

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8th May, 2000. The Company has established a principal place of business in Hong Kong at 1st Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong and has been registered as an overseas company under Part XI of the Companies Ordinance. In connection with such application, Mr. Lok of Flat F, 21st Floor, Block 3, Pokfulam Gardens, 180 Pok Fu Lam Road, Hong Kong has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution comprises a memorandum of association and articles of association. A summary of various parts of the constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital

The Company was incorporated on 8th May, 2000 with an authorised share capital of HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each.

The following alterations in the share capital of the Company have taken place since the Company's incorporation up to the date of this prospectus.

- (a) 1 Share was allotted and issued to Codan Trust Company (Cayman) Limited as the subscriber and transferred to SomaFlex Holdings Inc. on 18th May, 2000 in consideration of HK\$0.10;
- (b) the authorised share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by the creation of an additional 1,996,200,000 shares; and
- (c) 475,499,999 Shares were allotted and issued to SHI credited as fully paid as consideration for the acquisition of the entire issued share capital of SomaFlex International Inc. by the Company on 10th July, 2000.

Immediately following completion of the Placing, the authorised share capital of the Company will be HK\$200,000,000 divided into 2,000,000,000 Shares of which 600,000,000 Shares fully paid or credited as fully paid and 1,400,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme or pursuant to the exercise of the Over-allotment Option, there is no present intention to issue any of the authorised but unissued share capital of the Company.

Save as disclosed herein and in the paragraph headed "Corporate reorganisation" of this appendix, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions

Written resolution of the sole shareholder of the Company passed on 10th July, 2000

On 10th July, 2000, written resolutions of the sole shareholder of the Company were passed pursuant to which, inter alia:

- (a) the authorised share capital of the Company was increased from HK\$380,000 to HK\$200,000,000 by the creation of an additional 1,996,200,000 Shares;
- (b) conditional on (i) the GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be made available pursuant to the exercise of the Over-allotment Option) and (ii) on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by Vickers on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before 9:00 a.m. on the business day immediately preceding the date of despatch of the share certificates, the Placing and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Placing Shares and the Over-allotment Shares which may be required to be issued if the Over-allotment Option is exercised;
- (c) conditional on (i) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein and granting listing of, and permission to deal in, any Shares which may fall to be issued pursuant to the exercise of any such option under the Share Option Scheme (ii) the Share Option Scheme being approved by the shareholders of the Company and (iii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by Vickers, on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreement or otherwise, the rules of the Original Share Option Scheme were approved and adopted and the Directors were authorised to allot, issue and deal with Shares issued pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme;
- (d) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of a rights issue or pursuant to the exercise of any options which may be granted under the Original Share Option Scheme or any 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, Shares with an aggregate total nominal value not exceeding 20% of (i) the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Placing and (ii) the aggregate of the total nominal value of the share capital of the Company which may be issued pursuant to the Over-allotment Option, such mandate to remain in effect until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company following the passing of that resolution;
 - (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 passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing such mandate;
- (e) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of (i) the total nominal value of the share capital of the Company in issue immediately following the completion of the Placing and (ii) the total nominal value of share capital of the Company which may be issued pursuant to the Over-allotment Option, such mandate to remain in effect 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 articles of association of the Company or any applicable laws to be held; or
 - (iii) the passing of an ordinary resolution of the shareholders of the Company in general meeting revoking, varying or renewing such mandate;
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate to repurchase Shares referred to in paragraph (e) provided that such extended amount shall not exceed 10% of (i) the aggregate of the total nominal value amount of the share capital of the Company in issue immediately following completion of the Placing and (ii) the total nominal value of share capital of the Company which may be issued pursuant to the Over-allotment Option.

Written resolutions of the sole shareholder of the Company passed on 15th July, 2000

On 15th July, 2000, written resolutions of the sole shareholder of the Company were passed pursuant to which the New Share Option Scheme was adopted in substitution for the Original Share Option Scheme, subject to the same conditions for the adoption of the Original Share Option Scheme as set out in paragraph (c) headed “Written resolutions of the sole shareholder of the Company passed on 10th July, 2000”.

