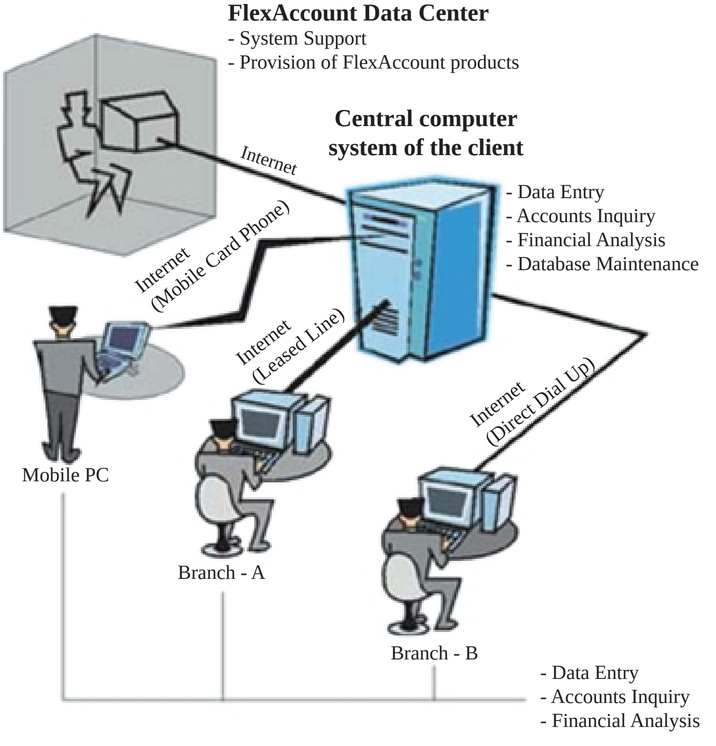
In addition, the enterprise software products of the Group are being used by various corporations. If there are genuine savings on the part of these existing customers of the Group in using the Group's ASP services, the Directors believe that most of them will subscribe to the ASP services of the Enterprise Data Center. Since the launch of the Enterprise Data Center, the Group has already secured subscriptions from several customers for the ASP services provided thereunder.

The following illustrates the relationship between the Group and the client using the Enterprise Data Center:



Apart from FlexAccount Data Center, the Group is also planning to launch other services through the Internet to further exploit the potential of the ASP business. For details of these services, please refer to the "Future plans and prospects" section of this prospectus.

Strategic alliance

The Directors believe that early entry into the market and having access to users are the important factors for success in an ASP business, since the cost for the users to switch from one ASP to another is considered to be substantial. In addition to existing users of FlexAccount products, it is also the Group's strategy to reach potential customers through strategic alliances with value-added partners, in both Hong Kong and overseas markets. These partners are expected to have a substantial client base which have an immediate demand for the Group's ASP services. The Directors expect these value-added partners to be ISPs, other ASPs and organisations entrusted with clients' data (for example, international accounting firms). The Directors consider that such strategic alliances to be an effective way to increase market share in a short period of time as well as to increase the sales of the FlexAccount products developed by the Group.

DeloitteFlex e-Business, Inc

In May 2000, the Group entered into a letter of intent with Deloitte & Touche Management Consulting Co., Limited in Taiwan for establishing a joint venture under the name of "DeloitteFlex e-Business, Inc." to engage in ASP business, sales of software and provision of related services in Taiwan. Pursuant to the letter of intent, each party shall own 50% interest in the joint venture. The initial investment to be made by the Group for this joint venture is estimated to be about HK$1,000,000. Under the arrangement, the Group will be responsible for providing the FlexAccount products and the technical support, while Deloitte & Touche Management Consulting Co., Limited, Taiwan will be responsible for management support, marketing as well as customer liaison. It is expected that a formal agreement will be entered into by the parties thereto at a later stage. DeloitteFlex e-Business, Inc. is expected to commence business by the end of August 2000. DTCF is wholly owned by Deloitte Touche Tohmatsu, Hong Kong, while Deloitte & Touche Management Consulting Co., Limited, Taiwan is controlled by Deloitte & Touche, Taiwan. Management and ownership of Deloitte Touche Tohmatsu, Hong Kong and Deloitte & Touche, Taiwan are separate. However, both Deloitte Touche Tohmatsu, Hong Kong and Deloitte & Touche, Taiwan are member firms of the international organisation of Deloitte Touche Tohmatsu.

