquired the entire issued share capital of SomaFlex International Inc. through a share swap and became the holding company of SomaFlex and its subsidiaries.

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

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Net cash generated from operating activities	29(a)	5,059	2,947
Cash flows from investing activities			
Interest received		832	943
Dividends received		60	81
Purchase of property, plant and equipment	15	(13,592)	(636)
Purchase of leasehold land and land use rights	14	(12,900)	–
Proceeds from disposal of property, plant and equipment		14	–
Disposal of subsidiaries	29(b)	–	(92)
Advance to an associate		(113)	(1,107)
Proceeds from disposal of available-for-sale financial assets		1,178	–
Advances to investee companies		(37)	(862)
Net cash used in investing activities		(24,558)	(1,673)
Net (decrease)/increase in cash and cash equivalents		(19,499)	1,274
Cash and cash equivalents at beginning of year		40,619	39,373
Exchange losses on cash and cash equivalents		(22)	(28)
Cash and cash equivalents at end of year		21,098	40,619
Analysis of balances of cash and cash equivalents:			
Cash at bank and in hand	23	15,552	40,473
Short-term bank deposits	23	5,546	146
		21,098	40,619

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

1. GENERAL INFORMATION

FlexSystem Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the development and sale of enterprise software and hardware products and the provision of maintenance services.

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 Company's registered office is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands. The Company's principal place of business is situated at Block A, 4th Floor, Eastern Sea Industrial Building, 29-39 Kwai Cheong Road, Kwai Chung, New Territories, Hong Kong. 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 Company is SomaFlex Holdings Inc., which is incorporated in the British Virgin Islands.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

These financial statements have been approved and authorized for issue by the Board of Directors on 25 June 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) *Standards, amendments and interpretations effective in 2006 but not relevant to the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;
- HKAS 21 (Amendment), Net Investment in a Foreign Operation;
- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 (Amendment), The Fair Value Option;
- HKAS 39 and HKFRS 4 (Amendments), Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS-Int 4, Determining whether an Arrangement contains a Lease;
- HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005); and
- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 May 2006 or later periods but that the Group has not early adopted:

- HKFRS 7, Financial Instruments: Disclosures and HKAS 1 (Amendment), Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to HKAS 1 requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 April 2007;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 April 2007, but it is not expected to have a significant impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 April 2007, but it is not expected to have a significant impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 11, HKFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC)-Int 11 provides guidance on classifying share-based payment transactions involving an entity's own equity instruments or the equity instruments of the parent. The Group will apply HK(IFRIC)-Int 11 from 1 April 2007, but it is not expected to have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 May 2006 or later periods but are not relevant to the Group's operations:

- HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As the Group does not have any embedded derivatives, HK(IFRIC)-Int 9 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). HK(IFRIC)-Int 12 sets out general principles on recognizing and measuring the obligations and related rights in service concession arrangements, which involve private sector participation in the development, financing, operation and maintenance of governmental infrastructure. Since the Group is not involved in such arrangements, HK(IFRIC)-Int 12 is not relevant to the Group's operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 March.

(a) *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.

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 recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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 for by the Company on the basis of dividend received and receivable.

(b) *Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(c) 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. Investments in associates are accounted for by using the equity method of accounting and are initially recognized at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized 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.

Diluted gains and losses in associates are recognized in the consolidated income statement.

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

2.3 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation

(a) 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.

(b) 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 recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(c) 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:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 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
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized 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.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. 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 recognized 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment *(continued)*

Depreciation of other property, plant and equipment is calculated using the reducing balance method to allocate their costs to their residual values over their estimated useful lives. 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.

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.

Gains or losses arising on the disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2.6 Intangible assets

Deferred development costs

Deferred 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 recognized as an asset and have definite useful lives. The costs are amortized 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 recognized. Development costs previously recognized as expenses are not recognized as assets in a subsequent period.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

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

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

Financial assets at fair value through profit or losses are held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) 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 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 classified as trade and other receivables in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets *(continued)*

(c) Held-to-maturity financial assets

Held-to-maturity financial assets 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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

(d) 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.

