FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8050

ANNUAL REPORT 2008

2008

2008

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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 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 report.

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 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.

FlexSystem

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
KY1-1111
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

Tricor Secretaries Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

Chairman's Statement

I am pleased to present the result of FlexSystem Holdings Limited for the year 2008.

BUSINESS REVIEW

During the year under review, we have achieved a steady growth in terms of turnover and profit in the face of continuous inflation and rising operating cost. Our proprietary technologies and professional services have successfully distinguished us from solution developers in the market.

We invested in completing our software development platform over the years. We unlock the potential in this investment, as a growing variety of enterprise applications is developing to enrich our offerings. However, the fact that labour shortage in IT market recently has impact against recruitment of application developers and production of our application software.

FINAL DIVIDEND

The board of directors recommends a final dividend payment of HK$0.005 per share (2007: HK$0.005 per share) for the year ended 31 March 2008 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 31 July 2008 to shareholders whose names appear on the register of members of the Company on 29 July 2008.

OUTLOOK

In 2008, we will face the challenges of maintaining or increasing our profitability while the competition and operating cost are expected to continuously increase.

Our new research and development will be combining the latest Rich Internet Application (RIA) technology, opening up a vista of opportunity to explore the market of Enterprise Internet Application. A new website will be launched in 2nd Quarter to demonstrate our innovative technologies for the new era of enterprise application in the Internet.

We continue to place great emphasis on recruiting and training application developers to ensure a pool of talent professionals to meet the capability requirements of business development in the coming years.

Lok Wai Man
Chairman

Hong Kong, 24 June 2008

Management Discussion and Analysis

FINANCIAL REVIEW

During the year 31 March 2008, turnover of approximately 101 million and profit attributable to shareholders of approximately HK$20 million were recorded. The increase in turnover by 26% 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 2008, the shareholders' funds of the Group amounted to approximately HK$59 million. Current assets were approximately HK$56 million, mainly comprising bank balances and cash of approximately HK$37 million, inventories of approximately HK$1 million and trade and other receivables of approximately HK$18 million. Current liabilities were approximately HK$23 million, mainly comprising trade and other payables of approximately HK$22 million and taxation payable of approximately HK$1 million. The net asset value per share was HK$0.1. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 31 March 2008, the Group did not have any borrowings and long-term debts. The liquidity ratio of the Group, represented by a ratio of current assets over current liabilities, was 2.5:1 (As at 31 March 2007: 1.6:1), reflecting the adequacy of financial resources.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

During the year ended 31 March 2008, 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

On 24 October 2007, the Group and CDC Software Corporation enter into the legally binding term sheet with respect to the formation of CDCFlex Limited. The Group held 50% interest in CDCFlex Limited. The Group was committed to contribute to the capital of CDCFlex Limited in the amount of approximately US$2,250,000 (equivalent to approximately HK$17,550,000).

The Group's jointly-controlled entity has not yet commenced business since its date of incorporation and up to 31 March 2008 and had no significant assets or liabilities as 31 March 2008.

In January 2008, the Group acquired 20% associate in FlexOmnitech Ltd which is engaged in distribution of computer programming and provision of computer maintenance in Hong Kong.

Save as disclosed above, there is no other material acquisitions or disposal of subsidiaries and affiliated companies for the year ended 31 March 2008.

Management Discussion and Analysis

COMMITMENTS

As at 31 March 2008, the Group had operating lease commitments in respect of rented office premises of approximately HK$2,741,000 (2007: HK$1,569,000). As at 31 March 2008 and 2007, the Group had no significant capital commitment and has no future plans for material investment.

CONTINGENT LIABILITIES

As at 31 March 2008 and 2007, the Group had no material contingent liabilities.

CHARGES ON THE GROUP'S ASSETS

As at 31 March 2008, the Group had no charges on the Group's assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2008, the Group had 250 employees (2007: 257). The total remuneration to employees, including that to the directors, for the year ended 31 March 2008 amounted to approximately HK$40 million (2007: HK$37.5 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 18% 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 24% 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 81% of the total turnover (2007: 80%). 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 5% to approximately HK$11 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 2008.

3. EFFECTIVE AND EXPERIENCED BOARD

Board Composition

The Board currently comprises of the following members:

Executive Directors:
Lok Wai Man
So Yiu King
Chow Chi Ming, Daniel

Independent Non-executive Directors:
Tse Lin Chung
Lee Kar Wai
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 Directors are as follows:

	Attendance/Number of Meetings	
	Board	Audit Committee
Lok Wai Man	4/4 *(Note)*	N/A
So Yiu King	4/4 *(Note)*	N/A
Chow Chi Ming, Daniel	4/4 *(Note)*	N/A
Tse Lin Chung	3/4 *(Note)*	3/4
Lee Kar Wai	4/4 *(Note)*	4/4
Mak Wing Kwong, David	2/4 *(Note)*	2/4

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 2008 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 2008. Details of the attendance of members at remuneration committee meeting are as follows:

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

The policy for the remuneration of executive directors is:

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

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

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

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

7. AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor. During the year under review, the Group has incurred an aggregate of HK$310,000 and HK$82,600 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 2008.