4. Corporate reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the structure of the Group in preparation for the listing of Shares on GEM. The reorganisation involved the following:—

- (a) the transfer of 51 Shares in FlexNet Limited (representing 51% of the issued share capital thereof) by FlexSystem Limited to Mr. So Yiu King on 6th May, 2000 in consideration of the payment of HK\$51 by Mr. So Yiu King to FlexSystem Limited;

- (b) the winding up of FlexSolution Limited, 40% of the issued share capital of which was held by FlexSystem Limited, which commenced on 5th May, 2000 and 40,000 Shares representing such share capital were transferred by FlexSystem Limited to an independent third party in consideration of the payment of HK\$1.00 by such third party to FlexSystem Limited;
- (c) the winding up of FlexTech Limited, 48% of the issued share capital of which was held by FlexSystem Limited, which commenced on 5th May, 2000 and 48,000 shares representing such share capital were transferred by FlexSystem Limited to an independent third party in consideration of the payment of HK\$1.00 by such third party to FlexSystem Limited;
- (d) the winding up of Paradise Star Limited, 99% of the issued share capital of which was held by FlexSystem Limited, which commenced on 5th May, 2000 and 99 shares representing such share capital were transferred by FlexSystem Limited to an independent third party in consideration of the payment of HK\$1.00 by such third party to FlexSystem Limited;
- (e) the transfer of 119,999 shares in FlexSystem Limited as to 119,998 shares by Mr. Lok and as to 1 share by Mrs. Lok as trustee of Mr. Lok, to SomaFlex International Inc. and the declaration of trust by Mr. Lok in favour of SomaFlex International Inc. on 10th July, 2000 in consideration of the allotment and issue of 19,505 shares in SHI to Mr. Lok credited as fully paid and the payment of HK\$1.00 to Mrs. Lok;
- (f) the transfer of 1 share in FlexPro Limited by Mr. Chow Chi Ming, Daniel to SomaFlex International Inc. on 7th July, 2000 in consideration of the payment of HK\$1.00 by SomaFlex International Inc. to Mr. Chow Chi Ming, Daniel and the declaration of trust in respect of 1 share in FlexPro Limited by Mr. Lok in favour of SomaFlex International Inc. on 7th July, 2000 in consideration of the payment of HK\$1.00 to Mr. Lok;
- (g) the transfer of 99 shares in Soma Software Services Limited, as to 98 shares by Mr. Lok and as to 1 share by Mrs. Lok to SomaFlex International Inc. and the declaration of trust by Mr. Lok as to 1 share in favour of SomaFlex International Inc. on 7th July, 2000 in consideration of payment of HK\$100;
- (h) the transfer of 1 share in Danfaith Limited by Mr. Lok to SomaFlex International Inc on 19th June, 2000 in consideration of the allotment and issue of 1 share in SHI to Mr. Lok;
- (i) the transfer of 3,000 shares in FlexSystem Software Limited by Mr. Lok to FlexPro Ltd. on 24th June, 2000 in consideration of the payment of MOP3,000 by FlexPro Limited to Mr. Lok; and
- (j) the transfer by SHI to the Company of 1 share in SomaFlex International Inc. of US\$1.00 being the entire issued share capital of SomaFlex International Inc. on 10th July, 2000 in consideration and in exchange for which the Company allotted and issued, credited as fully paid, 475,499,999 Shares to SHI.

5. Changes in the share capital of subsidiaries

The Company's subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus;

- (a) on 8th May, 2000, SomaFlex International Inc. was incorporated in BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each; and
- (b) on 24th May, 2000, SomaFlex International Inc. allotted one share of US\$1.00 to SHI for cash at par.

Save as disclosed in this appendix, there has been no alteration in the share capital of any subsidiary of the Company within the two years preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Regulations of the GEM Listing Rules*

The GEM Listing Rules permit companies whose listing is on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below:—

(i) Shareholders' approval

All repurchases of securities on GEM by a company with its listing on GEM must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

Note: Pursuant to the written resolutions of the sole shareholder of the Company passed on 10th July, 2000 a general unconditional mandate (the "Buyback Mandate") was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange of up to 10% of the (i) total nominal amount of the share capital of the Company in issue immediately after completion of the Placing and (ii) the total nominal amount of the share capital of the Company which may be issued pursuant to the Over-allotment Option, at any time until the conclusion of the next annual general meeting of the Company or 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 the passing of an ordinary resolution of shareholders of the Company in general meeting revoking, varying or renewing such mandate, whichever occurs first.