Regular purchases and sales of financial assets are recognized on the trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized 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 are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in equity.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Financial assets *(continued)*

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

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 established 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, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in 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 as an indicator that 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 recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized 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 the 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

2.11 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.

2.12 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.

2.13 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 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 consolidated financial statements. However, the deferred income tax is not accounted for if it 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 or loss. 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 realized or the deferred income tax liability is settled.

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Deferred income tax *(continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, 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.

2.15 Employee benefits

(a) *Pension cost*

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.

(b) *Termination benefits*

Termination benefits are recognized 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.

2.16 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized 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 recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Group's activities, net of returns. The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity, on the following bases:

(a) Revenue from the sale of enterprise software and hardware products is recognized 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.

(b) Maintenance service income is recognized 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.

(c) Commission income is recognized when the relevant services are rendered.

(d) Dividend income is recognized when the shareholders' right to receive payment is established.

(e) Interest income is recognized on a time-proportion basis using the effective interest method.

2.18 Operating leases (as the lessee)

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.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) 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 future commercial transactions, recognized 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.

(ii) 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.

(iii) 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.

(b) 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.

(c) 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as 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 carrying value less impairment provision of trade and other receivables and payables are a reasonable approximation of 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income taxes

The Group is subject to income tax in Hong Kong and other countries. Significant judgment is required in determining the amount of the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

5. REVENUE AND SEGMENT INFORMATION

	2007	2006
	HK$'000	*HK$'000*
Revenue		
Software	**48,219**	45,343
Services	**26,004**	22,394
Other operations	**5,759**	3,760
	79,982	71,497

(a) Primary reporting format – business segments

As at 31 March 2007, the Group is organized into two main business segments:

- Software – sale of enterprise software; and
- 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments *(continued)*

The segment results for the year ended 31 March 2007 are as follows:

	Software	Services	Other operations	Unallocated	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	48,219	26,004	5,759	–	79,982
Segment results	2,225	7,060	(1,164)	(4,286)	3,835
Income tax *(Note 9)*					1,679
Profit for the year					5,514

Other segment items included in the income statement are as follows:

	Software	Services	Other operations	Unallocated	Group
Depreciation	–	–	–	2,021	2,021
Amortization of prepaid operating lease payments	–	–	–	158	158

The segment results for the year ended 31 March 2006 are as follows:

	Software	Services	Other operations	Unallocated	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	45,343	22,394	3,760	–	71,497
Segment results	1,509	4,313	(993)	(2,900)	1,929
Loss on disposal of subsidiaries					(48)
Profit before income tax					1,881
Income tax *(Note 9)*					685
Profit for the year					2,566

Other segment items included in the income statement are as follows:

	Software	Services	Other operations	Unallocated	Group
Depreciation	–	–	–	1,152	1,152

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments *(continued)*

Segment assets consist primarily of inventories. Unallocated assets comprise leasehold land and land use rights, property, plant and equipment, intangible assets, investment in an associate, available-for-sale financial assets, trade and other receivables and bank balances and cash.

Segment liabilities comprise sales deposits received and deferred income. Unallocated liabilities comprise items such as income tax payable.

Capital expenditure comprises additions to leasehold land and land use rights and property, plant and equipment.

The segment assets and liabilities as at 31 March 2007 and capital expenditure for the year then ended are as follows:

	Software	Services	Other operations	Unallocated	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	–	–	1,121	64,920	66,041
Liabilities	7,320	7,687	–	8,832	23,839
Capital expenditure	–	–	–	26,492	26,492

The segment assets and liabilities as at 31 March 2006 and capital expenditure for the year then ended are as follows:

	Software	Services	Other operations	Unallocated	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets	–	–	1,094	59,781	60,875
Liabilities	6,377	6,962	–	10,746	24,085
Capital expenditure	–	–	–	636	636

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Secondary reporting format – geographical segments

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

	2007 *HK$'000*	2006 *HK$'000*
Revenue		
Hong Kong	**64,125**	53,960
PRC	**10,576**	9,401
Other countries	**5,281**	8,136
	79,982	71,497

Revenue is allocated based on the country in which the customer is located.