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 2008 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 48, 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 22 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 47, is the corporate development director of the Group. He is responsible for the finance and corporate development of the Group. He has more than 14 years of experience in accounting and finance and system development in Hong Kong. Prior to 1991, Mr. So worked for listed companies 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 43, 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 19 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 47, 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.

Biographical Information of Directors and Senior Management

Mr. Lee Kar Wai, aged 59, is the Financial Director for Kanghong Digital Image (HK) Ltd. He was previously the company secretary and CFO for CB Richard Ellis Limited. He is a 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 Illinois, at Urbana - Champion, 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.

Mr. Mak Wing Kwong, David, aged 45, is currently the President of IDT Electronic Products Ltd. He has 21 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). Mr. Mak joined the Group in September 2004.

SENIOR MANAGEMENT

Mr. Leung Wai Cheung, aged 43, is the chief financial officer and company secretary of the Group. Mr. Leung is a qualified accountant and chartered secretary with over 18 years of experience in accounting and auditing and over 8 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. Chan Yu Ki, Terrence, aged 42, 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 13 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.

Mr. Lau Tak Shun, Saiki, aged 39, 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 15 years of experience in product development in the Accounting package in Hong Kong and Mainland China. 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 2008.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

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

An analysis of the Group's turnover and operating profit by business and geographical segments for the year are set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2008 are set out in the consolidated income statement on page 23.

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 2008.

SHARE CAPITAL AND SHARE OPTIONS

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

PRE-EMPTIVE RIGHT

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

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 26 and note 28 to the financial statements respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 March 2008, in the opinion of the directors, the Company's reserve available for distribution to shareholders (comprising share premium) amounted to approximately HK$82,872,000.

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:

	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**100,702**	79,982	71,497	63,826	51,828
Profit/(loss) for the year	**20,038**	5,722	2,566	(2,298)	(7,022)
Total assets	**82,659**	66,041	60,875	60,439	58,345
Total liabilities	**(23,224)**	(23,839)	(24,085)	(26,430)	(22,038)
Minority interests	**(847)**	(634)	(842)	(842)	(842)
Total equity	**58,588**	41,568	35,948	33,167	35,465

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 2008.

SHARE OPTION SCHEME

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

No share options were granted by the Company or outstanding at any time during the years ended 31 March 2008 and 2007.

Report of the Directors

DIRECTORS

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

Executive directors
Lok Wai Man
So Yiu King
Chow Chi Ming, Daniel

Independent non-executive directors
Tse Lin Chung
Lee Kar Wai
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. So Yiu King and Mr. Chow Chi Ming, Daniel will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

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

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 to 13.

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 2008, which do not constitute connected transactions under the GEM Listing Rules are disclosed in note 32 to the financial statements.

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

As at 31 March 2008, 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%

Report of the Directors

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 2008.

Save as disclosed above, as at 31 March 2008, 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 2008, the following persons (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

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

Notes:

1. SomaFlex Holdings Inc. is beneficially owned as to 98.27% by Mr. Lok Wai Man, as to 0.76% by Mr. So Yiu King, as to 0.76% by Mr. Chow Chi Ming, Daniel and as to 0.21% by Mr. Leung Wai Cheung.

2. As Mr. Lok Wai Man is entitled to exercise or control the exercise of one third or more of the voting rights of SomaFlex Holdings Inc., he is deemed, by virtue of the SFO, to be interested in the same 475,500,000 shares held by SomaFlex Holdings Inc..

Save as disclosed above, as at 31 March 2008, 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 2008, the largest and the five largest suppliers of the Group accounted for approximately 49% and 65% 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 2008. 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 2008.

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 2008 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 2008, and provide advice and comments to the board of directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 March 2008, 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, 24 June 2008

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 23 to 74, which comprise the consolidated and company balance sheets as at 31 March 2008, 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 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 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' judgement, 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 2008 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, 24 June 2008

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2008

	Note	2008 HK$'000	2007 HK$'000
Revenue	5	**100,702**	79,982
Cost of sales		**(26,028)**	(21,820)
Gross profit		**74,674**	58,162
Other income	6	**754**	908
Other gains	7	**–**	193
Distribution costs		**(18,964)**	(17,683)
Administrative expenses		**(36,094)**	(34,986)
Other operating expenses		**(1,344)**	(2,759)
Profit before income tax		**19,026**	3,835
Income tax	9	**1,225**	1,679
Profit for the year		**20,251**	5,514
Attributable to:			
Equity holders of the Company		**20,038**	5,722
Minority interests		**213**	(208)
		20,251	5,514
Earnings per share for profit attributable to the equity holders of the Company during the year – basic and diluted	11	**3.34 HK cents**	0.95 HK cents
Dividends	12	**3,000**	3,000