(ii) Source of funds

Any repurchases must be financed out of funds legally available for such purpose in accordance with the memorandum and the articles of association of the Company and the applicable laws of the Cayman Islands.

(iii) Trading restrictions

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company or warrants to subscribe for shares in the Company representing up to 10% of the amounts of warrants then outstanding at the date of

passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the Company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. A company is also prohibited from making securities repurchase on GEM if the result of the repurchases would be that the number of the listed securities in public hands would be below the relevant prescribed minimum percentage for that company as determined by the Stock Exchange.

A company may only purchase shares on GEM if (1) the purchase price is not higher than the latest (or current) independent bid price or the last independent sale (contract price) quoted or reported on the system (as defined in the Rules of the Stock Exchange) whichever is higher; and (2) the Company has not made the opening bid nor may bid the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange.

(iv) Status of repurchased securities

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under Cayman Islands law, a company's repurchased shares shall be treated as cancelled and the amount of the Company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly, although the authorised share capital of the Company will not be reduced.

(v) Suspension of repurchase

A company may not make any repurchase of securities on GEM at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of its half-year or quarterly report, a company may not repurchase its securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of securities on GEM if the Stock Exchange considers that a company has breached the GEM Listing Rules.

(vi) Reporting requirements

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The Company shall make arrangements with its broker who effects the purchase to provide the Company in a timely fashion the necessary information in relation to the purchase made on the Company's behalf to enable the Company to report to the Stock Exchange.

(vii) Connected parties

Under the GEM Listing Rules, a company shall not knowingly purchase shares from a connected person (as defined under the GEM Listing Rules) and a connected person shall not knowingly sell his shares to the Company.

(b) *Exercise of the Buyback Mandate*

Exercise in full of the Buyback Mandate, on the basis of 600,000,000 Shares in issue immediately following completion of the Placing, and taking no account of the Shares which may be allotted pursuant to the Over-allotment Option, could accordingly 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 other applicable laws to be held; or (iii) the revocation or variation of the repurchase mandate by an ordinary resolution of the shareholders in general meeting of the Company, whichever occurs first.

(c) *Reasons for repurchase*

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

(d) *Funding of repurchase*

In repurchasing the securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws and regulations of the Cayman Islands. The Company may not purchase securities 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.

(e) *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 this prospectus) in the event that the Buyback Mandate is exercised in full. However, the Directors do not propose to exercise the Buyback Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback 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.

None of the Directors and, to the best of their knowledge, having made all reasonable enquiries, none of their respective associates, have any present intention, if the Buyback Mandate is exercised, to sell any Shares to the Company or its subsidiaries.

No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell his Shares to the Company or has undertaken not to do so.

If as a result of the 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 purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). As a result, a shareholder, or a group of shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase in the shareholders' interests, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any other consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Buyback Mandate.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:—