	2007 *HK$'000*	2006 *HK$'000*
Total assets		
Hong Kong	**43,207**	49,657
PRC	**5,768**	6,161
Other countries	**17,066**	5,057
	66,041	60,875

Total assets are allocated based on the location of the assets.

	2007 *HK$'000*	2006 *HK$'000*
Capital expenditure		
Hong Kong	**26,245**	110
PRC	**160**	274
Other countries	**87**	252
	26,492	636

Capital expenditure is allocated based on the location of the assets.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

6. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Commission income	16	–
Dividend income from listed investments	60	81
Interest income	832	943
	908	1,024

7. OTHER GAINS

	2007	2006
	HK$'000	*HK$'000*
Net gain transferred from equity on disposal of available-for-sale financial assets	193	–

8. EXPENSES BY NATURE

	2007	2006
	HK$'000	*HK$'000*
Depreciation of owned property, plant and equipment	2,021	1,152
Amortization of prepaid operating lease payments	158	–
Loss on disposal of property, plant and equipment	326	–
Cost of inventories expensed	4,570	3,060
Operating lease rentals in respect of rented premises	1,850	2,359
Auditors' remuneration	290	280
Provision for impaired receivables	2,367	1,326
Provision for impairment of amount due from an associate	113	1,107
Provision for impairment of amounts due from investee companies	50	849

9. INCOME TAX

Hong Kong profits tax is calculated at the rate of 17.5% (2006: 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 have taxation losses to set off their assessable profits for the year (2006: Nil). 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

9. INCOME TAX *(continued)*

The amount of income tax credited to the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	–	–
– Overseas income tax	161	39
– Over-provision in prior years	(1,840)	(724)
Tax credit	(1,679)	(685)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities of 17.5% (2006: 17.5%) as follows:

	2007	2006
	HK$'000	*HK$'000*
Profit before income tax	3,835	1,881
Tax calculated at Hong Kong profits tax rate of 17.5% (2006: 17.5%)	671	329
Income not subject to tax	(563)	(934)
Expenses not deductible for taxable purpose	364	856
Tax losses not recognized	400	249
Utilization of previously unrecognized tax losses	(684)	(441)
Over-provision in prior years	(1,840)	(724)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(27)	(20)
Tax credit	(1,679)	(685)

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$1,673,000 (2006: HK$47,000).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit of the Group attributable to equity holders of the Company of approximately HK$5,722,000 (2006: HK$2,566,000) and the weighted average number of 600,000,000 (2006: 600,000,000) ordinary shares in issue during the year.

There is no diluted earnings per share since the Company has no dilutive potential ordinary shares in existence for the years ended 31 March 2006 and 2007.

12. DIVIDENDS

A final dividend in respect of the year ended 31 March 2007 of HK$0.005 per share, amounting to a total dividend of HK$3,000,000, is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

13. EMPLOYEE BENEFIT EXPENSE

	2007	2006
	HK$'000	*HK$'000*
Salaries, wages and other benefits	**35,656**	33,608
Pension cost – defined contribution schemes	**1,851**	1,872
Total employee benefit expense (including directors' remuneration)	**37,507**	35,480

(a) Defined contribution 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 2006 and 2007, 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% (2006: 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% (2006: 32%) of an employee's ordinary wages.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

13. EMPLOYEE BENEFIT EXPENSE *(continued)*

(b) Directors' and senior management emoluments

The remuneration of every director for the year ended 31 March 2007 is set out below:

Name of director	Fees	Salaries, allowances, and benefits in kind	Employer's contributions to defined contribution schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Lok Wai Man	–	958	12	970
Mr. So Yiu King	–	847	12	859
Mr. Chow Chi Ming, Daniel	–	553	25	578
Independent non-executive directors				
Mr. Tse Lin Chung	30	–	–	30
Mr. Lee Kar Wai	30	–	–	30
Mr. Mak Wing Kwong, David	30	–	–	30
	90	2,358	49	2,497

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

Name of director	Fees	Salaries, allowances, and benefits in kind	Employer's contributions to defined contribution schemes	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

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 (2006: Nil). None of the directors waived or agreed to waive any remuneration during the year (2006: Nil).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

13. EMPLOYEE BENEFIT EXPENSE *(continued)*

(c) Five highest paid individuals

The five highest paid employees during the year included two (2006: two) directors, details of whose remuneration are set out in Note 13(b) to the financial statements. Details of the emoluments of the remaining three (2006: three) non-director, highest paid employees for the year are as follows:

	2007 *HK$'000*	2006 *HK$'000*
Salaries, allowances and benefits in kind	2,105	1,944
Employer's contributions to defined contribution schemes	73	63
	2,178	2,007

The emoluments were within the following band:	2007 Number of employees	2006 Number of employees
Nil – HK$1,000,000	3	3

14. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analyzed as follows:

	Group	
	2007 *HK$'000*	2006 *HK$'000*
In Hong Kong held on:		
Leases of between 10 to 50 years	12,742	–

	2007 *HK$'000*	2006 *HK$'000*
Opening	–	–
Additions	12,900	–
Amortization of prepaid operating lease payments	(158)	–
	12,742	–

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Building	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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 book amount	–	1,019	1,869	1,111	24	4,023
Year ended 31 March 2006						
Opening net book amount	–	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 realignments	–	9	–	21	–	30
Closing net book amount	–	616	1,425	1,143	202	3,386
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 book amount	–	616	1,425	1,143	202	3,386
Year ended 31 March 2007						
Opening net book amount	–	616	1,425	1,143	202	3,386
Additions	7,804	5,049	95	644	–	13,592
Disposals	–	(276)	(17)	(37)	(10)	(340)
Depreciation for the year	(96)	(1,265)	(305)	(324)	(31)	(2,021)
Exchange realignments	–	5	–	19	–	24
Closing net book amount	7,708	4,129	1,198	1,445	161	14,641
At 31 March 2007						
Cost	7,804	6,043	4,745	4,644	298	23,534
Accumulated depreciation	(96)	(1,914)	(3,547)	(3,199)	(137)	(8,893)
Net book amount	7,708	4,129	1,198	1,445	161	14,641

Notes to the Consolidated Financial Statements

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16. INTANGIBLE ASSETS

	Group
	Deferred development costs
	HK$'000
At 1 April 2005	
Cost	7,145
Accumulated amortization and impairment	(7,145)
Net book amount	–
Year ended 31 March 2006	
Opening net book amount	–
Accumulated amortization and impairment	–
Closing net book amount	–
At 31 March 2006	
Cost	7,145
Accumulated amortization and impairment	(7,145)
Net book amount	–
Year ended 31 March 2007	
Opening net book amount	–
Accumulated amortization and impairment	–
Closing net book amount	–
At 31 March 2007	
Cost	7,145
Accumulated amortization and impairment	(7,145)
Net book amount	–

There were no movements in the intangible assets for the years ended 31 March 2006 and 2007.

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17. INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries

	Company 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**47,550**	47,550
Amounts due from subsidiaries *(Note (b))*	**84,835**	65,704
	132,385	113,254
Impairment	**(103,000)**	(103,000)
	29,385	10,254

The following is a list of the principal subsidiaries of the Company as at 31 March 2007:

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 MOP30,000	100%

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) Investments in subsidiaries *(continued)*

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

Notes to the Consolidated Financial Statements

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17. INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) Investments in subsidiaries *(continued)*

Name	Place of incorporation/ establishment	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Effective interest held
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 MOP100,000	100%
FlexSystem (M) Sdn. Bhd.	Malaysia	Distribution of FlexAccount products in Malaysia	2 ordinary shares of RM1 each	100%

Note:

(i) Wholly foreign-owned enterprise established in the PRC

(ii) All of the above subsidiaries of the Group are limited liability companies.