Consolidated Balance Sheet

AS AT 31 MARCH 2008

	Note	2008 *HK$'000*	2007 *HK$'000*
Non-current assets			
Leasehold land and land use rights	14	12,425	12,742
Property, plant and equipment	15	13,157	14,641
Investments in associates	17	390	–
Investment in a jointly-controlled entity	18	–	–
Available-for-sale financial assets	20	676	690
Amounts due from investee companies	21	–	–
		26,648	28,073
Current assets			
Inventories	22	1,083	1,121
Trade and other receivables	23	18,401	15,749
Bank balances and cash	24	36,527	21,098
		56,011	37,968
Total assets		82,659	66,041
Current liabilities			
Trade and other payables	25	21,763	21,480
Current income tax liabilities		825	2,359
		22,588	23,839
Net current assets		33,423	14,129
Total assets less current liabilities		60,071	42,202
Non-current liabilities			
Deferred income tax liabilities	29	636	–
Net assets		59,435	42,202
Capital and reserves			
Share capital	26	60,000	60,000
Reserves		(1,412)	(18,432)
Capital and reserves attributable to equity holders of the Company		58,588	41,568
Minority interests		847	634
Total equity		59,435	42,202

Lok Wai Man
Director

So Yiu King
Director

Balance Sheet

AS AT 31 MARCH 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Investments in subsidiaries	16	18,525	29,385
Available-for-sale financial assets	20	661	675
		19,186	30,060
Current assets			
Prepayments	23	112	112
Bank balances and cash	24	19,664	12,428
		19,776	12,540
Total assets		38,962	42,600
Current liabilities			
Accruals	25	246	255
Net current assets		19,530	12,285
Total assets less current liabilities		38,716	42,345
Net assets		38,716	42,345
Capital and reserves attributable to equity holders of the Company			
Share capital	26	60,000	60,000
Reserves	28	(21,284)	(17,655)
Total equity		38,716	42,345

Lok Wai Man
Director

So Yiu King
Director

Consolidated Statement Of Changes In Equity

FOR THE YEAR ENDED 31 MARCH 2008

	Attributable to the equity holders of the Company								
	Share capital HK$'000 (note 26)	Share premium HK$'000 (note 28)	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 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	–	–	–	2	–	–	2	–	2
Total income and expense recognised directly in equity	–	–	–	2	89	–	91	–	91
Net gain transferred to profit or loss on disposal of available-for-sale financial assets	–	–	–	–	(193)	–	(193)	–	(193)
Profit/(loss) for the year	–	–	–	–	–	5,722	5,722	(208)	5,514
Total recognised income and expense for the year	–	–	–	2	(104)	5,722	5,620	(208)	5,412
Balance at 31 March 2007 and 1 April 2007	60,000	83,955	(47,430)	(42)	(297)	(54,618)	(18,432)	634	42,202
Changes in fair value of available-for-sale financial assets	–	–	–	–	(14)	–	(14)	–	(14)
Currency translation differences	–	–	–	(4)	–	–	(4)	–	(4)
Total income and expense recognised directly in equity	–	–	–	(4)	(14)	–	(18)	–	(18)
Profit for the year	–	–	–	–	–	20,038	20,038	213	20,251
Total recognised income and expense for the year	–	–	–	(4)	(14)	20,038	20,020	213	20,233
Dividends	–	(3,000)	–	–	–	–	(3,000)	–	(3,000)
Balance at 31 March 2008	60,000	80,955	(47,430)	(46)	(311)	(34,580)	(1,412)	847	59,435

Note: Pursuant to a group reorganisation ("Reorganisation"), which was completed on 10 July 2000, to rationalise 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. ("SomaFlex") 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 Reorganisation 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 2008

	Note	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
Net cash generated from operating activities	30	19,742	5,059
Cash flows from investing activities			
Interest received		661	832
Dividends received		16	60
Purchase of property, plant and equipment		(413)	(13,592)
Purchase of leasehold land and land use rights		–	(12,900)
Proceeds from disposal of property, plant and equipment		3	14
Advances to associates		(1,468)	(113)
Acquisition of an associate		(10)	–
Proceeds from disposal of available-for-sale financial assets		–	1,178
Advances to investee companies		(9)	(37)
Net cash used in investing activities		(1,220)	(24,558)
Cash flows from financing activities			
Dividends paid		(3,000)	–
Net cash used in financing activities		(3,000)	–
Net increase/(decrease) in cash and cash equivalents		15,522	(19,499)
Cash and cash equivalents at beginning of year		21,098	40,619
Exchange losses on cash and cash equivalents		(93)	(22)
Cash and cash equivalents at end of year		36,527	21,098
Analysis of balances of cash and cash equivalents:			
Cash at bank and in hand	24	24,088	15,552
Short-term bank deposits	24	12,439	5,546
		36,527	21,098

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

1. CORPORATION INFORMATION

FlexSystem Holdings Limited (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 KY1-1111, 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 Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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.