- (a) a deed of assignment dated 10th July, 2000 by FlexSystem Software Limited in favour of Millenium Magic Sdn Bdn ("MMSB") in respect of the assignment of, inter alia, all rights, title and benefits of and in certain computer software copyrights, trademark and technology in consideration of HK\$1.00 paid to FlexSystem Software Limited;
- (b) a deed of assignment dated 17th May, 2000 by Mr. Lok in favour of FlexSystem Limited in respect of the assignment of all rights, title and benefits of and in the registered trademark "FlexAccount" in consideration of HK\$1.00 paid by FlexSystem Limited to Mr. Lok;
- (c) a deed of assignment dated 10th July, 2000 by FlexSystem Limited and FlexSystem Software Limited in favour of MMSB in respect of the assignment of, inter alia, all rights, title and benefits of and in the trademark "Soma*AI" and all rights and benefits in respect of the Hong Kong trademark applications filed in the name of FlexSystem Limited in consideration of HK\$1.00;
- (d) a distribution agreement dated 10th July, 2000 between MMSB and FlexSystem Limited whereby MMSB granted worldwide exclusive distributorship rights to FlexSystem Limited regarding the sale, distribution and marketing of computer software components together with a non-exclusive licence to use the trademark "Soma*AI" and, inter alia, the Soma*AI technology in the course of sales, distribution and marketing of products incorporating such components and technology;
- (e) a sale and purchase agreement dated 10th July, 2000 between Mr. Lok, Mrs. Lok and SomaFlex International Inc. ("SomaFlex International") whereby Mr. Lok agreed to sell to SomaFlex International the entire issued share capital in FlexSystem Limited in consideration of the allotment and issue of 19,505 shares in SHI to Mr. Lok credited as fully paid and the payment of HK\$1.00 to Mrs. Lok;

- (f) a sale and purchase agreement dated 10th July, 2000 between (i) SHI and (ii) the Company whereby SHI agreed to sell to the Company the entire issued share capital in SomaFlex International Inc. in consideration of the allotment and issue of 475,499,999 Shares to SHI credited as fully paid;
- (g) the underwriting agreement dated 17th July, 2000 between the Company, the executive Directors, SHI, Vandome, DTCF and the Underwriters in relation to the underwriting of the Placing Shares detailed in the paragraph headed “Underwriting Arrangements and Expenses” in the section headed “Underwriting”; and
- (h) a deed of indemnity dated 17th July, 2000 between SHI, Mr. Lok and the Company for itself and as trustee for its subsidiaries, containing certain indemnities given by SHI and Mr. Lok in favour of the Company and its subsidiaries being, inter alia, the indemnities as referred to in the sub-paragraph headed “Estate duty and tax indemnity” under the paragraph headed “Other Information” in this appendix.

2. Intellectual property rights

Pursuant to a Deed of Assignment dated 17th May, 2000 made between Mr. Lok as assignor and FlexSystem Limited as assignee, all rights, title and benefits of and in the following trademark have been assigned to FlexSystem Limited which has filed an application for recordal of the said assignment with the Trademarks Registry of Hong Kong on 12th June, 2000:—

Registrant	Trade Mark	Place of registration	Class	Registration Number	Registration Date
Lok Wai Man	FlexAccount	Hong Kong	9	1995/07178	23rd August, 1995 (Note)

Note: The registration took effect as of 11th January, 1994.

As at the Latest Practicable Date, the Group has applied to register the following trademarks:

Trade Mark	Place of application	Class	Application Number	Application Date
Hong Kong				
FION	Hong Kong	9	200007910	12th April, 2000
Soma*AI	Hong Kong	9	200007911	12th April, 2000
FLEXSYSTEM & device	Hong Kong	9	200015179	10th July, 2000
PRC				
FlexAccount	PRC	9	2000069537	22nd May, 2000
Soma*AI	PRC	9	2000069538	22nd May, 2000
Taiwan				
FlexAccount	Taiwan	9	89029412	25th May, 2000
Soma*AI	Taiwan	9	89029413	25th May, 2000

Trade Mark	Place of application	Class	Application Number	Application Date
<i>Singapore</i>				
FlexAccount	Singapore	9	T00/08586H	23rd May, 2000
Soma*AI	Singapore	9	T00/08587F	23rd May, 2000
<i>Malaysia</i>				
FlexAccount	Malaysia	9	2000-06268	22nd May, 2000
Soma*AI	Malaysia	9	2000-06267	22nd May, 2000

As at the Latest Practicable Date, the Group has registered the following domain name:

Registrant	Domain name	Registration Date
FlexSystem Limited	flexsystem.com	2nd January, 1997

C. FURTHER INFORMATION ABOUT THE DIRECTORS, SENIOR MANAGEMENT AND STAFF

1. Directors

Disclosure of interests

- (a) Immediately following completion of the Placing, the following Director has beneficial interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange once the Shares are listed.

