FlexSystem Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

FLEXSYSTEM

www.flexsystem.com

PLACING OF SHARES

Global Coordinator, Lead Manager and Sponsor

VICKERS BALLAS

Co-Sponsor

Deloitte & Touche Corporate Finance Ltd

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

FlexSystem Holdings Limited

(incorporated in the Cayman Islands with limited liability)

LISTING ON
THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED
BY WAY OF PLACING OF SHARES

Number of Placing Shares	:	**120,000,000 Shares (subject to Over-allotment Option)**
Price Range	:	**HK$1.23 to HK$1.33 per Share**
Nominal Value	:	**HK$0.10 each**
Stock Code	:	**8050**

Global Coordinator, Lead Manager and Sponsor

VICKERS BALLAS

Co-Sponsor

Deloitte & Touche
Corporate Finance Ltd

Co-Lead Manager

INDOSUEZ W.I. CARR SECURITIES

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

If Vickers (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Issue Price on 19th July, 2000 or on a date which is not later than 21st July, 2000, the Placing will not become unconditional and will lapse and the Placing will not proceed.

18th July, 2000

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to GEM website in order to obtain up-to-date information on GEM-listed issuers.

	2000
Price Determination Date	Wednesday, 19th July
Announcement of Issue Price and the indication of the level of interest in the Placing to be published on the GEM website on or before	Friday, 21st July
Allotment to placees on or about	Friday, 21st July
Share certificates available on or before *(Note)*	Friday, 21st July
Dealings in the Shares on GEM to commence on	Monday, 24th July

Note: The share certificates are expected to be issued in the name of HKSCC Nominees Limited and deposited into CCASS on or before 21st July, 2000 for credit to the respective CCASS participants' stock accounts designated by the placees.

For further details of the structure of the Placing, including its conditions, please see the section headed "Structure and conditions of the Placing" in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Co-Sponsor, the Underwriters, the directors of any of them, or any other person involved in the Placing.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all information that may be important to you. You should read the whole document before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks of investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

INTRODUCTION

The Group is principally engaged in the development and sale of enterprise software products in Hong Kong, the PRC and other Asian countries. The Group has been providing its enterprise software products to commercial organizations for over 13 years. The Directors consider the Group as a leading developer and distributor of enterprise software products in Hong Kong. Having established a broad client base and a well-recognised brandname in the packaged enterprise software market in Hong Kong, the Group is building up its ASP business to provide enterprise software on-line using its proprietary Internet enabling technology, **Soma*AI**.

The Group's enterprise software products, promoted under the brandname of "FlexAccount" since 1987, are designed to improve the efficiency of operations and to reduce the operating costs of businesses. The Directors believe that the Group's enterprise software products are widely used by a large group of corporate users in Hong Kong. The Group's existing client base comprises over 20% of the companies (including their respective subsidiaries) listed on the Main Board as at 30th April 2000. The Group has completed more than 1,200 installations in Hong Kong and the PRC since its inception for its clients which range from small to medium sized enterprises (SMEs) to multi-national corporations and which are engaged in a wide spectrum of industries.

In addition to Hong Kong, the Directors believe that the Group has also built a strong foundation for its enterprise software business in the PRC. In 1997, the Group's finance and accounting application software was certified by 上海市財政局會計事務管理處 (Shanghai Municipal Finance Bureau) to be in compliance with the PRC accounting standards and for its capability to fulfil the requirements of various PRC government units. Since then, the Group's software products have been distributed to more than 10 provinces covering over 20 cities in the PRC. In April 2000, the Group was recognized by the Shanghai Municipal Finance Bureau, 上海計算機軟件技術開發中心 (Shanghai Computing Software Technology Development Center) and 上海市軟件行業協會 (Shanghai Software Business Association) as the only Hong Kong-based finance and accounting software company in Shanghai. The Directors believe that these recognition and certification are the prerequisites for a foreign software company to distribute its products extensively in the PRC.

The Directors consider the Group as one of the early entrants in the ASP market in Hong Kong and the PRC. The Directors believe that the Group possesses four fundamental elements of a successful ASP business, namely (i) an efficient and cost-effective proprietary Internet enabling technology, (ii) an extensive range of well-developed application software, (iii) an established and broad client base for its application software, and (iv) a long established brandname. By leveraging on these advantages, the Directors are confident that the Group is ready to deliver enterprise software on-line in Asia.

BUSINESS

Enterprise software

The Group develops, markets and supports a series of enterprise software products that operate on multiple computing platforms. The Group also provides related implementation and maintenance services. All of the FlexAccount products, except the FlexAccount Garment Trading/Manufacturing System, are Internet-enabled.

FlexAccount products are able to support accounting, finance, logistics and distribution, manufacturing, payroll and other administrative functions of companies of various sizes in different industries. Some of the FlexAccount products have been specifically designed for certain industries which rely heavily on the control of material procurement and real time update of information input from diverse locations of operation, such as trading and retailing.

The FlexAccount product suite currently consists of eight application software modules. A summary of their respective features is as follow:

Application software modules	Features
FlexAccount Financial Management System	Accounting system with full range of functions, including management of general ledgers, accounts receivable, accounts payable and various forms of financial analysis.
FlexAccount Financial Information ON-line	Executive information system comprising component-based financial reporting and analysis tools and information retrieval application running on commonly used office software application such as Excel and allowing global access in Internet environment.
FlexAccount Distribution and Logistics System	Inventory management system consisting of sales order management, purchase order management and inventory control functions, to provide up-to-date stock valuation information and other inventory management information.
FlexAccount MFG System	Production control system with functions for control of sales order, purchase order, inventory levels, manufacturing order as well as material order to assist users to schedule and monitor production cycles.
FlexAccount Payroll & MPF System	Payroll and mandatory provident fund contribution management system for maintaining employees' payroll records, calculating tax payments, effecting autopayment via banking system and preparing customised payroll forms and reports.
FlexAccount Online Point-of-Sales System	Cash and inventory management system for linking point-of-sales to the company's central database through the Internet, preparing management reports and conducting sales and stock analysis.

Application software modules	Features
FlexAccount Property Management System	Rental related settlement system for automated billing and maintaining information about lease, property, tenants, and utilities requirements and effecting settlement through the banking system.
FlexAccount Garment Trading/ Manufacturing System	Integrated control system for operation cycle of the garment, apparel, shoe and leather industry.

ASP Business

The Group's ASP business principally involves the provision of FlexAccount products via the Internet to users on a subscription basis and the provision of related support services. The mission of the Group's ASP services is to allow users to outsource application deployment and IT infrastructure which results in lower investment required in hardware, software upgrades and system maintenance as well as enhanced operation efficiency. The Directors believe that by using the Group's ASP services, users can save significant resources for building up their own application software as well as reduce the risk of implementation failure and the cost of retaining qualified technical personnel.

In March 2000, the Group launched its ASP services under the service name of "FlexAccount Data Center". The "FlexAccount Data Center" currently offers three services packages, namely SME Data Center, Trusted Data Center and Enterprise Data Center. Further details of the respective models are set out in pages 58 to 62 of this prospectus. In addition, the Group is exploring the immense potential of the ASP business by developing its ASP business through strategic alliances with value-added business partners which have a substantial client base and thus allow the Group to reach a wide range of potential users of its ASP services in a relatively short period of time. The Group will form strategic partnerships with various business partners (including Deloitte & Touche Management Consulting Co., Limited, Taiwan) and will continue to do so in order to facilitate its expansion into the ASP market in Hong Kong as well as other selected Asian markets, including but not limited to, the PRC and Taiwan.

Technology

The Group utilises its proprietary Internet enabling technology, **Soma*AI**, to deliver services for its ASP business. **Soma*AI** is specifically designed to enable massive data transmission and interactive business application under a limited bandwidth environment. The Directors believe that **Soma*AI** is more suitable for business applications as compared to commonly used Internet browsers, particularly in terms of speed, bandwidth consumption and security.