In 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 consolidated financial statements were approved and authorised for issue by the board of directors on 24 June 2008.

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 the 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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 2008

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

2.1 Basis of preparation *(continued)*

(a) Standards, amendment and interpretations effective in 2007

HKFRS 7, "Financial Instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of Financial Statements – Capital Disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables.

HK(IFRIC) – Int 8, "Scope of HKFRS 2", 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 in order to establish whether or not they fall within the scope of HKFRS 2. This interpretation does not have any impact on the Group's consolidated financial statements.

HK(IFRIC) – Int 10, "Interim Financial Reporting and Impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the Group's consolidated financial statements.

HK(IFRIC) – Int 11, "HKFRS 2 – Group and Treasury Share Transactions". 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. This interpretation does not have a significant impact on the Group's consolidated financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 April 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, "Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies"; and

- HK(IFRIC) – Int 9, "Reassessment of Embedded Derivatives".

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.1 Basis of preparation *(continued)*

(c) *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 and are mandatory for the Group's accounting periods beginning on or after 1 April 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 April 2009.

- HKAS 23 (Revised), "Borrowing Costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 April 2009 but is currently not applicable to the Group as there are no qualifying assets.

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 April 2010, but it is not expected to have any impact on the Group's consolidated financial statements.

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

2.1 Basis of preparation *(continued)*

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

- HKFRS 2 (Amendment) "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 (Amendment) from 1 April 2009, but it is not expected to have any impact on the Group's accounts.

- HKFRS 3 (Revised) "Business Combination" (effective from 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. The Group will apply HKFRS 3 (Revised) from 1 April 2010.

- HKFRS 8, "Operating Segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 April 2009. The expected impact is still being assessed in detail by management.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.1 Basis of preparation *(continued)*

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

- HK(IFRIC) – Int 14, "HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from 1 January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Int 14 from 1 April 2008, but it is not expected to have any impact on the Group's consolidated financial statements.

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

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 12, "Service Concession Arrangements" (effective from 1 January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.

- HK(IFRIC) – Int 13, "Customer Loyalty Programmes" (effective from 1 July 2008). HK(IFRIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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 recognised directly in the income statement.

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.2 Consolidation *(continued)*

(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.

(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 recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

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

Dilution gains and losses in associates are recognised in the consolidated income statement.

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

2.2 Consolidation *(continued)*

(d) Jointly-controlled entities

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

The Group's share of its jointly-controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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

Dilution gains and losses in jointly-controlled entities are recognised in the consolidated income statement.

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.

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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.4 Foreign currency translation *(continued)*

(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 recognised 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 analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised 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 recognised 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.

(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 recognised as a separate component of equity.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.4 Foreign currency translation *(continued)*

(c) Group companies (continued)

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 recognised in the income statement as part of the gain or loss on sale.

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

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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. 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.

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, 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 the comparing the proceeds with the carrying amount and are recognised in the income statement.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.6 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly-controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly-controlled entities is included in investments in associates and jointly-controlled entities and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.8 Financial assets *(continued)*

(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 amounts due from associates, trade and other receivables and bank balances and cash in the balance sheet.

(c) *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 way purchases and sales of financial assets are recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised 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 within other gains, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised 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 analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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 recognised 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 recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised 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 is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered 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 recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.10 Trade and other receivables

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

2.14 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.14 Current and deferred income tax *(continued)*

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 realised or the deferred income tax liability is settled.

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

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

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 payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.16 Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate 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 recognised as interest expense.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Revenue from the sale of enterprise software and hardware products is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) Maintenance service income is recognised over the life of the agreement on a straight-line basis. The unearned portion of the maintenance service income received is stated as deferred income in the balance sheet.

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

(d) Dividend income is recognised when the right to receive payment is established.

(e) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

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

2.18 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to 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 recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency 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 programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) Foreign exchange risk

Foreign exchange risk mainly arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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

(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. The Group is not exposed to commodity price risk.

As the Group's investments in available-for-sale financial assets are not significant, the management of the Group considers the price risk of the Group is not significant.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(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 that 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. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The Group's financial liabilities principally comprise trade payables and other financial liabilities included in other payables and accruals, all of which are expected to be settled within one year and are included in current liabilities. As at 31 March 2008, the Group did not have any borrowings or derivative financial liabilities (2007: Nil).

3.2 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital risk management *(continued)*

As at 31 March 2008, the Group did not have any net debt and therefore had a gearing ratio of nil (2007: Nil).

3.3 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 carrying values less impairment provision of trade 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 JUDGEMENTS

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

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 judgement 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.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition as at the balance sheet date and the historical experience of selling products of similar nature.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold.

Impairment of property, plant and equipment

The Group's management assesses at each of the balance sheet date whether property, plant and equipment have any indication of impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amount is higher of an asset's value in use and fair value less costs to sell, which is estimated based on the best information available to reflect the amount that is obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal, or cash to be generated from continuously using the assets.

