



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8050



Interim Report 2007/2008

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This 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 (the “GEM Listing Rules”) 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 report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The board ("Board") of directors ("Directors") of FlexSystem Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (together, the "Group") for the six months ended 30th September, 2007 with the unaudited consolidated comparative figures for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30th September,		Six months ended 30th September,	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	2	<u>24,975</u>	19,885	<u>48,669</u>	39,078
Gross profit		<u>18,650</u>	14,846	<u>36,224</u>	29,936
Operating profit		<u>3,622</u>	707	<u>7,732</u>	3,608
Provision for amount due from investee companies		(5)	(43)	(9)	(43)
Share of profit/(loss) of an associated company		<u>68</u>	191	<u>(592)</u>	(490)
Profit before taxation		<u>3,685</u>	855	<u>7,131</u>	3,075
Taxation	3	–	(1)	–	(65)
Net profit for the period		<u><u>3,685</u></u>	<u>854</u>	<u><u>7,131</u></u>	<u>3,010</u>
Attributable to:					
Equity holders of the parent		<u>3,685</u>	770	<u>7,131</u>	2,877
Minority interests		–	84	–	133
		<u><u>3,685</u></u>	<u>854</u>	<u><u>7,131</u></u>	<u>3,010</u>
Earnings per share – Basic	4	<u><u>0.61 cent</u></u>	<u>0.13 cent</u>	<u><u>1.19 cent</u></u>	<u>0.48 cent</u>
Dividend per share		<u><u>Nil</u></u>	<u>Nil</u>	<u><u>Nil</u></u>	<u>Nil</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30th September, 2007 <i>HK\$'000</i> (unaudited)	As at 31st March, 2007 <i>HK\$'000</i> (audited)
Non-current assets			
Leasehold land and land use rights		12,584	12,742
Property, plant and equipment		13,924	14,641
Intangible assets		—	—
Interest in an associate company		—	—
Available-for-sale financial assets		690	690
		<u>27,198</u>	<u>28,073</u>
Current assets			
Inventories		1,105	1,121
Trade and other receivables	5	18,835	15,749
Bank balances and cash		26,886	21,098
		<u>46,827</u>	<u>37,968</u>
Total assets		<u>74,025</u>	<u>66,041</u>
Less: Current liabilities			
Trade and other payables	6	25,289	21,480
Income tax payable		2,403	2,359
		<u>27,692</u>	<u>23,839</u>
Net current assets		<u>19,135</u>	<u>14,129</u>
Total assets less current liabilities		<u>46,333</u>	<u>42,202</u>
Net assets		<u>46,333</u>	<u>42,202</u>
Capital and reserves			
Equity attributable to equity holders of the Company			
Share capital		60,000	60,000
Reserves	7	(14,301)	(18,432)
		45,699	41,568
Minority interests		634	634
Total equity		<u>46,333</u>	<u>42,202</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30th September, 2007 HK\$'000 (unaudited)	For the six months ended 30th September, 2006 HK\$'000 (unaudited)
Net cash generated from operating activities	<u>9,370</u>	<u>1,325</u>
Net cash used in investing activities	<u>(581)</u>	<u>(3,489)</u>
Net cash used in financing activities	<u>(3,000)</u>	<u>–</u>
Net increase/(decrease) in cash and cash equivalents	5,789	(2,164)
Cash and cash equivalents at beginning of the period	21,098	40,619
Effect of foreign exchange rate change, net	<u>–</u>	<u>–</u>
Cash and cash equivalents at the end of the period	<u>26,887</u>	<u>38,455</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<u>26,887</u>	<u>38,455</u>

Notes:

1. Basis of presentation

The principal accounting policies adopted in preparing the Group's unaudited consolidated results conform to accounting principles generally accepted in Hong Kong and accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Exchange. The financial statements have been prepared under the historical cost convention except that certain property and investments in securities are stated at fair value.

In 2006, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("the new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2007. The adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position.

