

27 January 2012

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY CASH OFFER BY
QUAM SECURITIES COMPANY LIMITED
ON BEHALF OF
HAPPY ON HOLDINGS LIMITED
FOR ALL THE ISSUED SHARES IN
FLEXSYSTEM HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED
BY HAPPY ON HOLDINGS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

On 6 January 2012, the Offeror and the Company jointly announced that on 29 December 2011, the Offeror, the First Vendor (also acting as the Guarantor) and the Second Vendor entered into the Sale and Purchase Agreement pursuant to which the Offeror agreed to acquire and the Vendors agreed to sell the Sale Shares, being 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. The aggregate consideration for the Sale Shares is HK\$133,000,000.00 (equivalent to approximately HK\$0.3167 per Sale Share) which was agreed between the Offeror and the Vendors after arm's length negotiations and was paid by the Offeror to the Vendors in cash upon Completion. The First Vendor, being the ultimate beneficial owner of the Second Vendor, has agreed to guarantee the performance of the obligations of the Second Vendor under the Sale and Purchase Agreement. Completion took place immediately after the entering into of the Sale and Purchase Agreement on 29 December 2011. Immediately following the Completion, the Offeror was interested in a total of 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

This letter sets out, among others, the details of the Offer, information on the Offeror and the intention of the Offeror regarding the Group. The terms and procedures of acceptance of the Offer are set out in this letter, appendix I to this Composite Document of which this letter forms part, and the accompanying Form of Acceptance and Transfer. Terms used in this letter shall have the same meanings as defined in this Composite Document unless the context otherwise requires. The Independent Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Board", "Letter from the Independent Board Committee" and "Letter from Partners Capital" as set out in this Composite Document.

UNCONDITIONAL MANDATORY CASH OFFER

Immediately following Completion, the Offeror and parties acting in concert with it are interested in 420,000,000 Shares, representing 70.0% of the entire issued share capital of the Company as at the date of the Joint Announcement. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it.

As at the Latest Practicable Date, there are 600,000,000 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or other securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or other securities of the Company.

Principal terms of the Offer

Quam Securities will make the Offer, which is unconditional in all respects, on behalf of the Offeror, in compliance with the Takeovers Code on the following terms:

For every Offer Share HK\$0.3167 in cash

The Offer Price of HK\$0.3167 per Offer Share is the same as the price per Sale Share paid by the Offeror under the Sale and Purchase Agreement.

The Offer Shares to be acquired under the Offer shall be fully paid and free from all liens, charges, encumbrances together with all rights attaching thereto as at the Completion Date, including all rights to any dividend or other distribution declared, made or paid, if any, on or after the Completion Date.

Acceptance of the Offer shall be unconditional and irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code. The procedures for acceptance and further terms of the Offer are set out in appendix I to this Composite Document.

Comparison of value

The Offer Price of HK\$0.3167 per Offer Share is equal to the price per Sale Share paid by the Offeror under the Sale and Purchase Agreement and represents:

- (a) a discount of approximately 12.0% to the closing price of HK\$0.36 per Share, as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 10.5% to the average closing price of HK\$0.354 per Share, being the average closing price of the Shares for the 5 consecutive trading days immediately prior to and including the Last Trading Day;
- (c) a discount of approximately 3.1% to the average closing price of HK\$0.327 per Share, being the average closing price of the Shares for the 10 consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 2,495.9% over the Company's unaudited net asset value of approximately HK\$0.0122 per Share based on the Group's unaudited consolidated net asset value (excluding non-controlling interests) of approximately HK\$7.3 million as at 30 September 2011 as shown in the interim report of the Company for the six months ended 30 September 2011 and 600,000,000 Shares in issue as at the Latest Practicable Date; and
- (e) a discount of approximately 5.5% to the closing price of HK\$0.335 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Highest and lowest Share prices

The highest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$0.46 per Share on 15 July 2011 to 22 July 2011 and the lowest closing price of the Shares as quoted on the Stock Exchange during the Relevant Period was HK\$0.265 per Share on 26 September 2011 to 4 October 2011 and 7 October 2011 to 12 October 2011.