Impairment of trade and other receivables

The Group's management estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivable and impairment charge in the period in which such estimate has been changed.

5. REVENUE AND SEGMENT INFORMATION

	2008 *HK$'000*	2007 *HK$'000*
Revenue		
Software	**59,780**	48,219
Services	**30,794**	26,004
Other operations	**10,128**	5,759
	100,702	79,982

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments

As at 31 March 2008, the Group is organised into two main business segments:

- Software – sale of enterprise software; and
- Services – provision of maintenance services.

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

The segment results for the year ended 31 March 2008 are as follows:

	Software	Services	Other operations	Unallocated	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	59,780	30,794	10,128	–	100,702
Segment results	11,631	12,443	(1,362)	(3,686)	19,026
Income tax *(Note 9)*					1,225
Profit for the year					20,251

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

	Software	Services	Other operations	Unallocated	Group
Depreciation	–	–	–	1,977	1,977
Amortisation of prepaid operating lease payments	–	–	–	317	317

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
Amortisation of prepaid operating lease payments	–	–	–	158	158

Segment assets consist primarily of inventories. Unallocated assets comprise leasehold land and land use rights, property, plant and equipment, investments in associates and a jointly-controlled entity, 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.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

5. REVENUE AND SEGMENT INFORMATION *(continued)*

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

The segment assets and liabilities as at 31 March 2008 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	–	–	1,083	81,576	82,659
Liabilities	6,065	8,551	–	7,972	22,588
Capital expenditure	–	–	–	413	413

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

(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.

	2008	2007
	HK$'000	*HK$'000*
Revenue		
Hong Kong	81,607	64,125
PRC	11,101	10,576
Other countries	7,994	5,281
	100,702	79,982

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

5. REVENUE AND SEGMENT INFORMATION *(continued)*

(b) Secondary reporting format – geographical segments *(continued)*

	2008	2007
	HK$'000	*HK$'000*
Total assets		
Hong Kong	**50,569**	43,207
PRC	**4,952**	5,768
Other countries	**27,138**	17,066
	82,659	66,041

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

	2008	2007
	HK$'000	*HK$'000*
Capital expenditure		
Hong Kong	**175**	26,245
PRC	**170**	160
Other countries	**68**	87
	413	26,492

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

6. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Commission income	**61**	16
Dividend income on available-for-sale financial assets	**16**	60
Interest income on short-term bank deposits	**661**	832
Others	**16**	–
	754	908

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

7. OTHER GAINS

	2008	2007
	HK$'000	*HK$'000*
Net gains transferred from equity on disposal of available-for-sale financial assets	–	193

8. EXPENSES BY NATURE

	2008	2007
	HK$'000	*HK$'000*
Depreciation of owned property, plant and equipment	1,977	2,021
Amortisation of prepaid operating lease payments	317	158
Loss on disposal of property, plant and equipment	6	326
Cost of inventories expensed	8,234	4,570
Operating lease rentals in respect of rented premises	1,228	1,850
Auditors' remuneration	310	290
Bad debts written off	828	78
Receivables written off *(Note 23)*	418	–
Provision for impairment of trade receivables	–	2,289
Provision for impairment of amounts due from associates	1,088	113
Provision for impairment of amounts due from investee companies	9	50

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the year ended 31 March 2008. No provision for Hong Kong profits tax has been made in the financial statements for the year ended 31 March 2007 as the companies operating in Hong Kong had taxation losses to set off their assessable profits. 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.

	2008	2007
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	713	–
– Hong Kong profits tax refunded	(439)	–
– Overseas taxation	214	161
– Over-provision in prior years	(2,349)	(1,840)
Deferred income tax *(Note 29)*	636	–
Tax credit	(1,225)	(1,679)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

9. INCOME TAX *(continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate of 17.5% (2007: 17.5%) as follows:

	2008 *HK$'000*	2007 *HK$'000*
Profit before income tax	**19,026**	3,835
Tax calculated at Hong Kong profits tax rate of 17.5% (2007: 17.5%)	**3,330**	671
Income not subject to tax	**(200)**	(563)
Expenses not deductible for tax purpose	**539**	364
Tax losses for which no deferred income tax asset was recognised	**194**	400
Utilisation of previously unrecognised tax losses	**(2,857)**	(684)
Over-provision in prior years	**(2,349)**	(1,840)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(79)**	(27)
Others	**197**	–
Tax credit	**(1,225)**	(1,679)

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

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$615,000 (2007: profit of HK$1,673,000).

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately HK$20,038,000 (2007: HK$5,722,000) by the weighted average number of 600,000,000 (2007: 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 2007 and 2008.