According to an assessment report issued by 國家科學技術委員會 (National Science and Technology Committee) of the PRC, **Soma*AI** exhibits, among others, the following features: (i) a reduced bandwidth requirement as a result of its data compression technology and task-focused design for business applications; (ii) an encryption method, which avoids reliance on commonly used browsers and thereby allows security levels of 128 bits, 1024 bits or even higher; (iii) an enhanced data transmission speed via the Internet; and (iv) an ability to operate satisfactorily even at a low bandwidth level of 9.6kbps.

Based on the findings of the NSTC as stated above, the Directors are of the view that **Soma*AI** has significant advantages over Internet browsers commonly used for supporting ASP services. Furthermore, the Directors believe that the Group is able to offer its ASP services at a lower cost as compared to other ASPs using Internet browsers and broadband communication channels to support their services due to:

(i) the low bandwidth requirement of **Soma*AI**, which reduces communication costs, such as usage cost of broadband networks;

(ii) the low host server resources requirement of the Group's data compression technology, which reduces the required hardware investment; and

(iii) the Group's proprietary Internet enabling technology, which eliminates the need to pay licensing fees for using Internet enabling technology provided by other technology providers.

The Directors consider that **Soma*AI** is technologically advanced and is relatively too complicated for replication without the source code. The source code of **Soma*AI** is safe-kept by the Group in a proprietary system controlled by the Company's research and development department. The design of **Soma*AI** has also incorporated hardware protection so that users of the FlexAccount Data Center can only access **Soma*AI**, if installed at their premises, with the specific key lock provided by the Group and manufactured by a world-renowned manufacturer. Most of the users can only access **Soma*AI** via the Internet and hardware installed and maintained at the Group's premises, which is also incorporated with the same key lock. Therefore, the Directors consider that the probability of **Soma*AI** being stolen or replicated by outside parties as being remote.

STRENGTH

The Directors believe that the Group has competitive advantages in respect of the following areas:

(a) *development and sales of enterprise software by virtue of:—*

- its established and broad client base both in Hong Kong and the PRC;
- its established reputation in the packaged enterprise software market in Hong Kong;
- being recognised as the only Hong Kong-based finance and accounting software company in Shanghai in April 2000 and having its finance and accounting application software certified to be in compliance with the accounting standards in the PRC and for its capability to fulfill requirements of various PRC government units;
- its wide range of FlexAccount products which are being used by a large number of corporate users of various sizes and in different industries; and
- its set of reusable software components which effectively shorten the development time and promote the quality of future products.

(b) *ASP business by virtue of:—*

- its possession of a proprietary Internet enabling technology, which eliminates the need to rely on other technology providers;
- its full range of FlexAccount products which provides an integrated enterprise solution to users; and
- its strategic alliances with reputable business partners.

(c) *overall technological capabilities by virtue of:—*

- its years of experience and strong fundamental technical know-how for the development of enterprise software and its research and development teams located in Hong Kong, the PRC and Macau;
- its commitment to the continual development and enhancement of its technology; and
- the in-depth knowledge and expertise of its management team in the software industry.

FUTURE PLANS

The Directors believe that the Group is one of the key leaders of the packaged enterprise application software market in Hong Kong. While the sales of application software in the local market provide a solid base for the Group's business, expansion of the ASP business and sales of FlexAccount products to overseas markets are regarded by the Directors as major growth areas.

In order to achieve the Group's business objectives of becoming a leading ASP in Asia, the Directors envisage that the Group's development strategies will comprise three principal areas, namely (i) development and implementation of its ASP models to capture a larger market share; (ii) expansion into selected overseas markets; and (iii) continual research and development efforts to enhance the FlexAccount products and its **Soma*AI** technology.

ASP Business

The Directors are confident that the existing business models adopted by the Group's ASP business, namely SME Data Center, Trusted Data Center and Enterprise Data Center, can cater for the needs of most commercial organisations. The Directors believe that with its proprietary Internet enabling technology, **Soma*AI**, the Group's ASP business is capable of providing on-line enterprise solutions of quality to its clients. The Directors intend to promote its ASP business with further marketing efforts, particularly through print and Internet marketing.

In addition, the Directors consider that with technological advancement and innovation, there can be a number of revenue models generated for the ASP business. To concentrate its efforts in achieving a distinct market position in a relatively short period of time, the Group focuses on the development of the existing business models. However, the Group is also preparing to launch additional ASP services, such as on-line stock trading and real-time stock quotes, in the near future. The Group plans to attract users for these services by charging reasonable prices and providing more responsive, user-friendly and timely services.

Geographic Expansion

The Directors believe that the potential of distributing the FlexAccount products in overseas markets could be huge since the initial cost of investment in the development of the basic components for the development of application software has already been expended and any increase in the sales of the FlexAccount products will produce immediate profit for the Group. The Group intends to expand both its enterprise software and ASP business beyond its home market in Hong Kong in the near future by establishing branch offices and by forming strategic alliances with market practitioners in selected overseas markets such as the PRC, Taiwan and Japan. The Group is planning to set up data centers in major cities in the PRC, including Guangzhou, Beijing and Shenzhen within 2000.

Research and Development

The Group will continue to devote its resources to the research and development of enterprise software and Internet related technology, such as the further development of the **Soma*AI** technology. To enhance its research and development capabilities, the Group intends to expand its research and development teams in Hong Kong, Macau and the PRC and to set up a new research and development center in Malaysia.

RISK FACTORS

The Directors consider that there are certain risks involved in the business of the Group. The risk factors are set out under the section headed "Risk Factors" in this prospectus, which are summarised as follows:—

Risks relating to the Group's business and operations

— The Group has a limited operating history in the ASP business;

— The Group may be subject to intense competition in the ASP business;

— The Group's requirement for additional funds may not be satisfied;

— The Group's dependence on its key executives and personnel;

— The Group may encounter difficulties with respect to the use of its intellectual property rights;

— The Group's business objectives may not materialise;

— The Group's insurance coverage is limited; and

— The Group's computer systems, servers and infrastructure may not be reliable.

Risks relating to the industry

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

— The Group's success depends on increased Internet usage;

- The Group's ability to generate revenue from its ASP business may be limited by Internet security concerns; and
- The Group's ability to generate revenue from its ASP business may be limited by privacy concern.

Risks relating to regulatory, economic and political issues

- Political risks associated with doing business in Hong Kong;
- Development of Internet related regulations in the PRC may affect the Group's ability to expand its ASP business in the PRC; and
- The Group's revenue may be affected by fluctuations in exchange rates and the Group may be exposed to currency conversion risks.

Risks relating to the Shares

- The unpredictability of the Group's periodic results may adversely affect the trading price of its Shares; and
- The Company's Share price may be volatile.

TRADING RECORD

The following is a summary of the combined results of the Group for the two years ended 31st March, 2000. The summary is prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31st March,	
	1999	**2000**
	HK$'000	*HK$'000*
Turnover		
Sale of application software	29,836	33,800
Maintenance services	7,359	10,777
Resale of hardware	1,213	179
Total turnover	38,408	44,756
Gross profit	33,291	39,079
Profit before taxation	11,879	18,954
Taxation	(1,962)	(2,760)
Profit after taxation	9,917	16,194
Earnings per Share *(note)*	2.07 cents	3.37 cents
Dividends	20,000	11,070

Note: The calculation of the earnings per share for the years ended 31st March, 1999 and 2000, presented here for information purposes only, is based on the profit after taxation during these two years and the 480 million shares in issue immediately before the Placing.

REASONS FOR THE PLACING AND THE USE OF PROCEEDS

The Directors believe that the listing on GEM will enhance the Company's profile and expand its capital base for future growth and development. The net proceeds of the Placing, after deducting related expenses (assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$143.3 million based on the higher end of the stated price range of HK$1.33 per Share. The Directors presently intend to use such net proceeds as follows:

- Approximately HK$25 million for the expansion of the Group's ASP business activities, including the establishment of data centers;
- Approximately HK$25 million on research and development activities, including the expansion of in-house research and development team and localisation of FlexAccount products from the Latest Practicable Date to 31st March, 2003;
- Approximately HK$30 million for strategic acquisitions of and investments in companies whose businesses fit into the Group's business strategy;
- Approximately HK$25 million to fund the geographic expansion into selected markets (including Taiwan within 2000) through, including the establishment of regional offices, recruitment of local sales and technical staff and forming business partnerships;
- Approximately HK$10 million on marketing and promotional activities, including advertising through various media, participation in trade shows and exhibitions and other promotional events; and
- The remaining balance of approximately HK$28.3 million to be used as working capital of the Group.