2. Turnover

The Group is principally engaged in the development, sale and lease of enterprise software products in Hong Kong, mainland China (the "PRC") and other Asian countries. The unaudited consolidated revenue for the six months ended 30th September, 2007 with the unaudited consolidated figures for the corresponding period in 2006 are as follows:—

	Three months ended		Six months ended	
	30th September,		30th September,	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segment:—				
Software	14,492	11,792	28,972	23,517
Services	7,841	6,776	14,761	12,997
Other operations	2,642	1,317	4,936	2,564
	<u>24,975</u>	<u>19,885</u>	<u>48,669</u>	<u>39,078</u>
Geographical segment:—				
Hong Kong	19,833	14,791	40,362	29,813
The PRC	2,420	2,700	4,535	5,739
Others	2,722	2,394	3,772	3,526
	<u>24,975</u>	<u>19,885</u>	<u>48,669</u>	<u>39,078</u>

3. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2006:17.5%) on the estimated assessable profit for the period. PRC income tax has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing to the enterprises in the PRC.

4. Earnings per share

The calculation of the Group's basic earnings per share for the three months and six months ended 30th September, 2007 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$3,685,000 and HK\$7,131,000 respectively, and 600,000,000 Shares in issue during the period.

The calculation of the Group's basic earnings per share for the three months and six months ended 30th September, 2006 is based on the Group's unaudited consolidated profit attributable to shareholders of approximately HK\$770,000 and HK\$2,877,000 respectively, and 600,000,000 Shares in issue.

5. Trade and other receivables

	As at 30th September, 2007 HK\$'000	As at 31st March, 2007 HK\$'000
Trade receivables	15,191	12,272
Prepayments, deposits and other receivables	2,574	2,441
Advances to staff	1,070	1,036
	<u>18,835</u>	<u>15,749</u>

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically. The following is an aging analysis of trade debtors net of provision or bad and doubtful debts.

	30th September, 2007	31st March, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	5,795	3,767
31-60 days	2,230	2,492
61-90 days	2,068	1,573
91-180 days	2,555	1,485
181-365 days	2,166	1,705
Over 365 days	377	1,250
	<u>15,191</u>	<u>12,272</u>

6. Trade and other payables

	As at 30th September, 2007	As at 31st March, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,714	1,029
Other payables and accruals	7,659	5,235
Amount due to investee companies	183	209
Deferred income	8,266	7,687
Sales deposits received	7,467	7,320
	<u>25,289</u>	<u>21,480</u>

The following is an aging analysis of trade payable:–

	30th September, 2007	31st March, 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	1,152	778
31-60 days	223	236
61-90 days	22	–
91-180 days	5	–
181-365 days	5	2
Over 365 days	307	13
	<u>1,714</u>	<u>1,029</u>

7. Reserves
(for the six months ended 30th September, 2007)

	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Available-for sale financial assets revaluation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1st April, 2006	83,955	(47,430)	(44)	(193)	(60,340)	(24,052)
Changes in fair value of available-for-sale financial asset	-	-	-	(142)	-	(142)
Profit for the period	-	-	-	-	2,877	2,877
As at 30th September, 2006	<u>83,955</u>	<u>(47,430)</u>	<u>(44)</u>	<u>(335)</u>	<u>(57,463)</u>	<u>(21,317)</u>
Representing:						
31st March, 2007 after Proposed final dividend	<u>80,955</u>					
2007 final dividend	<u>3,000</u>					
	<u>83,955</u>					
As at 1st April, 2007	83,955	(47,430)	(42)	(297)	(54,618)	(18,432)
2007 final dividend paid	(3,000)	-	-	-	-	(3,000)
Profit for the period	-	-	-	-	7,131	7,131
As at 30th September, 2007	<u>80,955</u>	<u>(47,430)</u>	<u>(42)</u>	<u>(297)</u>	<u>(47,487)</u>	<u>(14,301)</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2007 (six months ended 30th September, 2006: Nil).

BUSINESS REVIEW AND PROSPECTS

Financial review

During the period ended 30th September, 2007, turnover increased by approximately 24.5% to approximately HK\$49 million as compared with the corresponding period last period. Moreover, the Group also recorded profit attributable to shareholders amounted to approximately HK\$7,131,000 due to the recovery of the IT sector.

Business review and Outlook

During the first half of 2007, the Group continues to achieve healthy revenue growth, benefiting from improved local economy. The economic growth, however, led to the cost inflation in the region. It has also given rise to our staff turnover rate. In order to offset against these negative impacts, the Group has made significant progress in recruiting and training developers in Hong Kong, Shenzhen and Taipei offices. With the new force in our overseas branches supporting the Group's expansion, we will be able to create high value on our quality software and service offerings, pursuing new business opportunities in the coming quarters.