Name of Director	Categories of interest				Total
	Personal Interest	Family Interest	Corporate Interest	Other Interest	
Mr. Lok	Nil	Nil	79.25%	Nil	79.25%

(Note)

Note: These securities are held by SHI (the ultimate holding company of the Company) in which Mr. Lok is entitled to exercise or control the exercise of one third or more of the voting power at general meetings. Mr. Lok is therefore deemed (by virtue of the SDI Ordinance) to be interested in these securities.

2. Particulars of service agreements

Each of Mr. Lok, Mr. Chow Chi Ming, Daniel, Mr. So Yiu King, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung being all the executive Directors of the Company, has entered into a service

contract with the Company for an initial fixed term of two years commencing from 1st July, 2000 which can be terminated by three months' notice in writing served by either party on the other after the said initial fixed term. Thereafter, the terms of each contract are continuous unless terminated by not less than three months notice in writing served by either party on the other. Each of these executive Directors is entitled to a fixed monthly salary, a fixed sum bonus equal to one month's salary equal to the salary of the executive Director before the Lunar New Year set out below (subject to annual review) and a discretionary bonus payable at the absolute discretion of the Board. The Company intends to set a limit of HK\$1,000,000 as a maximum amount of such bonus to be payable to each executive Director. None of the executive Directors is entitled to vote on Board resolutions relating to any management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. Lok	HK\$520,000
Mr. Chow Chi Ming, Daniel	HK\$520,000
Mr. So Yiu King	HK\$520,000
Mr. Tam Wing Yuen	HK\$520,000
Mr. Leung Wai Cheung	HK\$520,000

Save as disclosed, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. **Directors' remuneration**

- (a) HK\$1,000,000 was paid to the Directors as remuneration by the Group for the year ended 31st March, 2000.
- (b) It is expected that an aggregate sum of approximately HK\$3,860,000 excluding discretionary bonus payable to the Directors will be paid in cash and in kind to the Directors as remuneration by the Group for the year ending 31st March, 2001.
- (c) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31st March, 2000 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31st March, 2000.

4. **Others**

Apart from the executive Directors, 4 other individuals are amongst the persons who received the highest emoluments from the Group for the year ended 31st March, 2000. Particulars of emoluments paid to such individuals are set out in note (e) to the section headed "Results" in the accountants' report set out in Appendix I to this prospectus.

5 Agency fees or commissions received

The Underwriters will receive an underwriting commission, Vickers will receive advisory and documentation fee and Vandome, having been nominated by DTFCF, will receive a remuneration, payable as mentioned in the paragraph headed “Commission and expenses” under the section headed “Underwriting” of this prospectus.

6. Related party transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note (h) under the section headed “Results” of the accountants’ report set out in Appendix I to this prospectus and the paragraphs headed “Corporate reorganisation” and “Summary of material contracts” in this appendix.

7. Disclaimers

Save as disclosed herein:

- (a) none of the Directors or chief executives has for the purposes of section 28 of the SDI Ordinance, nor is any of them taken to or deemed to have taken under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange once such securities are listed on the Stock Exchange;
- (b) none of the Directors nor any of the persons whose names are listed in the sub-paragraph headed “Consents of experts” under the section headed “Other information” in this appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Consents of experts” under the section headed “Other information” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (d) none of the persons whose names are listed in the paragraph headed “Consents of experts” under the section headed “Other information” in this appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (e) none of the Directors has entered into or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (f) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted on the basis of the Placing or related transactions as mentioned in this prospectus;

D. SHARE OPTION SCHEME**1. Summary of terms****(a) Who may join**

The Directors may at their discretion, invite any full time employees of the Group, including executive directors of any company in the Group (“Employees”), to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (c) below. Upon acceptance of the option, the grantee shall pay HK\$1 to the Company as consideration for the grant.

(b) Grant of Options

No grant of options shall be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results, no option should be granted until such information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules.

(c) Price of Shares

The subscription price of a Shares in respect of any particular option granted under the Share Option Scheme shall be such price as the Board 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.