As at the Latest Practicable Date, the Company has not yet identified any suitable candidates for acquisition or investment.

To the extent that the net proceeds of the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with financial institutions in Hong Kong.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK$23 million based on the higher end of the stated price range of HK$1.33 per Share. The Directors intend to use such additional proceeds from the Over-allotment Option as additional general working capital. If the Issue Price is set at below HK$1.33, the net proceeds will accordingly be reduced and the amount to be used as working capital will correspondingly be reduced.

PLACING STATISTICS

Market capitalisation *(Note 1)* . . . . HK$798 million

Adjusted net tangible asset value per Share *(Note 2)* . . . . HK$0.25
(assuming the Over-allotment Option is not exercised)

Notes:

1. The calculation of market capitalisation of the Shares is based on an Issue Price of HK$1.33 per Share (being the higher end of the stated price range of the Issue Price of between HK$1.23 and HK$1.33 per Share) and 600,000,000 Shares in issue immediately after completion of the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 10th July, 2000" in Appendix IV to this prospectus.

2. The adjusted net tangible asset value per Share have been arrived at after making the adjustments referred to in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" in this prospectus and on the basis of an aggregate of 600,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 10th July, 2000" in Appendix IV to this prospectus or otherwise. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value of the Group and the adjusted net tangible asset value per Share would be approximately HK$173.0 million and HK$0.29 respectively.

HISTORICAL PROFIT AND PRICE EARNINGS MULTIPLE FOR THE YEAR ENDED 31ST MARCH, 2000

Profit after taxation. . . . . HK$16,194,000

Historical earnings per Share

(a) pro forma fully diluted *(Note 1)* . . . . 3.89 cents
(b) weighted average *(Note 2)* . . . . 3.37 cents

	Based on an Issue Price of HK$1.23 per Share	**Based on an Issue Price of HK$1.33 per Share**
Historical price earnings multiple *(Note 3)*		
(a) pro forma fully diluted *(Note 4)*	31.6 times	34.2 times
(b) weighted average *(Note 5)*	36.5 times	39.5 times

Notes:

1. The calculation of the historical earnings per Share on a pro forma fully diluted basis is based on the profit after taxation of the Group for the year ended 31st March, 2000 assuming that the Company had been listed since 1st April, 1999 and a total of 600,000,000 Shares had been in issue during the year, but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option, the exercise of any options granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the section headed "Further information about the Company" in Appendix IV to this prospectus or otherwise. The profit after taxation of the Group for the year ended 31st March, 2000 for the purpose of this calculation, has been adjusted to take into account the interest income that would have been earned if the net proceeds from the Placing (based on the higher end of the stated range of the Issue Price) had been received on 1st April, 1999 and placed on deposit based on an interest rate of 5% per annum.

2. The calculation of the historical earnings per Share on a weighted average basis is based on the profit after taxation of the Group for the year ended 31st March, 2000 and the assumption that a total of 480,000,000 Shares had been in issue during the year, but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option, the exercise of any options granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the section headed "Further information about the Company" in Appendix IV to this prospectus or otherwise.

3. The historical price earnings multiple stated herein is for reference only and does not form the basis of valuation of the market capitalisation of the Company.

4. The historical price earnings multiple on a pro forma fully diluted basis is based on the historical earnings per Share on a pro forma fully diluted basis of approximately 3.89 cents for the year ended 31st March, 2000 and on the Issue Price.

5. The historical price earnings multiple on a weighted average basis is based on the historical earnings per Share on a weighted average basis of approximately 3.37 cents for the year ended 31st March, 2000 and on the Issue Price.

RESTRICTION ON DISPOSAL OF SHARES AND COSTS OF INVESTMENTS

The following set out a list of the shareholders before the Placing:

Initial management shareholder	**No. of Shares held**	**Percentage of shareholding** *(Note 1)*	**Lock-up period**	**Investment cost per Share** *(HK$)*	**Total investment cost** *(HK$)*
SHI *(Note 2)*	475,500,000	79.25	During the first six-month period following the Listing Date for 475,500,000 Shares *(Note 2)*	N/A	N/A
	210,000,000	35.0	During the second six-month period following the Listing Date for 210,000,000 Shares		

Other shareholders	**No. of Shares held**	**Percentage of shareholding** *(Note 1)*	**Lock-up period**	**Investment cost per Share** *(HK$)*	**Total investment cost** *(HK$)*
Vandome *(Note 3)*	4,500,000	0.75	During the first six-month period following the Listing Date *(Note 3)*	Issue Price *(Note 4)*	4,500,000 Shares at Issue Price

Notes:

1. On the assumption that the Over-allotment Option is not exercised.

2. SHI is beneficially owned as to 97.51% by Mr. Lok, 0.76% by Mr. So Yiu King, 0.76% by Mr. Chow Chi Ming, Daniel, 0.76% by Mr. Tam Wing Yuen and 0.21% by Mr. Leung Wai Cheung. Mr. Lok is the founder of the Group, whilst the other shareholders are executive Directors. In addition to SHI and Mr. Lok, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung are considered to be the initial management shareholders by reason that they are executive directors of the Company. Each of the Initial Management Shareholders has undertaken with the Company, the Stock Exchange and Vickers (for itself and on behalf of the Underwriters) that it/he will not dispose of any of its/his respective direct or indirect interest in the Company and in SHI during the first six month period following the Listing Date. Each of Mr. Lok, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung has further undertaken with the Company, the Stock Exchange and Vickers (for itself and on behalf of the Underwriters) that he will not dispose of any of his respective direct or indirect interest in SHI or the Company during the second six month period following the Listing Date if this would result in them ceasing to have, in aggregate, 35% interest in the entire issued share capital of the Company.

3. Vandome, having been nominated by DTCF, will receive 4,500,000 Shares, representing 0.75% of the enlarged issued share capital of the Company immediately after the completion of the Placing (assuming the Over-allotment Option is not exercised) as partial settlement of the management fee and advisory fee for DTCF's services as the co-sponsor to the Placing. Vandome has undertaken with the Company and Vickers (for itself and on behalf of the Underwriters) that it will not dispose of any of its interest in the Company during the first six month period following the Listing Date.

4. The investment cost for DTCF shall be the management fee and advisory fee charged by DTCF which is valued with reference to the Issue Price and the 4,500,000 Shares to be allotted and issued to Vandome in settlement of such fees.

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings:

"Active Business Pursuit Period"	the two years ended 31st March, 2000 and the remaining period up to the Latest Practicable Date
"AMS/3"	the third generation of Automatic Order Matching & Execution System to be provided by the Stock Exchange
"associate(s)"	has the meaning as defined in the GEM Listing Rules
"Beijing Winner"	北京萬能軟件有限公司北京分公司 (Beijing Branch Office of Beijing Winner Software Company Limited)*, a private company independent of the Company and engaged in the development and distribution of accounting software products in the PRC
"BVI"	British Virgin Islands
"CCASS"	the Central Clearing and Settlement System established and operated by Hongkong Clearing
"Citrix"	Citrix Systems Inc., an application server software developer whose shares are listed on the Nasdaq National Market and is independent of the Company
"Companies Law"	the Companies Law (2000 Revision) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	FlexSystem Holdings Limited, a company incorporated in the Cayman Islands with limited liability on 8th May, 2000
"Director(s)"	the director(s) of the Company
"DTCF" or "Co-Sponsor"	Deloitte & Touche Corporate Finance Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), a GEM approved sponsor and the co-sponsor of the Placing
"Existing Shareholders"	shareholders of the Company immediately before the Placing
"FlexAccount products"	a portfolio of enterprise software developed and marketed by the Group under the brandname of "FlexAccount"
"FlexAccount Data Center"	the ASP services offered by the Group, details of which are set out in the section headed "Business" in this prospectus
"FlexAccount Distribution and Logistics System"	one of the enterprise software products offered by the Group, details of which are set out in the section headed "Business" in this prospectus