China alliance

The Group has entered into several letters of intent with different market practitioners in the PRC to jointly develop and market the services of FlexAccount Data Center in the mainland. These include the following:

In March 2000, the Group entered into a letter of intent with Shanghai Haitian and Lixin Technology for the establishment of a Sino-foreign equity joint venture company 佛海•立信網絡科技(上海)有限公司 (Fuohai•Lixin Networking (Shanghai) Co., Ltd.). Lixin Technology is the IT development arm of a company providing supporting services to accounting firms in the PRC, whilst Shanghai Haitian is a division of Shanghai University. Upon establishment, this new joint venture company is expected to be 51% owned by the Group and with a term of 20 years in accordance with the terms of the letter of intent. Subject to relevant government approval, this joint venture company will principally be engaged in the ASP business in the PRC. The Group will be responsible for providing data hosting services and the provision of the FlexAccount products to users on a subscription basis through implementation of the FlexAccount Data Center and also for the related customer support and maintenance services. Shanghai Haitian and Lixin Technology will be responsible for coordinating the sales and marketing efforts. It is expected that a formal agreement will be entered into by the parties thereto at a later stage. The initial investment to be made by the Group for this joint venture is estimated to be about HK$500,000.

In March 2000, the Group also entered into a letter of intent for the establishment of a joint venture company with Huamei Software through which the Group will collaborate with Huamei Software to offer ASP services in Changshu. Under the arrangement, the Group will offer the services of implementing the FlexAccount Data Center as well as of providing the necessary technical support. Huamei Software will be responsible for coordinating the sales and marketing efforts. It is expected that a formal agreement will be entered into by the parties thereto at a later stage. The initial investment to be made by the Group for this joint venture is estimated to be about HK$700,000.

Hong Kong alliance

The Group entered into letters of intent with a number of companies in Hong Kong including Asia Online (HK) Limited (a regional ISP), Cyberoffice Limited (a regional ASP), Corpmart.com Limited (an ASP), i-Accountant Ltd (an accounting firm) and Secretaries Limited (a company providing business services, secretarial services and share registration services) to jointly develop the ASP business in Hong Kong. Under these arrangements, the Group typically agrees to provide a full range of FlexAccount products, technical support and assistance in the installation of data centers, whilst the business partners are to be responsible for marketing, customer liaision and maintenance of the system and database. The investment amount and details of cooperation with these partners are to be determined when the respective formal agreements are to be entered into.

Secretaries Limited is beneficially and wholly owned by Deloitte Touche Tohmatsu, Hong Kong which also wholly owns DTCF. Despite the proposed cooperation between the Group and Secretaries Limited, DTCF is not aware of and do not consider any conflict of interest for acting as the Co-Sponsor to the Placing.

The Group will make appropriate announcements in accordance with the GEM Listing Rules when formal agreements are entered into.

SUPPLIERS

The Group's suppliers primarily consist of third-party providers of hardware used in providing solutions implemented by the Group for its customers. Usually, when supplying solutions for its customers, the Group also provides complimentary services of sourcing the relevant hardware products on behalf of its clients.

All of the Group's purchases are made in HK dollars and payments are made on a cash-on-delivery basis. For the years ended 31st March, 1999 and 31st March, 2000, purchases amounted to HK$1.1 million and HK$0.1 million respectively, representing 2.8% and 0.2% of the turnover for the two years respectively. This represents a decrease of approximately 91.5% over the two years, which is attributable to a decrease in hardware sales.

Purchases from the largest 5 suppliers accounted for approximately 95.9% and 100% of the Group's purchases for each of the two years ended 31st March, 2000. Purchases from the largest supplier accounted for approximately 87.7% and 54.1% of the Group's purchases for the two years ended 31st March, 2000. The Group has other suppliers and having taken into account of the fact that the annual purchase amount is relatively small as compared to the turnover of the Group, the Directors consider that the Group does not have over-reliance on any particular supplier. None of the Directors, nor any shareholder of the Company who will be interested in more than 5% of the issued share capital of the Company immediately following the Placing (but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option) nor any of their respective associates have any interest in any of the Group's five largest suppliers during the two years ended 31st March, 2000. The Group has not experienced any major difficulty in obtaining adequate supply of products to meet its own needs.

CUSTOMERS, SALES AND MARKETING

Customers

Having served a number of the commercial sectors in Hong Kong for more than 13 years, the Group has built a sizeable customer base comprising over 20% of the companies (including their respective subsidiaries) listed on the Main Board as at 30th April, 2000 and has completed more than 1,200 installations in Hong Kong and the PRC since its inception for customers ranging from SMEs to multinational corporations engaged in a wide spectrum of industries. Some of the Group's customers have brought along recurrent business and have become a source of new business for the Group through referrals by such customers.