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12. DIVIDENDS

	2008 *HK$'000*	2007 *HK$'000*
Proposed final dividend of HK$0.005 (2007: HK$0.005) per share	**3,000**	3,000

At a meeting held on 25 June 2007, the board of directors recommended a final dividend in respect of the year ended 31 March 2007 of HK$0.005 per share, which was subsequently approved by the Company's shareholders at the annual general meeting held on 27 July 2007 and paid during the year ended 31 March 2008.

A final dividend in respect of the year ended 31 March 2008 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. The financial statements do not reflect this dividend payable.

13. EMPLOYEE BENEFIT EXPENSE

	2008 *HK$'000*	2007 *HK$'000*
Salaries, wages and other benefits	**38,070**	35,656
Pension costs – defined contribution schemes	**2,021**	1,851
Total employee benefit expense (including directors' remuneration)	**40,091**	37,507

(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 2007 and 2008, 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% (2007: 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% (2007: 32%) of an employee's ordinary wages.

13. EMPLOYEE BENEFIT EXPENSE *(continued)*

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 March 2008 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	21	979
Mr. So Yiu King	–	915	12	927
Mr. Chow Chi Ming, Daniel	–	562	25	587
Independent non-executive directors				
Mr. Tse Lin Chung	30	–	–	30
Mr. Lee Kar Wai	30	–	–	30
Mr. Mak Wing Kwong, David	30	–	–	30
	90	2,435	58	2,583

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

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 (2007: Nil). None of the directors waived or agreed to waive any remuneration during the year (2007: Nil).

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13. EMPLOYEE BENEFIT EXPENSE *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2007: three) individuals during the year are as follows:

	2008 *HK$'000*	2007 *HK$'000*
Basic salaries, allowances and benefits in kind	**2,217**	2,105
Employer's contributions to defined contribution schemes	**36**	73
	2,253	2,178

The emoluments fell within the following band:	2008 Number of individuals	2007 Number of individuals
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 analysed as follows:

	Group 2008 *HK$'000*	 2007 *HK$'000*
In Hong Kong held on:		
Leases of between 10 to 50 years	**12,425**	12,742

	2008 *HK$'000*	2007 *HK$'000*
Opening	**12,742**	–
Additions	**–**	12,900
Amortisation of prepaid operating lease payments	**(317)**	(158)
	12,425	12,742

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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 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 differences	–	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
Year ended 31 March 2008						
Opening net book amount	7,708	4,129	1,198	1,445	161	14,641
Additions	–	172	68	173	–	413
Disposals	–	–	(9)	–	–	(9)
Depreciation for the year	(191)	(1,118)	(263)	(374)	(31)	(1,977)
Exchange differences	–	10	–	79	–	89
Closing net book amount	7,517	3,193	994	1,323	130	13,157
At 31 March 2008						
Cost	7,804	6,311	4,793	5,013	298	24,219
Accumulated depreciation	(287)	(3,118)	(3,799)	(3,690)	(168)	(11,062)
Net book amount	7,517	3,193	994	1,323	130	13,157

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16. INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	**47,550**	47,550
Amounts due from subsidiaries *(Note (b))*	**73,975**	84,835
	121,525	132,385
Less: Provision for impairment	**(103,000)**	(103,000)
	18,525	29,385

The following is a list of the principal subsidiaries of the Company as at 31 March 2008:

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 (i))*	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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16. 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%

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16. 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
Master Regal Limited	Hong Kong	Investment holding in Hong Kong	100 ordinary shares of HK$1 each	60%
Soma Systems Technology Sdn. Bhd.	Malaysia	Distribution of FlexAccount products in Malaysia	2 ordinary shares of RM1 each	100%
FlexDevelopments (Macau Commercial Offshore) Limited	Macau	Research and development of software in Macau	Registered capital of MOP100,000	100%
FlexSystem (M) Sdn. Bhd.	Malaysia	Distribution of FlexAccount products in Malaysia	2 ordinary shares of RM1 each	100%

Notes:

(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.

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17. INVESTMENTS IN ASSOCIATES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Share of net liabilities	**(2,289)**	(2,299)
Amounts due from associates	**7,558**	6,090
	5,269	3,791
Less: Provision for impairment	**(4,879)**	(3,791)
	390	–

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

Details of the associates of the Group as at 31 March 2008 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%
FlexOmnitech Limited	Hong Kong	Distribution of computer programming and provision of computer maintenance in Hong Kong	50,000 ordinary shares of HK$1 each	20%

The following table illustrates the summarised financial information of the associates of the Group as extracted from their financial statements:

	2008	2007
	HK$'000	*HK$'000*
Total assets	**299**	–
Total liabilities	**7,695**	6,184
Revenues	**2,251**	2,724
Loss	**(1,262)**	(143)

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17. INVESTMENTS IN ASSOCIATES *(continued)*

The Group has not recognised losses amounting to approximately HK$581,000 (2007: HK$72,000) for the above associates. The accumulated losses not recognised were approximately HK$1,359,000 (2007: HK$778,000).