"FlexAccount Financial Information ON-line" or "FION"	one of the enterprise software products offered by the Group, details of which are set out in the section headed "Business" in this prospectus
"FlexAccount Financial Management System"	one of the enterprise software products offered by the Group, details of which are set out in the section headed "Business" in this prospectus
"FlexAccount Garment Trading/Manufacturing System"	one of the enterprise software products offered by the Group, details of which are set out in the section headed "Business" in this prospectus
"FlexAccount MFG System"	one of the enterprise software products offered by the Group, details of which are set out in the section headed "Business" in this prospectus
"FlexAccount On-line Point-Of-Sales System"	one of the enterprise software products offered by the Group, details of which are set out in the section headed "Business" in this prospectus
"FlexAccount Payroll & MPF System"	one of the enterprise software products offered by the Group, details of which are set out in the section headed "Business" in this prospectus
"FlexAccount Property Management System"	one of the enterprise software products offered by the Group, details of which are set out in the section headed "Business" in this prospectus
"GEM"	the Growth Enterprise Market operated by the Stock Exchange
"GEM Listing Committee"	the listing committee of the board of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GEM website"	the website of GEM located at http://www.hkgem.com
"Group"	the Company and its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or the business operated by such subsidiaries or (as the case may be) their predecessors
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hongkong Clearing"	Hong Kong Securities Clearing Company Limited
"Huamei Software"	常熟市經濟開發集團有限公司華美電腦軟件分公司 (Changshu Economic Development Group Huamei Computer Software Co. Ltd.)*, a private company independent of the Company and engaged in the development and distribution of software products in the PRC

"IDC"	International Data Corporation, an international market research firm
"Initial Management Shareholders"	SHI, Mr. Lok, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung
"Issue Price"	the price per Placing Share (exclusive of brokerage and the Stock Exchange transaction levy) at which the Shares are to be subscribed and issued pursuant to the Placing, to be determined as described in the section headed "Structure and conditions of the Placing" in this prospectus
"JETRO"	Japan External Trade Organisation, a non-profit Japanese government supported trade promotion organisation assisting overseas companies to export products and/or services to Japan
"Latest Practicable Date"	10th July, 2000, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Listing Date"	the date on which dealings of the Shares commence on GEM
"Lixin Technology"	立信科技計算機網絡公司 (Lixin Technology Computer Networking Co., Ltd.)*, a private company, independent of the Company, engaged in the development and distribution of software products and related services in the PRC
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock market operated by the Stock Exchange which excludes GEM and the options market
"Microsoft"	Microsoft Corp., a company whose shares are listed on the Nasdaq National Market, is a world leader in personal and business software industry and is independent of the Company
"MPF"	Mandatory Provident Fund
"Mr. Lok"	Mr. Lok Wai Man, a Director
"Mrs. Lok"	Madam Liu Ka Po, the wife of Mr. Lok
"Netscape"	Netscape Communications Corporation, a company whose shares are listed on the Nasdaq National Market, is engaged in the provision of client and server software, development tools and commercial applications and is independent of the Company
"NSTC"	國家科學技術委員會 (National Science and Technology Committee)*, a government body responsible for evaluation and promotion of commercial application of results of technology research in the PRC

"Original Share Option Scheme"	the share option scheme conditionally adopted by the Company on 10th July, 2000
"Over-allotment Option"	the option granted by the Company to Vickers pursuant to which the Company may be required to allot and issue up to an aggregate of 18,000,000 additional Shares, representing 15% of the number of the Placing Shares initially available under the Placing, at the Issue Price to cover over-allocations in the Placing
"Over-allotment Shares"	up to an aggregate of 18,000,000 new Shares which may be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option
"Placing"	the conditional placing of the Placing Shares for cash at the Issue Price with professional, institutional and other investors and certain full time employees of the Group by the Underwriters on behalf of the Company on and subject to the terms and conditions contained in the Underwriting Agreement as described in the section headed "Underwriting" in this prospectus and the placing letters relating thereto
"Placing Share(s)"	the 120,000,000 new Shares initially being offered under the Placing as described in the section headed "Structure and conditions of the Placing" in this prospectus
"Price Determination Agreement"	the agreement to be entered into between the Company and Vickers (for itself and on behalf of the Underwriters) for determining the Issue Price
"Price Determination Date"	the date, expected to be on or about 19th July, 2000, or on a date which is not later than 21st July, 2000, on which the Issue Price will be fixed for the purpose of the Placing
"PRC" or "China"	the People's Republic of China, which for the purposes of this prospectus excludes Hong Kong, Macau and Taiwan
"PRC government"	the central government of the PRC, including provincial, municipal and other regional or local government entities and political sub-divisions thereof
"Relevant Securities"	has the meaning ascribed thereto under Rule 13.15 of the GEM Listing Rules
"SCSTDC"	上海計算機軟件技術開發中心 (Shanghai Computing Software Technology Development Centre)*, a quasi-governmental organ under the hierachy of 科學技術委員會 (Science and Technology Committee)* which is responsible for the management of software companies and the regulation of the software industry in Shanghai
"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)

"Shanghai Haitian"	上海海天信息系統工程有限公司 (Shanghai Haitian Information System Engineering Co., Ltd.)* a company under the supervision of 上海大學科技園區 (Shanghai University Hi-Tech Park)*, which is independent of the Company and is principally engaged in the development and distribution of software products and the provision of related services in the PRC
"Shanghai Municipal Finance Bureau"	上海市財政局會計事務管理處 (Accounting Affairs Administrative Unit of the Shanghai Municipal Finance Bureau)*, a government unit responsible for evaluation and approval of accounting and finance software products, establishment and interpretation of accounting standards and training of accounting professionals in Shanghai
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 15th July, 2000, which substituted the Original Share Option Scheme, the principal terms of which are summarised in the paragraph headed "Share Option Scheme" in Appendix IV to this prospectus
"SHI"	SomaFlex Holdings Inc., the ultimate holding company of the Group, being a company incorporated in the BVI and controlled by Mr. Lok
"SiTech"	海南國家技術有限公司 (SiTech Hainan Co., Ltd.)*, a private company independent of the Company and engaged in the development of e-commerce solutions in the PRC
"SMEs"	small to medium sized enterprises
"Soma*AI"	Software Object Model Associates*Application Interface, a proprietary Internet enabling technology developed by the Group
"SSBA"	上海市軟件行業協會 (Shanghai Software Business Association)*, a quasi-governmental organ which is responsible for the evaluation, regulation and registration of computer software in Shanghai
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Underwriters"	Vickers and Indosuez W.I. Carr Securities Limited
"Underwriting Agreement"	the placing and underwriting agreement dated 17th July, 2000 in respect of the underwriting of the Placing Shares made between the Company, the executive Directors, SHI, Vandome, DTCF and the Underwriters, details of which are set out in the section headed "Underwriting" in this prospectus
"US"	the United States of America

"Vandome"	Vandome Investments Limited, a company incorporated in the BVI and beneficially and wholly owned by those persons who, as at 31st March, 2000, were partners of Deloitte Touche Tohmatsu, Hong Kong. The principal business of Vandome is investment holding
"Vickers" or "Sponsor"	Vickers Ballas Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), a GEM approved sponsor and the sponsor to the Placing
"HK$" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the US
"%"	per cent.
"sq.ft."	square feet
"sq.m."	square meters

In this prospectus, unless otherwise specifically provided, amounts in RMB have been translated into HK dollars at the rate of HK$1 to RMB1.07 and amounts in US dollars have been translated into HK dollars at the rate of HK$7.75 to US$1. Such translation is for the purpose of indication and reference purposes only and should not be construed as any representation that the RMB amounts, the US dollar amounts or the HK dollar amounts have been, could have been or could be converted into RMB, US dollars and HK dollars, as the case may be, at the above rates or at all.