(d) Maximum number of Shares

- (i) Subject to paragraph (iii) below, shareholders of the Company may authorise the Directors to grant options under the Share Option Scheme and any other outstanding schemes of the Company entitling grantees to exercise up to an aggregate of 10% of the issued shares of the Company from time to time (excluding (a) Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes of the Company; and (b) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (a) (the “General Mandate Limit”). Such general mandate may be renewed if approved by shareholders in general meetings;
- (ii) Subject to paragraph (iii) below, the Company may issue share options to specified participants over and above the General Mandate Limit if such grant is specifically approved by shareholders in general meetings; and
- (iii) The total number of shares which may be exercised under the Share Option Scheme and any other outstanding schemes of the Company must not exceed 30% of its total issued shares from time to time (excluding (a) Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes of the Company; and (b) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (a)).

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.

(e) *Grant of options to connected persons, substantial shareholders or any of their associates*

- (i) Any grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by the independent non-executive directors of the Company.
- (ii) Where options are proposed to be granted to a connected person who is also a substantial shareholder or its associates (as such term is defined in the GEM Listing Rules) of the Company and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months period, would entitle him to receive more than 0.1% of the total issued shares of the Company for the time being and the value of which is in excess of HK\$5 million, then the proposed grant must be subject to the approval of shareholders in general meeting. Apart from the connected person involved, all other connected persons of the Company must abstain from voting at such general meeting (except where any connected person intends to vote against the proposed grant). A shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the Options to be granted and containing a recommendation from the independent directors on whether or not to vote in favour of the proposed grant.

(f) *Time of exercise of option*

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.

(g) *Rights are personal to grantee*

An option may not be transferred or assigned and will be personal to the grantee of the option.

(h) *Rights on ceasing employment*

If the grantee ceases to be an Employee by reason of:—

- (i) having been dismissed on grounds including, but not limited to, misconduct, bankruptcy, insolvency, conviction for a criminal offence or has made any arrangements or composition with creditors generally;
- (ii) death; or
- (iii) resignation, retirement, expiry of employment contract or termination of employment contract on grounds other than those set out in (i) and (ii) above.

Then the Employee's outstanding option shall lapse on or before:

- (a) in the case of (i) above, on the date of the employee's cessation of employment;
- (b) in the case of (ii) above, on the date 12 months after the date of the employee's death (or such longer period as the board of directors may determine); and
- (c) in the case of (iii) above, on the date which is three months from the date of the employee's cessation of employment.

(i) *Effect of alterations to capital*

In the event of an alteration in the capital structure of the Company including by way of capitalization of profits or reserves, rights issues, consolidations, subdivision or reduction in the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party whilst any option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of the Company as fair and reasonable will be made in:—

- (a) the number of nominal amount of Shares subject to the Option so far as unexercised; and/or
- (b) the subscription price; and/or
- (c) the method of exercise of the Option.

provided that no such alteration shall be made so that a Share would be issued at less than its nominal value or would give a grantee a different proportion of the issued share capital of the Company as that to which he or she was previously entitled and no alteration shall be made if any alteration in the capital structure of the Company is the result of an issue of Shares consideration in a transaction.

(j) *Rights on a take-over*

If a general offer (whether by takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or the person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, the grantee (or his or her personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(k) *Rights on winding up*

If notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, every option shall be exercisable in whole or in part at any time thereafter until the resolution is duly passed or defeated or the meeting concluded or adjourned sine die, whichever shall first occur. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon cease and terminate.

(l) *Ranking of Shares*

The Shares to be allotted upon the exercise of options will be subject to the Company's articles of association for the time being in force and will rank *pari passu* with the fully paid Shares in issue

at the date of allotment and accordingly will entitle holders to participate in dividends or other distributions declared paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date of allotment.

Unless the context otherwise requires, references to “Shares” in the Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division or a consolidation of the shares from time to time.

(m) *Cancellation of unexercised option*

Any cancellation of options granted but not exercised must be approved by the shareholders of the Company (and also by shareholders of any holding company which is listed on the Main Board or on GEM) in general meeting, with the grantees and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(n) *Period of the Share Option Scheme*

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 in all other respects remain in full force and effect in all other respects.