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2008	2007
	HK$'000	*HK$'000*
Cost of investment in a jointly-controlled entity	**1,950**	–
Amount due to a jointly-controlled entity	**(1,950)**	–
	–	–

Particulars of the jointly-controlled entity of the Group are as follows:

Name	Particulars of issued shares held by the Group	Place of incorporation	Interest held	Principal activities
CDCFlex Limited	19,500,000 ordinary shares of HK$0.1 each	Hong Kong	50%	Development of software for basic accounting and payroll service

The amount due to a jointly-controlled entity is unsecured, interest-free and repayable on demand.

The Group's jointly-controlled entity has not yet commenced business since its date of incorporation and up to 31 March 2008 and had no significant assets or liabilities at 31 March 2008.

As at 31 March 2008, the Group was committed to contribute to the capital of CDCFlex Limited in the amount of approximately US$2,250,000 (equivalent to approximately HK$17,550,000) pursuant to a legally binding term sheet dated 24 October 2007 and entered into between the Group and CDC Software Corporation with respect to the formation of CDCFlex Limited.

Notes to the Consolidated Financial Statements

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19. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

Assets per consolidated balance sheet	*Note*	**Loans and receivables**	**Available-for-sale**	**Total**
31 March 2008		*HK$'000*	*HK$'000*	*HK$'000*
Amounts due from associates	17	390	–	390
Available-for-sale financial assets	20	–	676	676
Trade and other receivables	23	18,226	–	18,226
Bank balances and cash	24	36,527	–	36,527
Total		55,143	676	55,819

Liabilities per consolidated balance sheet	*Note*	**Amortised cost**
31 March 2008		*HK$'000*
Trade and other payables	25	7,147
Total		7,147

Assets per consolidated balance sheet	*Note*	**Loans and receivables**	**Available-for-sale**	**Total**
31 March 2007		*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale financial assets	20	–	690	690
Trade and other receivables	23	15,452	–	15,452
Bank balances and cash	24	21,098	–	21,098
Total		36,550	690	37,240

Liabilities per consolidated balance sheet	*Note*	**Amortised cost**
31 March 2007		*HK$'000*
Trade and other payables	25	6,473
Total		6,473

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20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Beginning of the year	**690**	1,779	**675**	1,764
Disposals	**–**	(1,178)	**–**	(1,178)
Net (losses)/gains transfer to equity	**(14)**	89	**(14)**	89
End of the year	**676**	690	**661**	675

There were no disposals or impairment provisions on available-for-sale financial assets in 2008.

Available-for-sale financial assets include the following:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities listed in Hong Kong, at fair value	**661**	675	**661**	675
Unlisted equity securities, at cost less impairment *(Note)*	**15**	15	**–**	–
	676	690	**661**	675
Market value of listed securities	**661**	675	**661**	675

Note:

The investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 MARCH 2008

21. AMOUNTS DUE FROM INVESTEE COMPANIES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Amounts due from investee companies	**5,411**	5,402
Less: Provision for impairment	**(5,411)**	(5,402)
	–	–

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

22. INVENTORIES

	Group	
	2008	2007
	HK$'000	*HK$'000*
Merchandise	**1,083**	1,121

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$8,234,000 (2007: HK$4,570,000).

23. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(Note (a))*	**15,134**	12,272	**–**	–
Prepayments, deposits and other receivables	**2,286**	2,441	**112**	112
Advances to staff *(Note (e))*	**981**	1,036	**–**	–
	18,401	15,749	**112**	112

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23. TRADE AND OTHER RECEIVABLES *(continued)*

Notes:

(a) The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically. As at 31 March 2008, the ageing analysis of trade receivables (net of provision for impaired receivables) is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**5,103**	3,767
31 – 60 days	**2,229**	2,492
61 – 90 days	**1,259**	1,573
91 – 180 days	**2,253**	1,485
181 – 365 days	**3,414**	1,705
Over 365 days	**876**	1,250
	15,134	12,272

(b) Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2008, trade receivables of approximately HK$6,543,000 (2007: HK$4,440,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
91 – 180 days	**2,253**	1,485
181 – 365 days	**3,414**	1,705
Over 365 days	**876**	1,250
	6,543	4,440

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23. TRADE AND OTHER RECEIVABLES *(continued)*

Notes: (continued)

(c) As at 31 March 2008, trade receivables of approximately HK$4,212,000 (2007: HK$4,741,000) were impaired. No provision for impairment was recognised for the year ended 31 March 2008 and provision for impairment of approximately HK$2,289,000 was recognised for the year ended 31 March 2007. The impairment was firstly assessed individually for individual significant or long outstanding balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk characteristics. The ageing analysis of these receivables is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Over 365 days	**4,212**	4,741

(d) Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
At beginning of the year	**4,741**	2,452
Receivables written off as uncollectible	**(418)**	–
Provision for impairment of trade receivables *(Note 8)*	**–**	2,289
Bad debts recovery	**(111)**	–
At end of the year	**4,212**	4,741

The creation and release of provision for impaired receivables have been included in "Administrative expenses" in the consolidated income statement (Note 8).