* *The English name of a company or organisation appearing herein in brackets is not the official English translation of its Chinese official name but is set out for reference only.*

This glossary contains an explanation of terms used in this prospectus. Some of these may not correspond to standard industry definitions.

“ActiveX”	a defined set of technologies developed by Microsoft that allows easier and better integration of applications
“algorithm”	a formula or set of steps for solving a particular problem
“application”	a functional system made up of software or hardware, or a combination of both, that performs a specific task
“ASP”	an acronym for “application service provider”, an organisation that provides online services by hosting software applications and allowing its customers to access the application through private lines or Internet
“backbone”	the part of a communication network intended and designed to carry the bulk of traffic
“bandwidth”	the data-carrying capacity of a network connection, measured in thousands of bps (kbps) or millions of bps (Mbps)
“bit”	binary digit, the smallest unit of information a computer can process, representing one of two states (usually indicated by “1” and “0”)
“bps”	bits per second
“broadband”	telecommunications that provide multiple channels of data over a single communication medium
“client/server”	a configuration in which one computer, designated as a server, sends information to a number of other computers known as clients
“e-commerce”	electronic commerce, a process of buying and selling products on the Internet
“e-banking” or “electronic banking”	allows users to perform a wide range of transactions on their linked bank accounts through the Internet
“encryption”	the process of scrambling a message so that a key, held only by authorised recipients, is needed to unscramble and read the message
“ERP” or “ERM”	abbreviation for “enterprise resource planning” or “enterprise resources management”, refers to software developed to achieve company-wide integration of business and technical information with an aim of improving business processes, including both front office and back office functions
“Excel”	a product of Microsoft

"framework"	a set of classes that embodies an abstract design for solutions to a number of related problems
"gateway"	a point of entrance to and exit from a communication network. When viewed as a physical entity, a gateway is a node that translates between two otherwise incompatible networks or network segments, and it performs code and protocol conversion to facilitate traffic between data highways of different architecture
"ICP"	an acronym for "Internet content provider", an organisation that supplies information or content to ISPs
"Internet"	the world's largest international network of interconnected computers that links computers together and allows data to be transferred between each computer using prescribed communication protocols
"Internet Explorer"	the web browser product of Microsoft
"Intranet"	a private network based on Internet protocols, but designed for information management within an enterprise or organisation
"ISP"	an acronym for "Internet service provider", an organisation that provides users access to the Internet
"IT"	an acronym for "information technology"
"IT outsourcing"	relying on external computer companies to support day-to-day computer operations
"Java"	programming mini-applications for web-browsers and other programs
"kbps"	kilobits per second, which is a measurement unit of speed for digital transmission
"LAN"	an acronym for "local area network", a network that typically interconnects devices over a geographically small area, normally confined to one building or a campus
"Linux"	a version of UNIX operating systems developed for microprocessors, designed and manufactured by Intel, one of the world's largest manufacturers of microprocessors and other semiconductors based in Santa Clara, California, US
"MetaFrame"	a technology developed by Citrix that turns Windows NT into a multi-user operating system. Under this emulated environment, the actual applications are executed on the server
"Mbps"	megabits per second, which is a measurement unit of speed digital transmission
"Netscape Navigator"	the web browser product of Netscape

"networking"	a technique for distributing data processing functions through communications facilities (the interconnection of two or more networks)
"one-stop solution"	the provision of all aspects and levels of services to customers to complete the entire function in question without sourcing by the customers from other vendors or service providers
"operating system"	a master control program for a computer that manages the computer's internal functions as well as the peripheral devices
"platform"	a computing environment which allows the development and execution of computer applications
"protocol"	a set of rules on standards designed to enable computers to connect with one another and to exchange information
"server"	on a local area network, a computer running administrative software that controls access to all or part of the network and its resources. A computer acting as a server makes resources available to computers acting as workstations on the network
"software"	a system or utility or application program expressed in a computer readable language
"software component" or "component"	segments of computer programmes with well-defined interfaces, which constitute building blocks for layer program development
"software localisation"	the process of converting and repackaging a software application which is based on a certain language into one based on another language, for example, converting and repackaging an application utilising the English language into one utilising the Chinese language
"system integration"	a process to integrate different computers, devices and application software packages together to provide a solution
"WAP"	an acronym for "wireless application protocol", a specification for a set of communication protocols to standardise the way that wireless devices, such as cellular telephones and radio transceivers, can be used for Internet access, including browsing the web, sending and receiving e-mail and chatting in newsgroup discussion
"Web"	the World Wide Web, an information service on the Internet which can display graphics intermingled with text, play audio and show video clips
"Windows Terminal Server"	a terminal especially designed to run Windows applications and is connected to a Windows NT server through a network. All processing and data storage is handled by the server

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

RISKS RELATING TO THE GROUP'S BUSINESS AND OPERATIONS

The Group has a limited operating history in the ASP business

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

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

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

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

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

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

The Group is currently experiencing a period of significant expansion in terms of its headcount, facilities and infrastructure and the Directors anticipate that further expansion will be required to address potential growth in its ASP business. Such expansion may require significant capital expenditure, as well as marketing, research and development and other operating expenditures. Based on the business plans of the Group as described in the paragraph headed "Statement of business objectives" under the section headed "Future plans and prospects" of this prospectus, the net proceeds from the Placing are expected to be used up to 31st March, 2003. However, as the Group will need to continually expend capital to maintain and upgrade its network, develop its new business lines, and market its existing and new services, it is possible that the Group may have to source additional funds for capital expenditure. If the Group fails to do so, the Group's business may be adversely affected.

The Group's dependence on its key executives and personnel

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

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

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

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

Further, the proprietary computer program, Soma*AI, developed by the Group has not been patented and has been released to the public prior to making any application for registration of patent and accordingly is no longer eligible for patent registration. It is uncertain whether any computer users will develop and/or obtain patents in respect of a similar and a more efficient computer program in competition with Soma*AI. From time to time, the Group may have to resort to litigation to enforce its intellectual property rights, which could result in substantial costs and diversion of its financial and management resources. There can be no assurance that misappropriation or infringement of its intellectual property rights will not occur or if they do that the Group will be able to effectively enforce its rights.

The Group's business objectives may not materialise

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

The Group's insurance coverage is limited

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

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

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

RISKS RELATING TO THE INDUSTRY

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

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

It is not certain that the Group can respond to evolving technology and industry standards in a timely and cost-effective manner. Furthermore, changing the Group's services in response to market demand may require the adoption of new technologies that could render many of the technologies that it is currently implementing less competitive or obsolete. To respond successfully to technological advances and emerging industry standards, the Group may require substantial capital expenditure and access to related or enabling technologies in order to integrate the new technology with its existing technology. The Group may not be successful in modifying its network infrastructure in a timely and cost effective manner to facilitate such integration, which could adversely affect its quality of services, its results of operations and its business and prospects.

The Group's success depends on increased Internet usage

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

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

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

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

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

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

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

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

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

RISKS RELATING TO REGULATORY, ECONOMIC AND POLITICAL ISSUES

Political risks associated with doing business in Hong Kong

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

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

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

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

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

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

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

RISKS RELATING TO THE SHARES

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

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

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

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

The Company's Share price may be volatile

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

MORATORIUM PERIOD

The GEM Listing Rules require every initial management shareholder of a new issuer to undertake to the new issuer and the Stock Exchange, for a period of two years from the listing date, save as provided in Rule 13.17 of the GEM Listing Rules, not to dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any direct or indirect interest in Relevant Securities.

Under the GEM Listing Rules, the Initial Management Shareholders would ordinarily be subject to a moratorium period of two years. **However, as a result of an application made on behalf of the Company, the Stock Exchange, has granted a waiver to the effect that the moratorium period applicable to the Initial Management Shareholders be reduced to six months in respect of an aggregate of 475,500,000 Shares (representing 79.25% of the enlarged issued share capital of the Company immediately upon completion of the Placing assuming the Over-allotment Option is not exercised).**

The Stock Exchange has indicated that the above waiver would be granted on the condition that Mr. Lok, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung are not allowed to dispose of any of his respective direct or indirect interest in SHI or the Company in the first six-month period after the Listing Date, nor in the second six-month period after the Listing Date if such disposal would result in them ceasing to have, in aggregate, 35% interest in the entire issued share capital of the Company.