(o) *Alteration to the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the scheme relating to matters contained in Rule 23.03 of the GEM Listing Rules shall not be altered to extend the class of persons eligible for the grant of options to the advantage of grantees or prospective grantees except with the prior approval of shareholders in general meeting (with the grantees and their associates abstaining from voting). No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the shareholders of the Company under the articles of association for the time being a variation of the rights attached to the Shares.

Any alteration to the terms and conditions of the Share Option Scheme, which are of a material nature, must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(p) *Administration of the Share Option Scheme*

The Share Option Scheme will be administered by a committee including the independent non-executive directors of the Company (and also the independent non-executive directors of any holding company which is also listed on the Main Board or on GEM).

2. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on (i) the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme, and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of any waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise. Application will be made to the GEM Listing Committee for the approval of the Share Option Scheme, the granting of the options under the Share Option Scheme and the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme.

3. Present status of the Share Option Scheme

Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent granting of options under the Share Option Scheme and listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme. As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Estate duty and tax indemnity

SHI and Mr. Lok have, pursuant to a deed of indemnity (material contract (h) referred to in the subsection headed “Summary of material contracts” under the section headed “Further information about the business” in this appendix), given indemnities in connection with (i) any liability for estate duty under section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or legislation similar thereto in any other part of the world which might be payable by any member of the Group by reason of any transfer of property to any member of the Group on or before the date on which the Placing becomes unconditional and (ii) any taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or alleged to have been earned, accrued or received on or before the date on which the Placing becomes unconditional. The aforesaid indemnities do not cover any such taxation which arises due to any retrospective change in law coming into force, or increase in tax rates with retrospective effect, after the date on which the Placing becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands, the PRC or the BVI, being jurisdictions in which one or more of the companies comprising the Group are incorporated.

2. Litigation

On 13th September, 1999, Shanghai Wei Ge La Printing Instruments Co. Ltd. (“WGL”), as plaintiff, filed a suit with a claim amount of RMB50,000 against Flex System (Shanghai) Co. Ltd (“FS-PRC”), a subsidiary of the Group in the PRC, in the People’s Court of Shanghai Pudong New Area with respect to certain disputes arising out of a sales contract made between WGL and FS-PRC. FS-PRC filed a counterclaim with a claim amount of RMB50,000 against the plaintiff on 27th

September, 1999. On 18th April, 2000, judgement was made in favour of FS-PRC, which has been appealed by the plaintiff to the First Intermediary Court of Shanghai Municipality. As at the date of this prospectus, the appeal is still to be heard. The Directors consider that the abovementioned litigation is not of material importance to the Group.

As at the Latest Practicable Date, save as disclosed herein, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

3. Sponsor and Co-Sponsor

The Sponsor and the Co-Sponsor have made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein.

4. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US\$2,250 and are payable by the Company.

5. Promoter

The promoter of the Company is Mr. Lok.

6. Qualification of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in, or referred to in this prospectus.

Name	Qualification
Vickers	Registered investment adviser
DTCF	Registered investment adviser
PricewaterhouseCoopers	Certified Public Accountants, Hong Kong
Fangda Partners	PRC legal adviser
Conyers Dill & Pearman, Cayman	Cayman Islands attorneys-at-law
DTZ Debenham Tie Leung Limited	Property valuer

7. Consents of experts

Each of Vickers, DTCF, PricewaterhouseCoopers, Fangda Partners, Conyers Dill & Pearman, Cayman and DTZ Debenham Tie Leung Limited has given and not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or the references to its name included herein in the form and context in which they are respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

9. Miscellaneous

- (a) Save as disclosed in this prospectus:—
- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders or management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
 - (iv) within the two years preceding the date of this prospectus, no commissions, no discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries.
- (b) Saved as disclosed in this prospectus, none of Vickers, DTCF, PricewaterhouseCoopers, Fangda Partners, Conyers Dill & Pearman, Cayman or DTZ Debenham Tie Leung Limited:—
- (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.
- (c) No company within the Group is presently listed on any stock exchange or traded on any trading system.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.
- (e) As at the date of this prospectus, none of the Directors is materially interested in any contract or arrangement which is significant in relation to the business of the Group.