Value of the Offer

As at the Latest Practicable Date, the Company has 600,000,000 Shares in issue. Assuming that there is no change in the issued share capital of the Company prior to the making of the Offer, based on the Offer Price of HK\$0.3167 per Offer Share, the entire issued share capital of the Company is valued at approximately HK\$190,000,000. As the Offeror and parties acting in concert with it have already held 420,000,000 Shares after Completion, only 180,000,000 Shares will be subject to the Offer and the Offer is valued at HK\$57,006,000 based on the Offer Price.

Financial resources available to the Offeror

Quam Capital has been appointed as the financial adviser to the Offeror in respect of the Offer and is satisfied that there are sufficient financial resources available to the Offeror to satisfy the full acceptance of the Offer. The Offer will be financed by internal resources of the Offeror.

Stamp duty

In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Offer will be payable by relevant Independent Shareholders at a rate of 0.1% of (i) the market value of the Offer Shares; or (ii) the consideration payable by the Offeror in respect of the relevant acceptances of the Offer, whichever is higher, will be deducted from the cash amount payable by the Offeror to such person on acceptance of the Offer. The Offeror will arrange for payment of the seller's ad valorem stamp duty on behalf of relevant Independent Shareholders accepting the Offer and will pay the buyer's ad valorem stamp duty in connection with the acceptances of the Offer and the transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Effect of accepting the Offer

By accepting the Offer, the Independent Shareholders will sell their Shares to the Offeror or its nominee free from all liens, claims and encumbrances and with all rights attached to them as at the Completion Date, including the right to receive all dividends paid, declared or made, if any, on or after the Completion Date.

Payment

Payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event within 10 days of the date on which the relevant documents of title and duly completed acceptance(s) are received by the Offeror to render each such acceptance complete and valid pursuant to Note 1 to Rule 30.2 of the Takeovers Code.

Dealing and interests in the Company's securities

Save for the Sale Shares under the Sale and Purchase Agreement, none of the Offeror nor parties acting in concert with it has dealt in the Shares, options, derivatives, warrants or other securities convertible into Shares during the Relevant Period. As at the Latest Practicable Date, save for the Sale Shares under the Sale and Purchase Agreement, the Offeror and parties acting in concert with it do not hold, own or control any Shares, options, derivatives, warrants or other securities convertible into Shares.

As at the Latest Practicable Date:

- (i) there is no arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the shares of the Offeror or the Shares and which might be material to the Offer;

- (ii) save for the Sale and Purchase Agreement, there is no agreement or arrangement to which the Offeror is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Offer;
- (iii) save for the Sale Shares, none of the Offeror nor parties acting in concert with it owned or had control or direction over any voting rights or rights over the Shares or convertible securities, options, warrants or derivatives of the Company;
- (iv) none of the Offeror nor parties acting in concert with it has received any irrevocable commitment to accept the Offer; and
- (v) none of the Offeror nor parties acting in concert with it has entered into any arrangements or contracts in relation to the outstanding derivatives in respect of securities in the Company nor has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

Overseas Shareholders

The Offer will be in respect of securities of a company incorporated in Cayman Islands and will be subject to the procedural and disclosure requirements of Hong Kong, which may be different from other jurisdictions. The Shareholders who wish to participate in the Offer but with registered address outside Hong Kong will also be subject to, and may be limited by, the laws and regulations of their respective jurisdictions in connection with their participation in the Offer.

The Shareholders who have registered addresses outside Hong Kong and wish to accept the Offer should satisfy themselves as to the full observance of the applicable laws and regulations of the relevant jurisdiction in connection therewith (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer of other taxes due by such accepting Shareholders in respect of such jurisdiction).

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the BVI on 5 July 2011 with limited liability and is principally engaged in investment activities. The Offeror is wholly and ultimately beneficially owned by Mr. Chan. Mr. Chan is the sole director of the Offeror. Before the date of the Sale and Purchase Agreement, the Offeror has not conducted any business since its incorporation. Save for the cash used and to be used for the settlement of the consideration for the Sale Shares and the Offer, the Offeror does not have any material assets as at the Latest Practicable Date.

Mr. Chan, aged 62, is a merchant and investor who has pursued investments in areas of maritime related industries, real estate and international trading, among others. He is currently actively involved in various telecommunications endeavors in the PRC.