The details of the shareholding of the Initial Management Shareholders are set out in the section headed "Substantial and Initial Management Shareholders" on pages 85 to 87 of this prospectus.

Stock Borrowing Arrangement

In order to facilitate settlement of over-allocations in connection with the Placing and the distribution of Shares thereunder, Vickers may borrow Shares from SHI under a stock borrowing arrangement pending exercise of the Over-allotment Option and/or acquisition of Shares in the secondary market. As the Shares held by SHI are subject to the moratorium period as described above, **an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules (as explained above) for the purpose of implementing the stock borrowing arrangement.** A waiver has been granted by the Stock Exchange on condition that:

(i) the stock borrowing arrangement with SHI may only be effected by Vickers for settlement of over-allocations in connection with the Placing;

(ii) the maximum number of Shares to be borrowed from SHI must not exceed the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;

(iii) the same number of Shares borrowed shall be returned to SHI not later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full; and

(iv) the returned Shares will be placed in escrow as soon as practicable with an escrow agent acceptable to the Stock Exchange.

This stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements. No benefits nor payments will be made to SHI in relation to such stock borrowing arrangement.

SHARE OPTION SCHEME

The GEM Listing Rules require that the total number of Shares subject to the Share Option Scheme and any other schemes ("Scheme Limit") must not, in aggregate exceed 10% of the issued share capital of the issuer from time to time. **As a result of an application made on behalf of the Company, the Stock Exchange has granted a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules. On this basis, the Company is allowed to increase the Scheme Limit to 30% of the issued share capital of the Company from time to time. Such waiver has been granted by the Stock Exchange subject to the following conditions:**

(i) the total number of Shares which may be issued pursuant to the exercise of options under the Share Option Scheme and any other schemes must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time;

(ii) subject to (i) above, the Company may seek approval by shareholders in general meeting to grant options under the Share Option Scheme and any other schemes representing up to an aggregate of 10% of the issued share capital of the Company at the time of approval ("General Mandate Limit");

(iii) subject to (i) above, the Company may seek separate shareholders' approval in general meeting to grant options beyond the General Mandate Limit to participants specified by the Company before such approval is sought;

(iv) the grant of options to a connected person (as defined in the GEM Listing Rules) shall be approved by all independent non-executive directors of the Company;

(v) the grant of options to a connected person who is also a substantial shareholder (as defined in the GEM Listing Rules) or any of his associates, where 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, shall be approved by shareholders in general meeting. Apart from the connected person involved, all other connected persons of the Company shall abstain from voting in such general meeting (except where any such connected person intends to vote against the proposed grant);

(vi) for the purposes of approving the proposed grant of options as described under sub-paragraphs (iii), (iv) and (v) above, the Company shall issue a circular to shareholders 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; and

(vii) the following additional disclosures will be made in the annual and interim reports of the Company:—

    (a) details of options granted to each Director all the other participants; and

    (b) a summary of the major terms of each share option scheme approved by the shareholders of the Company.

At the Latest Practicable Date, no option has been granted under the Share Option Scheme.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the GEM Listing Rules for the purpose of giving information to the public with regard to the Company. This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading;

2. there are no other matters the omission of which would make any statement in this prospectus misleading; and

3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

THE PLACING

The Company is offering 120,000,000 Placing Shares for subscription by way of Placing (assuming Over-allotment Option not exercised).

The Placing Shares will be conditionally placed with professional, institutional and other investors and certain employees of the Group by the Underwriters or through selling agents appointed by them at the Issue Price. Out of the 120,000,000 Placing Shares, 95% as represented by 114,000,000 Placing Shares are expected to be placed with professional, institutional and other investors. The remaining 5% as represented by 6,000,000 Placing Shares are expected to be placed on a preferential basis as to allocation only at the Issue Price with certain employees (excluding the Directors or the chief executive of the Company or the existing beneficial owners of the Shares or an associate of any of them) of the Group through the Underwriters. If these 6,000,000 Placing Shares are not fully subscribed, they will be re-allocated to the portion to be placed with professional, institutional and other investors.

Price payable on subscription

The Issue Price, together with 1% brokerage and a 0.01% Stock Exchange transaction levy, is payable in full on subscription.

FULLY UNDERWRITTEN

This prospectus is published in connection with the Placing for which Vickers is the global coordinator, lead manager and sponsor and DTCF is the co-sponsor. The Placing Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreement. For full information about the Underwriters and the placing and underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

RESTRICTIONS ON THE SALE OF SHARES

No action has been taken to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus. Any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Underwriters, any of their respective directors or any other person involved in the Placing.

Singapore

This prospectus has not been registered with the Registrar of Companies and Businesses in Singapore and the Placing Shares will be offered in Singapore pursuant to an exemption invoked under section 106C and section 106D of the Companies Act, Chapter 50 of Singapore (the "Singapore Companies Act"). Accordingly, the Placing Shares may not be offered or sold, nor may this prospectus or any other offering document or material relating to the Placing Shares be circulated or distributed, directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person specified in section 106C of the Singapore Companies Act, (2) to a sophisticated investor, and in accordance with the conditions, specified in section 106D of the Singapore Companies Act or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Singapore Companies Act.

Cayman Islands

No offer of Shares may be made to the public in the Cayman Islands.

Each person acquiring the Placing Shares will be required to, or is deemed by his acquisition of the Placing Shares to, confirm that he is aware of the restrictions on offers of the Placing Shares described in this prospectus.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal on GEM in, the Shares in issue and to be issued as mentioned in this prospectus and any new Shares which may be issued pursuant to the exercise of the Over-allotment Option and the new Shares to be issued pursuant to the exercise of options granted under the Share Option Scheme. Only Shares registered in the Hong Kong branch register of members may be traded on GEM.

No part of the Company's share or loan capital is listed or dealt in on the Main Board or any other stock exchange. At present, the Company is not seeking or proposing to seek listing of or permission to deal in the Shares on the Main Board or any other stock exchange.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 20% of the issued share capital of the Company in the hands of the public.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for the Placing Shares, or about the purchasing, holding or disposal of or dealing in or the exercise of any rights in relation to the Placing Shares, you should consult an expert.

The Company, the Directors, the Sponsor, the Co-Sponsor, the Underwriters, their respective directors, agents and advisers and other parties involved in the Placing do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for the Placing Shares, or purchasing, holding or disposal of, or dealing in or the exercise of any rights in relation to the Placing Shares.

STAMP DUTY

Dealings in the Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

STRUCTURE AND CONDITIONS OF THE PLACING

Details of the structure and conditions of the Placing, are set out in section headed "Structure and Conditions of the Placing" of this prospectus.

DIRECTORS

Executive Directors

Name	Address	Nationality
Lok Wai Man	Flat F, 21st Floor, Block 3 Pokfulam Gardens 180 Pok Fu Lam Road Hong Kong	Chinese (Hong Kong)
So Yiu King	Room 4503, Tower A Galaxia Diamond Hill Kowloon Hong Kong	Chinese (Hong Kong)
Chow Chi Ming, Daniel	Flat F, 22nd Floor, Block 6 East Point City 8 Chung Wa Road Tseung Kwan O New Territories Hong Kong	Portugese
Tam Wing Yuen	Flat F, 14th Floor, Block 2 Pokfulam Gardens 180 Pok Fu Lam Road Hong Kong	Chinese (Hong Kong)
Leung Wai Cheung	Flat E, 9th Floor, Block 6 Avon Park 15 Yat Ming Road Fanling New Territories Hong Kong	Chinese (Hong Kong)

Non-executive Director

Lo Yip Tong	Flat A, 7th Floor Yee Qun Mansion 37 Tai Hong Street Lei King Wan Hong Kong	Chinese (Hong Kong)

