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## RISK FACTORS

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*Any potential investor in, and purchaser of, the Placing Shares should, prior to making an investment decision, carefully consider, along with the other matters set out in this prospectus, the following risk factors:*

### **RISKS RELATING TO THE GROUP'S BUSINESS AND OPERATIONS**

#### **The Group has a limited operating history in the ASP business**

The Group has a limited operating history in its ASP business. The Group's ASP business is in an early stage of implementation, and the revenue, potential income and cash flow from this new business is unproven. The Group's plan to generate revenues from the evolving ASP market is an unproven business model. As the Group's ASP business has only been launched recently, there can be no assurance that it will gain widespread market acceptance or generate sufficient revenue to make this business profitable. The Group must also develop sufficient and appropriate applications and services for its ASP business to attract and retain users. There can be no assurance that the Group will be able to charge for its ASP services at levels that would make its ASP business profitable, particularly if the Group's competitors develop similar services and offer competitive pricing. The success of the Group's ASP business strategies will also depend on many factors outside its control, including a rapid and sustained growth of ASP usage in Hong Kong and elsewhere in Asia. Because of the Group's limited operating history and entry into new lines of business as an ASP, its historical financial data may not provide a meaningful basis for investors to evaluate the Group and its prospects. Accordingly, evaluation of the Group's businesses and its prospects is difficult, and there can be no assurance that the Group will succeed in this business.

#### **The Group may be subject to intense competition in the ASP business**

The market for ASP business is new, rapidly evolving and intensely competitive, and the Group expects competition to intensify further in the future and this may affect the Group's ability to increase and/or sustain its customer base in its ASP business.

Some of the Group's competitors have longer operating histories in the ASP business, and greater financial, marketing and human resources than the Group. These competitors may also provide products and services that are better than those offered or planned to be offered by the Group in the areas of performance, pricing, creativity and integrations.

Furthermore, as a strategic response to changes in the competitive environment, the Group may, from time to time, make certain pricing, service or marketing decisions or acquisitions that could have a material effect on its business, results of operations and financial condition. New technologies and the expansion of existing technologies may also increase competitive pressure on the Group by enabling the Group's competitors to offer a lower-cost service.

#### **The Group's requirement for additional funds may not be satisfied**

The Group is currently experiencing a period of significant expansion in terms of its headcount, facilities and infrastructure and the Directors anticipate that further expansion will be required to address potential growth in its ASP business. Such expansion may require significant capital expenditure, as well as marketing, research and development and other operating expenditures. Based on the business plans of the Group as described in the paragraph headed "Statement of business objectives" under the section headed "Future plans and prospects" of this prospectus, the net proceeds

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from the Placing are expected to be used up to 31st March, 2003. However, as the Group will need to continually expend capital to maintain and upgrade its network, develop its new business lines, and market its existing and new services, it is possible that the Group may have to source additional funds for capital expenditure. If the Group fails to do so, the Group's business may be adversely affected.

### **The Group's dependence on its key executives and personnel**

The Group's performance to a significant extent depends on the continued services and contributions of its senior management and other key personnel. The Group's performance also depends on its ability to retain and motivate its other officers and key employees, including the executive directors and senior management staff. The Group does not have employment agreements in excess of two years with any of its key personnel. The Group has also entered into employment contracts with other senior employees and key personnel, most of which are terminable on three months' notice. The competition for qualified personnel in IT-related industries is extremely intense, therefore being limited in its financial strength and at an early stage of development in its ASP business, the Group may not be able to attract, retain or adequately motivate qualified technical and management executives and other key personnel. The Group's business development strategies, business and prospects would be adversely affected if it is not able to recruit and retain such personnel.

### **The Group may encounter difficulties with respect to the use of its intellectual property rights**

The Group has developed a number of proprietary rights, notably in trade marks, copyrights, Internet enabling technology and software applications which are crucial to its success. The Group owns the registered trademark "FlexAccount" in Hong Kong (the recordal of assignment of this trade mark in favour of FlexSystem Limited, a member of the Group has been filed with the Trademarks Registry of Hong Kong as more particularly mentioned in the paragraph headed "Intellectual Property Rights" in Appendix IV of this prospectus) and the Group is currently applying to register its other marks in Hong Kong and other Asian countries. However, there is no assurance that these applications will be approved or will not be opposed by third parties who may claim to have proprietary rights to such intellectual property. As the Group has expended a significant amount of financial resources to build up its brandname, should the Group fail to successfully assert and/or maintain its rights in its intellectual properties, there will be an adverse impact on its marketing plan. The resources expended will become obsolete and additional resources may need to be incurred for the establishment of a new brand.

In addition, the Group has not registered its computer software copyrights in the PRC and the Group may not successfully obtain the registration of computer software copyright. Accordingly, the Group may have to expend time and costs in proving the ownership and effectiveness of its such copyrights in the PRC.