INFORMATION ON THE GROUP

The Group is principally engaged in provision of system integration services and other value-added technical consultation services and hardware-related business.

The Group recorded audited revenues of approximately HK\$89.1 million and approximately HK\$102.0 million for the years ended 31 March 2010 and 31 March 2011 respectively. The audited gross profits of the Group for the years ended 31 March 2010 and 31 March 2011 were approximately HK\$53.8 million and approximately HK\$67.3 million respectively. Loss attributable to equity holders (excluding non-controlling interests) were approximately HK\$12.8 million and approximately HK\$6.8 million for the years ended 31 March 2010 and 31 March 2011 respectively. The audited consolidated net asset value (excluding non-controlling interests) of the Group recorded approximately HK\$46.8 million and approximately HK\$41.2 million as at 31 March 2010 and 31 March 2011 respectively.

THE OFFEROR'S INTENTION ON THE GROUP

It is the intention of the Offeror that the Group will continue its existing principal activities and existing business. As at the Latest Practicable Date, the Offeror does not intend to introduce any major changes to the existing operation and business of the Company and has no intention or plan (i) for any acquisition or disposal of assets and/or business by the Group; (ii) to redeploy the fixed assets of the Company; and (iii) to discontinue the employment of the Group's employees as a result of the Offer. Immediately after the close of the Offer, the Offeror will conduct a more detailed review on the operations of the Group with a view to develop a comprehensive corporate strategy to broaden the revenue base of the Group. The Offeror will evaluate all available opportunities to consider whether there are any assets and/or business acquisitions suitable for enhancing the overall growth of the Group and may consider further acquisition in such assets and/or business if there will be suitable opportunity. Should such opportunity(ies) materialize, further announcement(s) will be made by the Company as and when required by the GEM Listing Rules. The Offeror considers that the acquisition of the Sale Shares and the Offer represent an opportunity to invest in a majority stake in a listed vehicle which may serve as a platform for it to develop business opportunities it identifies from time to time. The Offeror therefore considers that the acquisition of the Sale Shares and the Offer are in its long-term commercial interest.

Pursuant to the Sale and Purchase Agreement, the Offeror has irrevocably and unconditionally undertaken to procure the change of the name of the Company from its present name to a new name that does not contain the words or expressions "Flex System" or any other similar words or expressions or any colourable intimation thereof, such change to be effective as soon as practicable after Completion but in any event within 120 days from Completion.

PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

The Board is currently made up of five Directors, comprising two executive Directors and three independent non-executive Directors.

The Offeror intends to nominate new Directors to the Board with effect from the day immediately after the date of despatch of this Composite Document. Any changes to the Board will be made in compliance with the Takeovers Code and the GEM Listing Rules and further announcement will be made accordingly.

MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Offeror intends to maintain the listing of the Shares on GEM after the close of the Offer. The sole director of the Offeror and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

If, upon the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25%, of the issued Shares are held by the public or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares.

COMPULSORY ACQUISITION

The Offeror does not intend to exercise any right which may be available to it under the provisions of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) to compulsorily acquire any outstanding Offer Shares not acquired under the Offer after the close of the Offer.

GENERAL

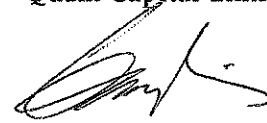
Acceptance of the Offer by the Independent Shareholder(s) will be deemed to constitute a warranty by such person to the Offeror that such Offer Share(s) acquired under the Offer are sold by the Independent Shareholders free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights accruing or attaching thereto on or after the Completion Date or subsequently becoming attached to it, including, without limitation, the rights to receive all future dividends and/or other distributions declared, paid or made, if any, on or after the Completion Date.

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold any Offer Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for the beneficial owners of the Offer Shares whose investments are registered in the names of nominees to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer. The attention of the Independent Shareholders with registered addresses in jurisdictions outside Hong Kong is drawn to the section headed "Overseas Shareholders" in appendix I to this Composite Document.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully,
For and on behalf of
Quam Capital Limited

A handwritten signature in black ink, appearing to read 'Gary Mui', written over a horizontal line.

Gary Mui
Executive Director