Independent non-executive Directors

Mak Wing Kwong, David	Flat E, 20th Floor, Block 2, Phase III Belvedere Garden 625 Castle Peak Road Tsuen Wan New Territories Hong Kong	Chinese (Hong Kong)
Tse Lin Chung	Flat C, 18th Floor, Block 3 Tanner Garden 18 Tanner Road North Point Hong Kong	Chinese (Hong Kong)

Global Coordinator, Lead Manager and Sponsor	Vickers Ballas Capital Limited 19th Floor Far East Finance Centre 16 Harcourt Road Admiralty Hong Kong
Co-Sponsor	Deloitte & Touche Corporate Finance Limited 21st Floor Wing On Centre 111 Connaught Road Central Hong Kong
Co-Lead Manager	Indosuez W.I. Carr Securities Limited 43rd Floor One Exchange Square Central Hong Kong
Legal adviser to the Company	*as to Hong Kong law:* Hastings & Co 21st Floor Bank of China Tower 1 Garden Road Hong Kong *as to PRC law:* Fangda Partners 19th Floor Senmao International Building 101 Yin Cheng East Road Pudong New Area Shanghai 200120 The PRC *as to Cayman Islands law:* Conyers Dill & Pearman, Cayman P.O. Box 2681 Zephyr House Mary Street George Town Grand Cayman British West Indies
Legal adviser to the Underwriters	Woo, Kwan, Lee & Lo 27th Floor Jardine House 1 Connaught Place Central Hong Kong

Auditors and reporting accountants	PricewaterhouseCoopers *Certified Public Accountants* 22nd Floor Prince's Building Central Hong Kong
Property valuer	DTZ Debenham Tie Leung Limited 10th Floor Jardine House 1 Connaught Place Central Hong Kong

CORPORATE INFORMATION

Registered office	P.O. Box 2681 Zephyr House George Town Grand Cayman British West Indies
Head office and principal place of business	1st Floor PCL Group Building 18 Lee Chung Street Chai Wan Hong Kong
Company homepage	www.flexsystem.com
Audit committee	Mak Wing Kwong, David Tse Lin Chung
Company secretary	Lau Wai Fung ACCA, AHKSA
Qualified accountant	Lau Wai Fung ACCA, AHKSA
Compliance officer	So Yiu King
Authorised representatives	Lok Wai Man So Yiu King
Principal banker	Hang Seng Bank Limited Sai Wan Ho Branch 171 Shaukeiwan Road Hong Kong
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Limited Butterfield House Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands
Hong Kong branch share registrar and transfer office	HKSCC Registrars Limited 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong

The information presented in this section is derived from various private and/or publicly available documents. The information has not been prepared or independently verified by the Company, the Sponsor, the Co-Sponsor or any of their respective advisers or affiliates.

Enterprise Software Market

Enterprise Resources Planning (ERP) application software is a category of software which is developed to achieve company-wide integration of business and technical information with an aim of improving business processes. These applications cover financial management, distribution/materials management, manufacturing/production management and human resources management. ERP application not only enhance operation efficiency but also facilitate the expansion of corporations into the e-commerce environment.

Worldwide market

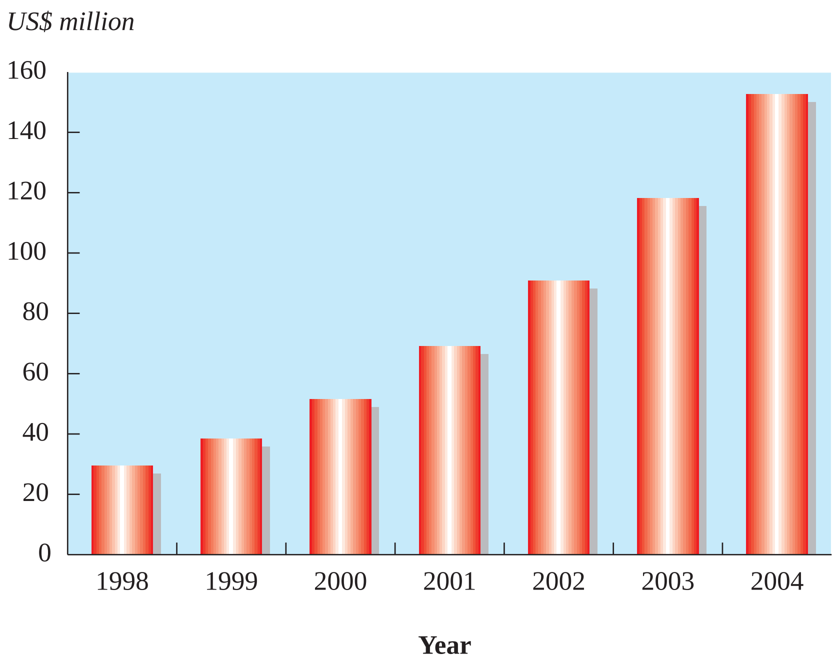
According to IDC, the ERP software market reached US$19 billion in 1999, which represents an increase of about 8% as compared to that in 1998.

The PRC market

According to IDC, the ERP software market in the PRC has moved from an introduction period to a growth period in the product life cycle. In addition, ERP software users in the PRC are mostly medium sized companies. In 1999, about 55% of installations were performed for this category of enterprises. As reported by IDC, there are more than 15 million SMEs in the PRC. Due to their size, these enterprises have limited access to capital resources and IT talents. IDC identified government policy and development of e-commerce as two of the major factors leading to expansion of ERP software market in the PRC. According to IDC, the PRC government placed emphasis on reform of internal management of enterprises in the PRC and brought forward the idea of utilising ERP software to enhance management efficiency by implementing ERP system as operation backbone.

The concept of ERP has been widely recognised and accepted in the PRC. Sales of ERP software amounted to US$38 million in 1999, representing 5.5% of the total software market. IDC expects the sales of ERP software in the PRC to reach US$152 million in 2004 with a compound annual growth rate of 31.5% from 1999 to 2004.

ERP Software Market Forecast, 1998-2004, by Revenue — The PRC



Source: IDC, 2000

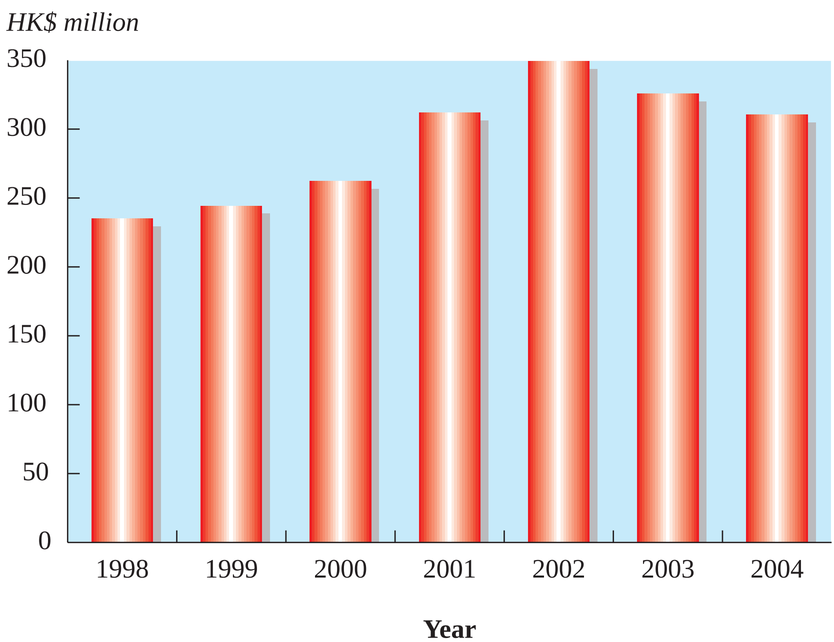
IDC considers language localization as an important concern for ERP software suppliers in the PRC due to customers' inclination of purchasing ERP software in the Chinese language. Suppliers which do not provide such option would have lower chance of obtaining order.

Hong Kong market

The sales of ERP software products in Hong Kong amounted to US$31.5 million in 1999. IDC identified development of e-commerce and Hong Kong's status as a business hub for the North-Asian region as major factors contributing to the further development of ERP software market in Hong Kong. In addition, the Hong Kong government's effort to assist enterprises, especially SMEs, to enhance efficiency and to achieve cost saving, effectively promoted the use of ERP software. According to the Industry Department of Hong Kong, there were more than 290,000 SMEs in Hong Kong.