The five largest customers of the Group's products accounted for approximately 8.7% and 4.5% of the Group's total sales for the two years ended 31st March, 2000. These customers have generally maintained a business relationship with the Group for a period of approximately 3 years. Sales to the Group's largest customer for the two years ended 31st March, 2000 represented approximately 2.1% and 1.6% of the Group's total sales and the Group has maintained a business relationship with this customer for approximately 6 years. None of the Directors, nor any shareholder of the Company who will be interested in more than 5% of the issued share capital of the Company immediately following the Placing (but taking no account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option) or their respective associates have any interest in any of the Group's five largest customers during the two years ended 31st March, 2000.

Sales

During the Active Business Pursuit Period, the Group's income was derived mainly from the sales of FlexAccount products in Hong Kong and the PRC. It has been a strategy of the Group to focus its sales efforts on medium to large sized enterprises.

Most customers of the FlexAccount products are companies based in Hong Kong. For each of the two years ended 31st March, 2000, sales in Hong Kong accounted for approximately 92.5% and 90.9% respectively of the total sales of application software products. The balance is mainly attributable to sales in the PRC market.

Sales of the Group's products are mainly paid for in Hong Kong dollars. During the two years ended 31st March, 2000, the Group's sales which were settled in Hong Kong dollars represented approximately 92.5% and 90.9% respectively of the Group's total turnover with the balance being settled in RMB. A typical payment method is through advance payments made in three phases. 50% deposit to be paid upon signing a sales contract, 30% further deposit to be paid upon successful installation of the application software and the balance to be paid one month later. It normally takes approximately one to three months from the completion of installation to the completion of commissioning and acceptance, depending on the size and complexity of the projects undertaken by the Group. The Group also provides free warranty services for a period of three months starting from the date of completion of installation. The services include hot line enquiry and remote support via Internet. In addition, the Group also provides maintenance services upon request of the client. The normal maintenance contract term is for a period of one year. Income generated from such maintenance services is recognised over the life of the agreement on a straight-line basis. For each of the two years ended 31 March 2000, the warranty expense incurred by the Group was immaterial.

Customers for FlexAccount products usually settle payment within one to two months. For the two years ended 31st March, 2000, the Group has not experienced any significant bad debt. The Directors attribute this to the credit-worthiness of the Group's customers and the Group's stringent credit control policy under which the Group normally terminates services to clients with outstanding payments which have been overdue for more than 60 days.

Marketing

As at the Latest Practicable Date, the Group employed 33 sales and marketing personnel in Hong Kong and the PRC. The sales and marketing team of the Group identifies potential customers and introduces to them the products and services offered by the Group. All sales executives of the Group have good understanding of the FlexAccount products as well as other services provided by the Group. The Directors believe that ongoing support service is critical for customers' satisfaction and recurrent business, thus after-sales services are provided by customer support teams in local offices of the Group. In most cases, such services are either provided by phone or via the Internet.

As part of the distribution network for the FlexAccount products, the Group appoints distributors in the PRC to market and distribute FlexAccount products in the PRC. These distributors are typically accounting firms or software houses in the PRC which have an established client base or distribution network in the local market. The remuneration of the distributors are based on the sales volume for the FlexAccount products they achieve.

The Group places great emphasis on a customer-oriented approach when undertaking each project. The Group's sales team maintains regular contacts with its potential and existing customers so that the Group is kept abreast of the customers' requirements and can promptly identify feasible modifications to or make timely improvements on the existing application system.

RESEARCH AND DEVELOPMENT

The Group places great emphasis on research and development. Since its establishment, the Group has focused on the development of enterprise application software which has resulted in a wide range of software components ready to be used by various computer applications. Through extensive research and development, the Group has developed a set of software framework which can be re-used from one software development project to another. The Directors believe that this set of reusable framework can effectively shorten the development time of future software products and improve the quality of products developed by the Group. In addition to its conventional enterprise application services, the Group has explored the development of delivering applications via the Internet since 1999. Foreseeing the increasing trend of using the Internet as a means to conduct business, the Group began to invest in Internet enabling tools and developed the Group's proprietary Internet enabling technology, Soma*AI. The Directors believe that the growth of the business of the Group largely depends on the development of the Group's proprietary products and technology which allow the Group to offer products and services in a more efficient and flexible manner as compared to its competitors.

