

If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in FlexSystem Holdings Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, 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 circular.

This circular, for which the directors of FlexSystem Holdings Limited (the “Company”) collectively and individually accept full 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 the Company. The directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



FlexSystem Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

GENERAL MANDATES TO ISSUE AND TO REPURCHASE SHARES

This circular will remain on the GEM website on the “Latest Company Announcements” for 7 days from the date of its posting.

A notice convening the Annual General Meeting to be held at 12/F, Skyway House, No. 3, Shan Mong Road, Tai Kok Tsui, Kowloon. Hong Kong on 25 July 2001 at 4:00 p.m., is set out on pages 54 to 56 in the annual report of the Company dated 27 June 2001. Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return the form of proxy accompanying the annual report of the Company dated 27 June 2001 in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the Annual General Meeting. The return of a form of proxy will not preclude you from attending and voting in person if you so wish.

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DEFINITIONS

In this circular the following expressions have the following meanings unless the context otherwise requires:-

“AGM Notice”	the notice for convening the Annual General Meeting set out on pages 54 to 56 in the Annual Report of the Company dated 27 June 2001
“Annual General Meeting (AGM)”	the annual general meeting of the Company to be held on Wednesday, 25 July 2001 and any adjournment thereof, notice of which is set out on pages 54 to 56 of the Annual Report
“Annual Report”	the annual report of the Company for the year ended 31 March 2001
“Company”	FlexSystem Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the GEM
“Director(s)”	the director(s) of the Company
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandates”	the Share Repurchase Mandate and the general mandate to issue Shares to be sought at the AGM
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Latest Practicable Date”	27 June 2001, being the latest practicable date prior to the printing of this circular
“Shares(s)”	share(s) of par value HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeover Code”	The Hong Kong Code on Takeovers and Mergers



FlexSystem Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

LOK Wai Man (*Chairman*)
SO Yiu King
CHOW Chi Ming, Daniel
TAM Wing Yuen
LEUNG Wai Cheung (*Company Secretary*)

Registered office:

P.O. Box 2681
Zephyr House
George Town, Grand Cayman
British West Indies

Non-executive Director:

LO Yip Tong

*Head office and principal
place of business:*

12/F., North Block, Skyway House
No. 3 Sham Mong Road
Tai Kok Tsui, Kowloon
Hong Kong

Independent non-executive Directors:

LEE Kar Wai
TSE Lin Chung

28 June 2001

To the Shareholders

Dear Sir or Madam,

GENERAL MANDATES TO ISSUE AND TO REPURCHASE SHARES

INTRODUCTION

Prior to the listing of the Shares of the Company on the GEM operated by the Stock Exchange on 24 July 2000, general mandates were granted to the Directors to exercise the powers of the Company to issue Shares and to repurchase Shares. These general mandates will lapse at the conclusion of the forthcoming Annual General Meeting to be held on 25 July 2001. Ordinary resolutions will therefore be proposed at the Annual General Meeting to renew the general mandates to enable the Directors to issue Shares and to repurchase Shares.

GENERAL MANDATE TO ISSUE SHARES

At the Annual General Meeting, an ordinary resolution will be proposed to grant to the Directors a general mandate to exercise the power of the Company to allot, issue and deal with Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of the relevant resolution.

LETTER FROM THE CHAIRMAN

GENERAL MANDATE TO REPURCHASE SHARES

At the Annual General Meeting, an ordinary resolution will be proposed to grant to the Directors a general mandate to exercise the power of the Company to repurchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of the resolution (the “Repurchase Mandate”). Under the GEM Listing Rules, the Company is required to give to its shareholders all information which is reasonably necessary to enable shareholders to make an informed decision as to whether to vote for or against the resolution to renew the grant to the Directors of a Repurchase Mandate. An explanatory statement as required under the GEM Listing Rules giving the requisite information regarding the Repurchase Mandate is set out in the Appendix hereto.

RECOMMENDATION

The Directors believe that the granting of the General Mandates is in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend that the Shareholders vote in favour of the resolutions relating to the General Mandates to be proposed at the Annual General Meeting.

ACTION TO BE TAKEN

A notice convening the Annual General Meeting to be held at 12/F, Skyway House, No. 3 Sham Mong Road, Tai Kok Tsui, Kowloon, Hong Kong on 25 July 2001 at 4:00 p.m. is set out on pages 54 to 56 in the Annual Report dated 27 June 2001. Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return the form of proxy accompanying the Annual Report dated 27 June 2001 in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the Annual General Meeting. The return of a form of proxy will not preclude you from attending and voting in person if you so wish.

Yours faithfully
On behalf of the Board
LOK Wai Man
Chairman

This is an explanatory statement given to all shareholders relating to a resolution to be proposed at the forthcoming Annual General Meeting authorising the Repurchase Mandate.

This explanatory statement contains all the information required pursuant to Rule 13.08 of the GEM Listing Rules, which is set out as follows:-

1. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 600,000,000 Shares of HK\$0.10 each. Subject to the passing of the resolutions at the Annual General Meeting granting the Repurchase Mandate and on the basis that no further Shares are issued or repurchased by the Company prior to the Annual General Meeting, the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 60,000,000 Shares.

2. REASONS FOR REPURCHASES

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value and/or earnings per Share.

3. FUNDING OF REPURCHASES

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules and the applicable laws of the Cayman Islands. The Company may not repurchase its Shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

4. GENERAL

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the annual report for 2001) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

5. SHARE PRICES

The highest and lowest prices at which the Shares have traded on GEM in each of the calendar months since the listing of the Shares were as follows:-

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2000		
July	1.50	1.21
August	1.42	1.10
September	1.27	1.02
October	1.10	0.94
November	1.18	0.97
December	1.14	1.00
2001		
January	1.06	0.92
February	0.99	0.91
March	0.98	0.65
April	0.70	0.58
May	0.62	0.57
June (up to the Latest Practicable Date)	0.70	0.56

6. UNDERTAKING

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

7. DISCLOSURE OF INTERESTS

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates, have any present intention to sell any Shares to the Company under the Repurchase Mandate if such is approved by the Shareholders.

No connected person (as defined in the GEM Listing Rules) has notified the Company that it has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

8. TAKEOVER CODE

If, as a result of a repurchase of shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeover Code"). As a result, a shareholder, or a group of shareholders acting in concert, depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code.

As at the Latest Practicable Date, SomaFlex Holdings Inc., which is a substantial shareholder, held 79.25% of the issued share capital of the Company. In the event that the Directors exercise in full the power to repurchase Shares in accordance with the terms of the ordinary resolution to be proposed at the Annual General Meeting, the total interests of SomaFlex Holdings Inc. in the Shares would be increased to 88.06% of the issued shares and they would not be obliged to make a mandatory offer under Rule 26 of the Takeover Code in this respect.

However, as the minimum amount of shares to be held by the public cannot be less than 20% of the issued shares of the Company, the Directors do not intend to exercise in full the power to repurchase Shares under the Repurchase Mandate.

9. SHARE REPURCHASE MADE BY THE COMPANY

The Company had not repurchased any of its Shares (whether on GEM or otherwise) since the listing of its Shares on GEM on 24 July 2000 up to the date of this circular.