
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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)

(Stock Code: 8050)

GENERAL MANDATES TO ISSUE NEW SHARES AND REPURCHASE SHARES AND RE-ELECTION OF RETIRING DIRECTOR

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., North Block, Skyway House, No. 3 Sham Mong Road, Tai Kok Tsui, Kowloon, Hong Kong on 29 July 2005 at 10:30 a.m., is set out in Appendix II to this circular. Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return the form of proxy 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.

30 June 2005

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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 in Appendix II to this circular dated 27 June 2005 |
| “Annual General Meeting (AGM)” | the annual general meeting of the Company to be held on Friday, 29 July 2005 and any adjournment thereof, notice of which is set out in Appendix II to this circular |
| “Annual Report” | the annual report of the Company for the year ended 31 March 2005 |
| “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” | 24 June 2005, being the latest practicable date prior to the printing of this circular |
| “Share(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 |
| “Takeovers Code” | The Hong Kong Code on Takeovers and Mergers |

LETTER FROM THE CHAIRMAN



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Executive Directors:

LOK Wai Man (*Chairman*)
SO Yiu King
CHOW Chi Ming, Daniel

Independent non-executive Directors:

LEE Kar Wai
TSE Lin Chung
MAK Wing Kwong, David

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business:

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

27 June 2005

To the Shareholders

Dear Sir or Madam,

GENERAL MANDATES TO ISSUE NEW SHARES AND REPURCHASE SHARES AND RE-ELECTION OF RETIRING DIRECTOR

INTRODUCTION

At the annual general meeting (“AGM”) of FlexSystem Holdings Limited (“the Company”) to be held at 12/F., North Block, Skyway House, No. 3 Sham Mong Road, Tai Kok Tsui, Kowloon, Hong Kong on Friday, 29 July 2005, at 10:30 a.m., resolutions will be proposed to approve (i) the grant of general mandates to allot, issue and deal with new shares of the Company and to repurchase shares of the Company to the directors of the Company (“the Directors”) and (ii) the re-election of retiring directors of the Company. This circular contains the explanatory statement in compliance with the GEM Listing Rules and to give all the information reasonably necessary to enable shareholders of the Company to make an informed decision on whether to vote for or against the resolutions set out in the notice of AGM.

LETTER FROM THE CHAIRMAN

GENERAL MANDATE TO ISSUE NEW SHARES

At the AGM, two ordinary resolutions 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 and to add to such general mandate so granted to the Directors any shares representing the aggregate nominal amount of the shares repurchased by the Company after the granting of the below repurchase mandate in order to provide flexibility for issuing new shares when it is in the interests of the Company. The Directors have no present intention to issue new shares of the Company.

GENERAL MANDATE TO REPURCHASE SHARES

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 I hereto. The Directors have no present intention to repurchase any shares but consider that the Repurchase Mandate will provide the Company with the flexibility to make such repurchase as and when appropriate and is beneficial to the Company.

RE-ELECTION OF RETIRING DIRECTOR

Pursuant to Article 87 of the Company’s Articles of Association, Mr. Tse Lin Chung and Mr. Lee Kar Wai will retire from office as director by rotation at the AGM and being eligible, offers himself for re-election. Set out below are the details of the director proposed to be re-elected:–

Mr. Tse Lin Chung, aged 44, is a practising solicitor. He graduated from the University of Hong Kong in 1985 with a Bachelor of Social Sciences degree. In 1988, he obtained a Bachelor of Laws degree from the University of London and in 1989, a Postgraduate Certificate in Laws from the University of Hong Kong. He was qualified as a solicitor in Hong Kong in 1991 and in England and Wales in 1992. He is the founding partner of Yip, Tse & Tang (formerly known as Yip & Tse), solicitors since 1994. He is the chief executive officer of Internet Solicitor.com founded in 1999 and it operates the legal information portal site of solicitor.com.hk founded in 1997. Since early 2000, he has been offering seminars on e-commerce and Internet laws to executives of e-commerce and IT fields. Mr. Tse joined the Group in May, 2000. Mr. Tse does not have any directorship in other public listed company in the past three years.

LETTER FROM THE CHAIRMAN

Mr. Lee Kar Wai, aged 56, is the financial operation director for Kanghong Digital Image (HK) Ltd.. He was previously for the company secretary and regional finance controller for CB Richard Ellis Limited and a subsidiary of Dun & Bradstreet Corporation in the U.S.. He is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. He graduated with a master degree in accounting science from University of Urbanna, Illinois in the U.S. and a bachelor degree in business administration (accounting) from University of Texas at Arlington in the U.S. in 1976 and 1975 respectively. Mr. Lee joined the Group in November, 2000. He is also an independent non-executive director of Prosticks International Holdings Limited, a listed company in Hong Kong. Saved as disclosed about, he does not have any directorship in other public listed company in the past three years.