As at the Latest Practicable Date, the Group has three research and development centers with 66 programming staff located in Hong Kong, Shanghai and Macau. Most of the staff members are diploma holders in the relevant areas. The overall research and development efforts are coordinated by the research and development center in Hong Kong. Developments relating to application software are conducted in Hong Kong as the Directors intend to take advantage of the abundance of application skills available in Hong Kong. On the other hand, the research and development centers in Shanghai and Macau are responsible for component/object-based development which requires a relatively longer development time. The Directors are of the view that such diversification of research and development efforts in different locations facilitates resource allocation and reduces the risk of over-reliance on a certain pool of research and development personnels. The Directors believe that such diversification is crucial for the long-term development of a technology based company. In addition, each research and development center is also responsible for the localisation of the FlexAccount products for the market in its vicinity. For the two years ended 31st March, 2000, the Group's investments in research and developments amounted to approximately HK$3 million and HK$4 million respectively.

INTELLECTUAL PROPERTY RIGHTS

The Group has made applications to register certain trademarks in Hong Kong, the PRC, Taiwan, Malaysia and Singapore. Details of those applications are set out in the paragraph headed "Intellectual property rights" under the section headed "Further information about the business" in Appendix IV. The Group recognises that effective protection of its intellectual property may be difficult or impossible in the markets in which it does business, particularly the PRC. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet-related industries is uncertain and still evolving. Unauthorised use of the Group's intellectual property by third parties may damage the Group's image and reputation.

The Group relies on a combination of confidentiality procedures and contractual provisions to protect its proprietary technology. The Group has not patented any of its designs and products.

COMPETITION

In respect of the packaged enterprise software market, the Group faces competition principally from foreign application software providers. The Directors believe that the major competitors for the Group in respect of this market are Systems Union, Epicor Software Corporation and Oracle Finance. As their products are originally designed for overseas markets, the Directors believe that (i) these companies may lack the flexibility in the provision of local support services for customers in Hong Kong as well as for other Asian markets; (ii) their software packages place extensive emphasis on accounting functions which require additional integration to provide a fully functional enterprise application solution; and (iii) most of their products are not integrated with any Internet enabling technology which may limit their availability and performance on the Internet.

On the other hand, the Directors believe that the FlexAccount products represent an integrated enterprise solution to its users. The Directors consider the FlexAccount products, which have been designed for the local market, to be more user-friendly for users in Hong Kong. Moreover, the Directors also believe that its established client base and its reputation as a reliable enterprise application software developer are additional competitive advantages for the Group.

As for the ASP market, the Directors consider the Group as one of the early batch of participants in the local market at the time of its initial entry in March 2000. As the market is still in an early development stage in Hong Kong, competition is likely to become intense in the future. Currently, the Directors believe that there are only several other players in the ASP market in Hong Kong and they have yet launched a comprehensive range of services as compared to the Group.

With its proprietary Internet enabling technology, namely Soma*AI, and a well-established portfolio of application software, the Directors consider the Group as one of the few ASPs offering effective and comprehensive enterprise solutions to companies conducting businesses in Hong Kong. More importantly, the Directors believe that due to the fact that (i) the Group does not need to pay third party licence fees for its Internet enabling technology and (ii) the bandwidth efficiency of Soma*AI, the Group is able to offer its ASP services at a more competitive price than its competitors.

YEAR 2000 COMPLIANCE ISSUE

The year 2000 compliance problem arises primarily because computer data storage was expensive in the past. Some system engineers used only two digits to represent the year in the database to save storage space. With the general decrease in the costs of computer data storage, the need to save storage space has become less important.

The year 2000 compliance issue has already been taken into account during the stage of research and development of the Group's products. In addition, all software developed by the Group has been tested to be year 2000 compliant before launch. For broadband data networks equipment and products and outsourced software, the Group requires its suppliers to provide confirmation that they are year 2000 compliant.

The Group has conducted an assessment on its internal computer systems and concluded that they are year 2000 compliant. In addition, the Group has implemented a year 2000 contingency plan which mainly includes the making of back-up copies of all computer files and the maintaining of a systematic filing of hard copies of the relevant documents. At the Latest Practicable Date, the Group has not experienced any problems with its computer hardware and application software that relate to year 2000 compliant issues.

RELATIONSHIP WITH MR. LOK

Mr. Lok, through SHI, will indirectly own approximately 77.3% of the issued Shares of the Company immediately after completion of the Placing (but without taking into account Shares which may be taken up under the Placing and of Shares falling to be allotted and issued upon exercise of the Over-allotment Option). Save for the transactions set out in the paragraph headed "Connected transactions" in this section, at present, the Group is not engaged in any transactions with other entities in which Mr. Lok has an equity interest.