Financial resources and liquidity

As at 30th September, 2007, the shareholders' funds of the Group amounted to approximately HK\$46 million. Current assets amounted to approximately HK\$47 million, of which approximately HK\$27 million were cash and bank deposits and approximately HK\$20 million were debtors, deposits, prepayments and inventory. Its current liabilities amounted to approximately HK\$27 million, mainly comprise of creditors, accruals and deposits received and taxation payable amounted to approximately HK\$25 million and HK\$2 million respectively. The net asset value per share was approximately HK\$0.07. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30th September, 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 1.7:1 (As at 31st March, 2007: 1.6:1), reflecting the adequacy of financial resources.

Exposure to exchange rate fluctuations

During the period ended 30th September, 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 type of currency. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Significant investments and acquisitions

During the six months ended 30th September, 2007, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

As at 30th September, 2007, the Group had no material investment.

Capital commitments

As at 30th September, 2007, the Group had no future plans for material investment.

Contingent liabilities

As at 30th September, 2007, the Group had no material contingent liabilities.

Charges on the Group's assets

As at 30th September, 2007, the Group had no charges on the Group's assets.

Capital structure

The Group remains a debt free capital structure and will utilise internal funding for its business operations and development. The Group will also consider external funding when the cost of internal funding exceeds the cost of external funding.

Segmental information

Business segment

During the period under review, the turnover of maintenance services has increased by approximately 14% as the number of customers have increased as compared with the previous period. Moreover, the turnover of software sale has also increased by approximately 23%.

Geographical segments

The major contribution of turnover is still from Hong Kong. Turnover from the Hong Kong segment represented approximately 83% 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 decreased by approximately 21% as compared with the previous period. The decreased was attributed to the software market in the PRC has not recovered.

Employees and remuneration policies

As at 30th September, 2007, the Group had 268 employees (2006: 269) and the total remuneration for the period was approximately HK\$20 million (2006: HK\$17 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.

DIRECTORS' INTERESTS IN EQUITY AND EXECUTIVES' INTEREST IN SECURITIES

As at 30th September, 2007, the interests and short position of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of

the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to Rules 5.46 of the GEM Listing Rules, were as follows:

	Number of shares		Total
	Personal interests	Corporate interests	
Mr. Lok Wai Man (<i>Note 1</i>)	3,798,000	475,500,000 (<i>Note 2</i>)	479,298,000
Mr. So Yiu King (<i>Note 1</i>)	2,000	3,600,000 (<i>Note 2</i>)	3,602,000
Mr. Chow Chi Ming, Daniel (<i>Note 1</i>)	2,000	3,600,000 (<i>Note 2</i>)	3,602,000
Mr. Leung Wai Cheung (<i>Note 1</i>)	Nil	1,000,000 (<i>Note 2</i>)	1,000,000

Notes:

1. Mr. Lok Wai Man, being a substantial shareholder of the Company entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company, is regarded as an initial management shareholder (as defined in the GEM Listing Rules) of the Company. Mr. So Yiu King 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 shareholding in SomaFlex Holdings Inc..

Save as disclosed above, as at 30th September, 2007, none of the directors or their associates as well as the chief executive of the Group had any interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum

standards of dealing by directors of the Company as referred to in Rules 5.46 of the GEM Listing Rules.

OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

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

No share options were granted by the Company during the period ended 30th September, 2007.

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

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries 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 period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2007, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or

indirectly interests in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

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

Notes:

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

Save as disclosed above, as at 30th September, 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 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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 period ended 30th September, 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 period ended 30th September, 2007.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practice contained in Appendix 15 of the GEM Listing Rules through the period under review, except that:

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.

REMUNERATION COMMITTEE

The remuneration committee was established in November 2005.

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

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

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

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 Society of Accountants.

The principal duties of the audit committed 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 unaudited consolidated results of the Group for the six months ended 30th September, 2007 have been reviewed by the committee, who is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

During the period ended 30th September, 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.

By order of the Board

Lok Wai Man
Chairman

Hong Kong, 8th November, 2007

As at the date of this report, the board of directors of the Company comprises Mr. Lok Wai Man, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel as executive directors and Mr. Tse Lin Chung, Mr. Lee Kar Wai and Mr. Mak Wing Kwong, David as independent non-executive directors.