At the Latest Practicable Date, they do not have any relationship with any directors, senior management, management shareholders, substantial shareholders, or controlling shareholders of the Company. In accordance with the meaning of Part XV of the Securities and Futures Ordinance, they do not have any interest or short position in the shares and underlying shares of the Company or any of its associated corporations. There is no service contract between them and the Company. Mr. Lee Kar Wai is entitled to receive a director's fee of HK\$30,000 per annum, which was determined having regard to his duties in the company. Mr. Tse Lin Chung is entitled to receive a director's fee of HK\$30,000 per annum, which was determined having regard to his duties in the company. In addition, they are not entitled to a bonus payable and there are no matters needed to be brought to shareholders attention in relation to their re-election.

NOTICE OF ANNUAL GENERAL MEETING

AGM Notice is set out in Appendix II to this circular. The procedure for demanding a poll is set out in Appendix III. A proxy form for use at the meeting is enclosed herewith. Whether or not you intend to attend the annual general meeting, you are requested to complete the proxy form and return it to the share registrars of the Company not less than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting (as the case may be). Completion and return of a proxy form will not preclude shareholders from attending and voting at the meeting and at any adjournment thereof if they so wish.

RECOMMENDATION

The Directors recommend the proposals to all Shareholders for their favourable consideration and urge them to vote in favour of the resolutions set out in the AGM Notice as they intend to do themselves in respect of their own holdings.

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 AGM 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 Repurchase Mandate and on the basis that no further Shares are issued or repurchased prior to the AGM, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 60,000,000 Shares representing not more than 10% of the issued share capital of the Company during the period from the date of the passing of the Repurchase Mandate until (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the Repurchase Mandate by ordinary resolution of the Shareholders in general meeting, whichever comes first.

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. EXERCISE OF THE REPURCHASE MANDATE

Exercise in full of the Repurchase Mandate, on the basis of 600,000,000 Shares in issue as at the Latest Practicable Date could result in up to 60,000,000 Shares being repurchased by the Company during the period up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; or (iii) the revocation, variation or renewal of the repurchase Mandate by ordinary resolution of the shareholders of the Company in general meeting, whichever occurs first.

5. 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 2004) in the event that the Repurchase Mandate is exercised in full at any time during the proposed repurchase period. 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.

6. SHARE PRICES

The highest and lowest prices at which the Shares have traded on GEM in each of the previous twelve months before the Latest Practicable Date are as follows:-

| | Highest <i>HK\$</i> | Lowest <i>HK\$</i> |
|--|-------------------------------|------------------------------|
| 2004 | | |
| July | 0.128 | 0.110 |
| August | 0.100 | 0.100 |
| September | 0.100 | 0.080 |
| October | 0.080 | 0.080 |
| November | 0.083 | 0.080 |
| December | 0.085 | 0.085 |
| 2005 | | |
| January | 0.083 | 0.083 |
| February | 0.075 | 0.075 |
| March | 0.088 | 0.067 |
| April | 0.089 | 0.070 |
| May | 0.050 | 0.036 |
| June (up to the Latest Practicable Date, 24 June 2005) | 0.048 | 0.035 |

7. UNDERTAKING

The Directors have undertaken to the Stock Exchange that they will exercise the powers of the Company to make repurchases pursuant to the Repurchase Mandate and in accordance with the GEM Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

8. 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 he 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.

9. 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 AGM, 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, the Directors will not repurchase shares of the Company on GEM if the repurchase would result in the number of the listed shares which are in the hands of the public falling below the minimum prescribed percentage for the Company as required by the Stock Exchange.

10. SHARE REPURCHASE MADE BY THE COMPANY

No purchases of Shares have been made by the Company in the six months preceding the date of this circular.



FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Members of FlexSystem Holdings Limited (“the Company”) will be held at 12/F., North Block, Skyway House, No. 3 Sham Mong Road, Tai Kok Tsui, Kowloon, Hong Kong on Friday, 29 July 2005 at 10:30 a.m. for the following purposes:–

1. To receive and consider the audited consolidated financial statements and the reports of the Directors and auditors for the financial year ended 31 March 2005;
2. To re-elect the retiring Directors and authorise the board of Directors to fix the remuneration of Directors;
3. To re-appoint auditors and to authorise the Directors to fix their remuneration;
4. As special business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:–

A. **“THAT:–**

- (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the grant or exercise of options under any share option scheme adopted by the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants or securities of the Company which carry rights to subscribe for are convertible into shares of the Company, shall not exceed the aggregate of:

- (i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and
- (ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution

and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

- (d) for the purpose of this Resolution:–

“Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:–

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, or any other applicable laws of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this Resolution.

“Right Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, and jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company).

B. THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase its shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the date of the passing of the Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Memorandum and Articles of Association of the Company, or any other applicable laws of Cayman Islands to be held; and

- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

C. **THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution No. 4A set out in the notice convening this meeting in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

By Order of the Board

LEUNG Wai Cheung

Company Secretary

Hong Kong, 27 June, 2005

Registered office:

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Head office and principal place of business:—

12/F., North Block

Skyway House

No. 3 Sham Mong Road

Tai Kok Tsui

Kowloon

Hong Kong

Notes:

- (a) Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A Member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (b) To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be delivered to the Company's share registrars, Secretaries Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.

Pursuant to Article 66 of the Articles of Association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

- (i) by the Chairman; or
- (ii) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (iii) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.