To motivate the employees of the Company, Mr. Lok presently intends to make available up to 5% of the Shares beneficially owned by SHI for transfer to employees of the Company at no consideration as an incentive for job performance after the first six months from the Listing Date. Mr. Lok intends to evaluate the job performance of the employees in terms of various aspects, including contribution to results of research and development of the Group's products, sales and marketing and/or overall corporate development of the Group.

Apart from his interest in the Company, Mr. Lok owns 70% equity interest in Maya Systems Consultants Pte Limited, a company incorporated in Singapore. Maya Systems Consultants Pte Limited is principally engaged in the development and distribution of logistics-related software in Singapore. The Company is not involved in the development of such software. The Directors consider that Maya Systems Consultants Pte Limited is not in direct competition with the Group's business. Mr. Lok will, prior to the Listing Date, undertake to the Company that he will use his best endeavour to procure that Maya Systems Consultants Pte Limited will not engage in any business, which will be in competition with the Group's business.

In addition, Mr. Lok has, on 18th May, 2000, signed a letter of intent with Deloitte Touche Tohmatsu, Hong Kong for the establishment of a joint venture company to engage in the system integration business. Pursuant to the terms of the letter of intent, Mr. Lok will hold 65% and Deloitte Touche Tohmatsu, Hong Kong will hold 35% equity interests in the joint venture company upon its establishment. Deloitte Touche Tohmatsu, Hong Kong and Mr. Lok would inject the entire issued share capital of Insight Computer Consultants Limited and cash respectively to the proposed joint venture company. Insight Computer Consultants Limited is a company incorporated in Hong Kong which is wholly owned by Deloitte Touche Tohmatsu, Hong Kong and engaged in the system integration business. In view of the nature of the intended business of the proposed joint venture company, the Directors consider the proposed joint venture would not be in competition with the Group's business. In addition, the Directors are also of the view that the intended nature of business of the joint venture company would not be in line with the Group's current business or its future plan. The investment amount and other details of the cooperation between Mr. Lok and Deloitte Touche Tohmatsu, Hong Kong will be determined when a formal agreement is entered into.

CONNECTED TRANSACTIONS

A licence agreement (the "Licence Agreement") granting the Group the exclusive rights and occupation in relation to the offices of the Group in Hong Kong, was made on 7th July, 2000 between FlexSystem Limited and Oriental Palace Limited (in which Mr. Lok and Mr. So Yiu King each has 50% interest). The Licence Agreement is for the remaining and unexpired terms of the respective tenancy agreements between Oriental Palace Limited as tenant and an independent third party as landlord in relation to such offices, namely, from 17th February, 1999 to 16th February, 2001, 1st January, 2000 to 31st December, 2000 and 1st April, 2000 to 31st March, 2001. The monthly licence fee (exclusive of management fees and rates which will be borne by the Group) payable under the Licence Agreement for the remaining and unexpired term is HK$81,895.50.

A tenancy agreement (the "Tenancy Agreement") in relation to the residence of the Chairman of the Group, Mr. Lok, in Hong Kong was made on 7th July, 2000 between the Company and Corena Investments Limited, in which Mr. Lok and Mrs. Lok each have 50% interest. The Tenancy Agreement is for a term of 2 years commencing from 1st July, 2000 to 30th June, 2002 at a monthly rental of HK$30,000.

DTZ has confirmed that the terms of the Licence Agreement and the Tenancy Agreement are on normal commercial terms.

The Directors confirmed that, the transactions mentioned above have been entered into by the members of the Group on normal commercial terms and in the usual and ordinary course of the Group's business and are fair and reasonable so far as the interests of the shareholders of the Company, taken as a whole, is concerned.

Having reviewed the information and documents provided by the Company in respect of the above mentioned connected transactions and in reliance upon confirmation from the Directors, the Sponsor and the Co-Sponsor are of the opinion that the transactions described above, which are subsisting and are of a commercial nature, have been entered into in the ordinary course of business of the Group, on normal commercial terms and are fair and reasonable as far as the interest of the shareholders of the Company, taken as a whole, is concerned and are in the interests of the Group.

Since the value of these connected transactions falls below the higher of HK$10,000,000 and 3% of the net tangible assets of the Company, these transactions are not subject to the announcement and shareholders' approval requirements under Rule 20.24 of the GEM Listing Rules.