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.

(b) Amounts due from subsidiaries

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

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18. INVESTMENT IN AN ASSOCIATE

	Group	
	2007	2006
	HK$'000	*HK$'000*
Share of net liabilities	(2,299)	(2,299)
Amount due from an associate	6,090	5,977
	3,791	3,678
Provision for amount due from an associate	(3,791)	(3,678)
	–	–

The amount due from the associate is unsecured, interest-free and has no fixed term of repayment. The directors consider that the carrying amount of the amount due from the associate approximates its fair value.

Details of the associate of the Group as at 31 March 2007 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 summarized financial information of the associate of the Group as extracted from its financial statements:

	2007	2006
	HK$'000	*HK$'000*
Total assets	–	2,867
Total liabilities	6,184	8,903
Revenues	2,724	1,129
Loss	(143)	(1,111)

The Group has not recognized losses amounting to approximately HK$72,000 (2006: HK$556,000) for the above associate. The accumulated losses not recognized were approximately HK$778,000 (2006: HK$706,000).

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Beginning of the year	**1,779**	1,575	**1,764**	1,560
Disposal	**(1,178)**	–	**(1,178)**	–
Net gain transfer to equity	**89**	204	**89**	204
End of the year	**690**	1,779	**675**	1,764

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

Available-for-sale financial assets comprise the following:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities listed in Hong Kong, at fair value	**675**	1,764	**675**	1,764
Unlisted equity securities, at cost	**15**	15	**–**	–
	690	1,779	**675**	1,764
Market value of listed securities	**675**	1,764	**675**	1,764

20. AMOUNTS DUE FROM INVESTEE COMPANIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Amounts due from investee companies	**5,402**	15,296
Less: Provision for impairment of amounts due from investee companies	**(5,402)**	(15,283)
	–	13

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

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21. INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Merchandise	**1,121**	1,094

The cost of inventories recognized as expense and included in cost of sales amounted to approximately HK$4,570,000 (2006: HK$3,060,000).

22. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(Note (a))*	**12,272**	10,306	**–**	–
Prepayments, deposits and other receivables	**2,441**	2,422	**112**	112
Advances to staff *(Note (b))*	**1,036**	1,256	**–**	–
	15,749	13,984	**112**	112

Notes:

(a) The credit terms given to 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. As at 31 March 2007, the aging analysis of trade receivables (net of provision for impaired receivables) is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0-30 days	**3,767**	2,965
31-60 days	**2,492**	1,449
61-90 days	**1,573**	915
91-180 days	**1,485**	1,122
181-365 days	**1,705**	2,975
Over 365 days	**1,250**	880
	12,272	10,306

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

22. TRADE AND OTHER RECEIVABLES *(continued)*

Notes: (continued)

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

(c) The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

23. BANK BALANCES AND CASH

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**15,552**	40,473	**6,882**	28,907
Short-term bank deposits	**5,546**	146	**5,546**	146
	21,098	40,619	**12,428**	29,053

The effective interest rate on short-term bank deposits was 3.1% (2006: 2.8%). These deposits have an average maturity of 30 days.

As at 31 March 2007, the Group had bank balances and cash of approximately HK$4,067,000 (2006: HK$4,616,000) 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.

24. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables *(Note (a))*	**1,029**	548	**–**	–
Other payables and accruals	**5,235**	5,764	**255**	407
Amounts due to investee companies *(Note (b))*	**209**	139	**–**	–
Deferred income	**7,687**	6,962	**–**	–
Sales deposits received	**7,320**	6,377	**–**	–
	21,480	19,790	**255**	407

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

24. TRADE AND OTHER PAYABLES *(continued)*

Notes:

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
0-30 days	**778**	481
31-60 days	**236**	36
61-90 days	**–**	–
91-180 days	**–**	3
181-365 days	**2**	15
Over 365 days	**13**	13
	1,029	548

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

(c) The directors consider that the carrying amounts of trade and other payables approximate their fair values.

25. SHARE CAPITAL

	2007	2006
	HK$'000	*HK$'000*
Authorized:		
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

26. 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.

26. SHARE OPTIONS *(continued)*

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 2006 and 2007.

Notes to the Consolidated Financial Statements

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27. RESERVES

	Company			
	Share premium	Available-for-sale investments reserve	Accumulated losses	Total reserves
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 April 2005	85,872	(397)	(104,950)	(19,475)
Changes in fair value of available-for-sale financial assets	–	204	–	204
Profit for the year	–	–	47	47
Balance at 31 March 2006 and 1 April 2006	85,872	(193)	(104,903)	(19,224)
Changes in fair value of available-for-sale financial assets	–	89	–	89
Net gain transferred to profit or loss on disposal	–	(193)	–	(193)
Profit for the year	–	–	1,673	1,673
Balance at 31 March 2007	85,872	(297)	(103,230)	(17,655)
Representing:				
31 March 2007 after proposed final dividend	82,872			
2007 final dividend proposed	3,000			
	85,872			

28. DEFERRED INCOME TAX

No deferred tax liabilities are recognized 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 2006 and 2007.

A deferred tax asset has not been recognized 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 utilized. As at 31 March 2007, the unprovided deferred tax assets of the Group and of the Company are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax effect of temporary difference attributable to estimated tax losses	**7,068**	7,352	**934**	701

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29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2007 *HK$'000*	2006 *HK$'000*
Operating profit	**3,835**	1,929
Adjustments for:		
– Depreciation	**2,021**	1,152
– Amortization of prepaid operating lease payments	**158**	–
– Loss on disposal of property, plant and equipment	**326**	–
– Net gain transferred from equity on disposal of available-for-sale financial assets	**(193)**	–
– Interest income	**(832)**	(943)
– Dividend income	**(60)**	(81)
– Interest expenses	**–**	5
– Provision for impairment of amounts due from investee companies	**50**	849
– Provision for impairment of amount due from an associate	**113**	1,107
Changes in working capital:		
– Inventories	**(27)**	184
– Trade and other receivables	**(1,765)**	(959)
– Trade and other payables	**1,690**	(208)
Cash generated from operations	**5,316**	3,035
Interest paid	**–**	(5)
Overseas income tax paid	**(257)**	(83)
Net cash generated from operating activities	**5,059**	2,947

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

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. 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 income tax for the year.

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

Notes to the Consolidated Financial Statements

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30. COMMITMENTS

As at 31 March 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
No later than one year	**1,378**	2,424
Later than one year and no later than five years	**191**	1,039
	1,569	3,463

The Company did not have significant lease commitments as at 31 March 2007 (2006: Nil).

31. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

		Group	
		2007	2006
	Note	***HK$'000***	*HK$'000*
Software royalty expenses paid to Flex-Logic Limited	*(a)*	**2,724**	1,129
Software royalty expenses paid to i-Global Solutions Limited	*(b)*	**359**	217
Commission and computer expenses paid to Global Information Technology Limited	*(b)*	**28**	12

Notes:

(a) Flex-Logic Limited is an associate of the Group.

(b) i-Global Solutions Limited and Global Information Technology Limited are investee companies of the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2007

31. RELATED PARTY TRANSACTIONS *(continued)*

Key management compensation

	Group	
	2007	2006
	HK$'000	*HK$'000*
Short-term employee benefits	**5,311**	5,310
Post employment benefits	**171**	171
	5,482	5,481

Further details of directors' emoluments are included in Note 13 to the financial statements.