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

The maximum exposure to credit risk at the balance sheet date is the fair value of trade and other receivables as mentioned above. The Group does not hold any collateral as security.

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24. BANK BALANCES AND CASH

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**24,088**	15,552	**8,759**	6,882
Short-term bank deposits	**12,439**	5,546	**10,905**	5,546
Maximum exposure to credit risk	**36,527**	21,098	**19,664**	12,428

The effective interest rate on short-term bank deposits range from 1.2% to 2.09% (2007: 3.1%). These deposits have an average maturity of 30 days.

As at 31 March 2008, the Group had bank balances and cash of approximately HK$4,407,000 (2007: HK$4,067,000) 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.

The bank balances are deposited with creditworthy banks with no recent history of default.

25. TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables *(Note (a))*	**1,503**	1,029	**–**	–
Other payables and accruals	**5,589**	5,235	**246**	255
Amounts due to investee companies *(Note (b))*	**55**	209	**–**	–
Deferred income	**8,551**	7,687	**–**	–
Sales deposits received	**6,065**	7,320	**–**	–
	21,763	21,480	**246**	255

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25. TRADE AND OTHER PAYABLES *(continued)*

Notes:

(a) The ageing analysis of trade payables is as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
0 – 30 days	**812**	778
31 – 60 days	**639**	236
61 – 90 days	**–**	–
91 – 180 days	**–**	–
181 – 365 days	**39**	2
Over 365 days	**13**	13
	1,503	1,029

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

26. SHARE CAPITAL

	Company	
	2008	2007
	HK$'000	*HK$'000*
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
600,000,000 ordinary shares of HK$0.10 each	**60,000**	60,000

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27. SHARE OPTIONS

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

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

The maximum number of ordinary shares in respect of which options may be granted under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time. No employee shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares for the time being issued or issuable under the share option scheme.

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

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

No share options were granted by the Company or outstanding at any time during the years ended 31 March 2007 and 2008.

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28. 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 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 and 1 April 2007	85,872	(297)	(103,230)	(17,655)
Changes in fair value of available-for-sale financial assets	–	(14)	–	(14)
Loss for the year	–	–	(615)	(615)
Dividends paid	(3,000)	–	–	(3,000)
Balance at 31 March 2008	82,872	(311)	(103,845)	(21,284)

29. DEFERRED INCOME TAX

Deferred income tax liabilities:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Beginning of the year	–	–
Charged to the income statement	636	–
End of the year	636	–

No deferred income tax liabilities have been recognised in the financial statements as 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 2007 and 2008.

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29. DEFERRED INCOME TAX *(continued)*

Deferred income tax assets:

A deferred income tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 March 2008, the unrecognised deferred income tax assets of the Group and of the Company are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Tax effect of temporary difference attributable to estimated tax losses	**1,387**	7,068	**1,128**	934

30. NET CASH GENERATED FROM OPERATING ACTIVITIES

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	**19,026**	3,835
Adjustments for:		
– Depreciation	**1,977**	2,021
– Amortisation of prepaid operating lease payments	**317**	158
– Loss on disposal of property, plant and equipment	**6**	326
– Net gains transferred from equity on disposal of available-for-sale financial assets	**–**	(193)
– Interest income	**(661)**	(832)
– Dividend income	**(16)**	(60)
– Provision for impairment of amounts due from investee companies	**9**	50
– Provision for impairment of amounts due from associates	**1,088**	113
Changes in working capital:		
– Inventories	**38**	(27)
– Trade and other receivables	**(2,652)**	(1,765)
– Trade and other payables	**283**	1,690
Cash generated from operations	**19,415**	5,316
Overseas tax paid	**(112)**	(257)
Hong Kong profits tax refunded	**439**	–
Net cash generated from operating activities	**19,742**	5,059

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31. COMMITMENTS

As at 31 March 2008, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
No later than one year	**1,498**	1,378
Later than one year and no later than five years	**1,243**	191
	2,741	1,569

The Company did not have significant lease commitments as at 31 March 2008 (2007: Nil).

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32. RELATED PARTY TRANSACTIONS

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

		Group	
	Note	**2008**	2007
		HK$'000	*HK$'000*
Management service fee received from Flex-Logic Limited	*(a)*	**36**	–
Software royalty expenses paid to Flex-Logic Limited	*(a)*	**2,172**	2,724
Management service fee received from i-Global Solutions Limited	*(b)*	**78**	–
Software royalty expenses paid to i-Global Solutions Limited	*(b)*	**–**	359
Commission and computer expenses paid to Global Information Technology Limited	*(b)*	**–**	28

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.

Key management compensation

	Group	
	2008	2007
	HK$'000	*HK$'000*
Short-term employee benefits	**3,732**	5,311
Post employment benefits	**112**	171
	3,844	5,482