Further, the proprietary computer program, Soma\*AI, developed by the Group has not been patented and has been released to the public prior to making any application for registration of patent and accordingly is no longer eligible for patent registration. It is uncertain whether any computer users will develop and/or obtain patents in respect of a similar and a more efficient computer program in competition with Soma\*AI. From time to time, the Group may have to resort to litigation to enforce

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its intellectual property rights, which could result in substantial costs and diversion of its financial and management resources. There can be no assurance that misappropriation or infringement of its intellectual property rights will not occur or if they do that the Group will be able to effectively enforce its rights.

### **The Group's business objectives may not materialise**

The business plans of the Group as described in the paragraph "Statement of business objectives" under the section headed "Future plans and prospects" of this prospectus are based on assumptions of future events which by their nature are subject to uncertainty and there is no assurance that the plans of the Group will materialise as intended. If the plans of the Group cannot be materialised, the profitability and the business of the Group may be adversely affected.

### **The Group's insurance coverage is limited**

Taking into account the emerging nature of the Internet related business, the insurance market may not be able to keep pace with the speed of change and the Group may not be able to obtain the necessary insurance coverage to cover any risk exposures of the Group's business on commercially reasonable terms. At present, the Group does not maintain any insurance for business interruption or any third party liability. Therefore, should the Group fail to perform services as undertaken which results in any of its clients suffering any losses or expenses, the Group may be held liable for such losses or expenses.

### **The Group's computer systems, servers and infrastructure may not be reliable**

The success of the Group's business depends on reliable computer systems, servers and infrastructure which may be subject to damage or cessation of operations from natural disasters, accidents, power loss, network failures, software flaws, transmission disturbance or other natural or artificial events. Therefore if the computer systems, servers and infrastructure of the Group break down, the ASP business of the Group will be paralyzed and the Group may be held liable for such losses or expenses incurred.

## **RISKS RELATING TO THE INDUSTRY**

### **The Group may be unable to stay ahead of technology trends and evolving industry standards in the future**

The Group's ASP business is characterised by rapidly changing technology and industry standards, subscriber needs and new products and services. The emerging nature of these products and services, their rapid evolution and increasingly shorter life cycles require the Group to continually improve its performance, products, services, network and its ability to respond to offerings by competitors.

It is not certain that the Group can respond to evolving technology and industry standards in a timely and cost-effective manner. Furthermore, changing the Group's services in response to market demand may require the adoption of new technologies that could render many of the technologies that it is currently implementing less competitive or obsolete. To respond successfully to technological advances and emerging industry standards, the Group may require substantial capital expenditure and

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access to related or enabling technologies in order to integrate the new technology with its existing technology. The Group may not be successful in modifying its network infrastructure in a timely and cost effective manner to facilitate such integration, which could adversely affect its quality of services, its results of operations and its business and prospects.

### **The Group's success depends on increased Internet usage**

The Group's future success depends on an increasing number of people and businesses using the Internet and Internet-related services in Asia. Commercial use of the Internet in Asia is at an early stage of development and subject to many uncertainties. Currently, the cost of computer equipment and Internet access prevents many people, particularly in some parts of China, from having access to computers or using the Internet. The Group's profitability will depend greatly on a sustained growth of the commercial use of the Internet in such markets.

### **The Group's ability to generate revenue from its ASP business may be limited by Internet security concerns**

The Group's infrastructure is potentially vulnerable to computer viruses, break-ins and similar disruptive problems caused by its subscribers or other Internet users. Computer viruses, break-ins or other problems could lead to the following problems:

- interruption, delay or cessation in service to the Group's customers;
- compromised security of confidential information stored in the computer systems or data centers of the Group; and
- costly litigation.

It is critical that the Group's Internet services maintain secure, high quality data transmission with minimal service disruptions or interference. The failure to maintain a consistent level of secured, high quality service could harm the Group's reputation and have a material adverse effect on its ability to generate revenue from its Internet businesses and in turn adversely affect its operating results, financial conditions, business and prospects.

Until more comprehensive security technologies are developed, the security and privacy concerns of the existing and potential customers may inhibit the growth of the Internet industry in general and the subscriber base for the Group's ASP services.

### **The Group's ability to generate revenue from its ASP business may be limited by privacy concern**

The Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the "PDP Ordinance") requires any person (a "data user") who controls the collection, holding, processing or use of data to comply with the data protection principles prescribed by the PDP Ordinance. These principles govern the manner of collection, the use and the maintenance of personal data. The Group may be considered as a "data user" when it collects information from the subscribers for its services. As such, the Group will be required to comply with the data protection principles prescribed under the PDP Ordinance. The PDP Ordinance also prohibits the use of personal data by the data user for direct marketing purposes unless certain requirements have been complied with. Accordingly, the marketing activities of the Group may be restricted and its Internet related business may be adversely affected.

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In particular, the Group's business involves the operation of data centers on behalf of SMEs where the Group is responsible for the data warehousing. The collection, use, holding and processing of personal data for storage in SME Data Center, such as payroll information, is also being regulated under the PDP Ordinance and may be similarly regulated in other jurisdictions. Accordingly, the Group has to expend extra costs in order to ensure compliance with the PDP Ordinance or other similar regulations in other jurisdictions (if applicable) and such additional costs may have an adverse impact on the Group's financial condition. In addition, if the Group breaches the relevant rules and regulations under the PDP Ordinance, it will be liable for damages or subject to litigation.

### **RISKS RELATING TO REGULATORY, ECONOMIC AND POLITICAL ISSUES**

#### **Political risks associated with doing business in Hong Kong**

The Group's primary facilities and operations are located in Hong Kong which is a special administrative region of the PRC, with independent executive, judicial and legislative branches of government. While Hong Kong presently enjoys a high degree of autonomy under the principle of "one country, two systems", developments in the PRC have in the past and may in the future adversely affect the political and economic environment in Hong Kong. As a result, the Group may be subject to any restrictions or prohibitions imposed on the Group's business and its earnings may be adversely affected by any future adverse political and economic development in the PRC.

#### **Development of Internet related regulations in the PRC may affect the Group's ability to expand its ASP business in the PRC**

The legal framework of the PRC Internet related businesses is still in developing stage. This may give rise to uncertainties that are unfavourable to the Group's ASP business.

There have been various new regulations promulgated recently to regulate Internet related-businesses in the PRC. According to such regulations, some Internet-related business activities may be subject to strict licensing requirements including, among others, the ISP business. The legal advisor to the Company as to PRC law confirmed that the business currently conducted by the Group is not subject to any licensing requirement, except for the requirement to obtain a business license, under current PRC laws. It is reported that the Ministry of Information Industry of the PRC is in the process of making new regulations governing various online businesses, and there is no assurance that a license would not be required for the Group to conduct its business in future as it is currently conducted, namely the ASP business, under such new regulations. There is also no assurance that such license will be granted to the Group if such new regulation comes into force.

The legal framework governing the Internet industry in the PRC is subject to further development and modification. The PRC Government may introduce new laws to regulate the Internet related business or to use the Internet as a medium for conducting business. At present, it is not possible to predict the possible effects of further development of the PRC legal system on the Group. Such development includes promulgation of new laws, modification of existing laws or interpretation or enforcement thereof and replacement of local regulations with national laws. It is possible that these developments may have a negative impact on the business of the Group.

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### **The Group's revenue may be affected by fluctuations in exchange rates and the Group may be exposed to currency conversion risks**

Historically, a substantial portion of the Group's revenue, expenses and liabilities have been denominated in HK dollars. In the future, the Group anticipates that certain of its business may be conducted in jurisdictions which could generate revenue, expenses and liabilities in other currencies, including Renminbi and other Asian currencies. In particular, Renminbi is not a freely convertible currency as the PRC government imposes controls over remittance abroad and the conversion of Renminbi into foreign currencies. Thus, the Group's business and operations may be affected, should it not be able to obtain sufficient foreign currencies at acceptable rates to meet its foreign exchange needs. As a result, the Group will be subject to the effects of exchange rate fluctuations with respect to any of these currencies.

### **RISKS RELATING TO THE SHARES**

#### **The unpredictability of the Group's periodic results may adversely affect the trading price of its Shares**

The Group's revenue and operating results may vary significantly from period to period due to a number of factors, some of which are outside the Group's control. Some of these factors include, inter alia;

- fluctuations in demand for the Group's services;
- developments in the Internet industry;
- the Group's ability to introduce, develop and deliver products and services that meet customer requirements in a timely manner; and
- general economic conditions in Hong Kong and other markets in which the Group operates.

Due to these factors, the Directors believe that period-to-period comparisons of the Group's operating results are not a good indication of its future performance. It is likely that the Group's operating results in some periods will be below the expectations of investors. In this event, the price of the Shares may decline, perhaps more significantly than any decline in operating results.

#### **The Company's Share price may be volatile**

The price of the Shares may fluctuate as a result of variations in the Group's operating results. If the trading volume of the Shares is low, the price fluctuations may be exacerbated. Since the Group's viability is intricately linked with technology and its businesses are to a great extent driven by technology, the prices of the Shares, like those of the other companies in the high technology industry, are also prone to news including, inter alia, the gain or loss of a significant customer, or sales orders as well as changes in securities analysts' estimates of the Group's financial results or recommendations.