IDC expects the sales of ERP software in Hong Kong will reach US$40 million by 2004 with a compound annual growth rate of about 5% from 1999 to 2004.

ERP Software Market Forecast, 1998-2004, by Revenue — Hong Kong

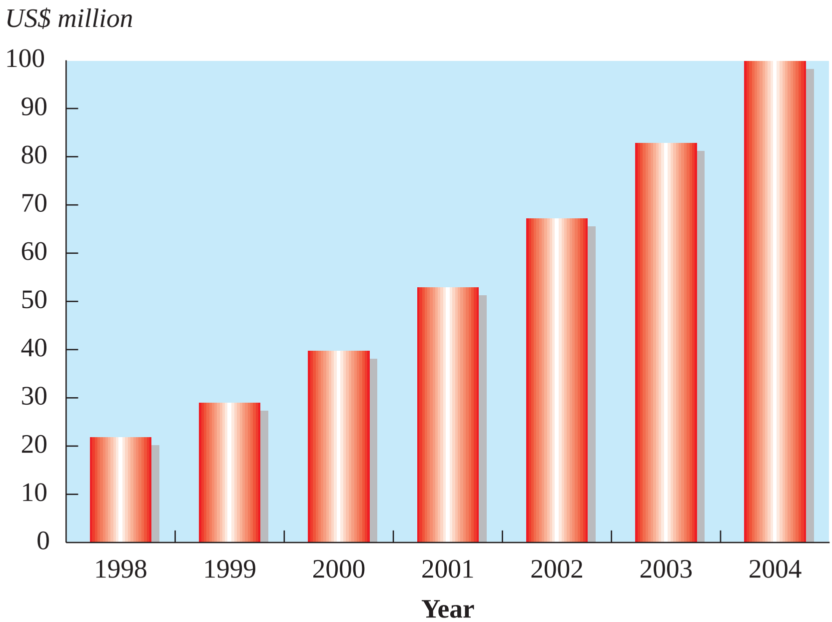


Source: IDC, 2000

Taiwan market

IDC considers that the increasing competitive pressure from foreign enterprises has created the need of the enterprises in Taiwan to improve their efficiency by way of installing ERP systems. Another feature of the ERP software market in Taiwan identified by IDC is the shift of emphasis from large sized enterprise to SMEs, which require flexibility and componentization. The sales of ERP software products in Taiwan amounted to US$29 million in 1999. IDC expects the sales of ERP software in Taiwan will reach US$100 million by 2004 with a compound annual growth rate of about 29% from 1999 to 2004.

ERP Software Market Forecast, 1998-2004, by Revenue — Taiwan



Source: IDC, 2000

As in the case of the PRC, localization in terms of business practices and government policy is an important requirement for ERP software suppliers in Taiwan. IDC also specifically pointed out that partnership with consulting firms in Taiwan to extend both the scale and scope of ERP software products would be an added advantage for suppliers.

THE INTERNET

The Internet serves as the backbone of the global information network by enabling commercial organisations, educational institutions, government agencies as well as individuals to communicate, access and share information, provide entertainment and conduct business remotely. The use of the Internet has grown rapidly since the start of its commercialisation in the early 1990's.

The development of the Internet over the past few years has been vigorous, with ever-growing number of people connected to and interconnected within the cyberspace. The application of the Internet has also broadened to communications, business transactions, entertainment and many other uses.

In the Asia Pacific (ex. Japan) region, an accelerating growth has been witnessed over the past years. Internet users have been projected to increase from 12.9 million in 1998 to 25.69 million by 1999 and are projected to exceed 108.67 million by 2003, according to IDC (ICMM version 6.3).

The Internet is driving suppliers of application software to consider new delivery channels and buyers to consider new IT operational models. In an effort to extend their reach to both new and existing clients, solution providers are exploring ways to provide remote access to their solutions, which has resulted in the emergence of ASPs and their web-enabled solutions. The objective of an ASP is to make technology available to users on a subscription basis and allow them to focus on core-competencies, which do not include IT management. Furthermore, the evolution of the Internet has triggered an increasing interest in e-commerce, which represents automation of fund commitment and management among business partners and end customers. E-commerce, which allows companies to reach new markets, such as vast consumer markets, is a developing trend. In adopting e-commerce, companies have to build adequate infrastructure to support this new business model.

ASP BUSINESS

Business Model

The model of an ASP captures a contractual service between two parties delivered via the Internet. At one end, a vendor of the service will be responsible for the deployment, hosting and management of a series of applications from a remote facility for rent to users. On the other end, a subscriber will pay a fee for gaining access and permission to use the applications. The vendor is known as the ASP and the subscribers are business entities who seek to outsource such application software for their own reasons.

In any typical case, the ASP will integrate the relevant application software to provide business solutions to the subscriber. In addition to the provision of installation, configuration and customization services of the application software, the ASP will also provide the specific activities or expertise aimed at managing such application software.

The emergence of ASPs is set to revolutionize the traditional software industry by extending the following benefits to its customers:

- by renting application software offered by the ASP, business enterprises can concentrate their efforts on their core business activities;
- with an Internet or Intranet connection, customers can access the applications anywhere in the world at anytime;
- since the applications are being maintained by the ASP, users can enjoy timely services on application updates and version upgrades with significant savings;
- since the applications are leased to the users on a periodic/pay per use basis, the users do not have to invest heavily to purchase the applications;
- the simple plug-and-run applications of ASP services offers speed to users as they can save plenty of time on system installation and implementation; and

- with applications being maintained and monitored by the ASP, users can enjoy significant savings on the IT resources including application maintenance application and database housekeeping, system troubleshooting and licensing fee.

By subscribing to the services provided by an ASP, users can readily perform business functions, ranging from accounting, human resources, sales, order processing to point of sales, by connecting to the vendor's server.

Technology Brief

Nowadays, the advent of ASP services is enabled by Windows terminal emulation software available in the market, such as Windows Terminal Server and Citrix's MetaFrame. The Directors believe that most of the ASPs in Asia employ these technology platforms to establish access betweeen users and the data center of the provider. One of the reasons companies choose to use the services provided by the ASP is due to the fact that it is difficult for them to attain a comparable level of performance given the restriction on their resources. Accordingly, the ability of the technology platforms to support efficient deployment of the applications affects the performance of the ASP. In addition, other aspects of these platforms such as security are also important.

The Directors believe that the Soma*AI technology can address the concerns of the users of ASP services given its data compression, speed and security capabilities. The results of a test performed on Soma*AI by NSTC indicated that its data compression technology increases the amount of data transmitted, thereby enhancing the transmission speed. In addition, the test also demonstrated that the applications running the Soma*AI technology are able to maintain satisfactory operation even under a low bandwidth environment. Finally, the test revealed that Soma*AI is able to achieve security levels of 128 bits, 1024 bits or even higher since it is equipped with its own encryption method.

Potential of the ASP Market

Worldwide

In 1999, total expenditure incurred in the ASP market was recorded at US$296 million. IDC estimates that spending in the ASP market will reach US$7.8 billion by 2004, reflecting a 92% compounded annual growth rate for the five years. The following factors are expected to drive the growth of the ASP market now and in future:

- Shorter application cycles - These shorter cycles are resulting in technology indigestion. By the time companies get their systems implemented and tested, they find the next release is on the horizon;

- The Internet - The prevalent use of the Internet highlights the importance of time-to-market and scalable IT infrastructures;

- Demand for skilled IT staff - IT personnel are demanding higher salaries, state-of-the-art projects, and rewarding work environments — criteria that application maintenance projects cannot always deliver; and

- Network improvements - Better desktop and reporting tools, intuitive user interfaces, and select application templates that support the ASP offerings blend the best of remotely managed shared environments and locally managed individual environments.

HISTORY AND DEVELOPMENT

Mr. Lok, the founder of the Group, commenced his career in the development of system software in the 1980s and was subsequently engaged in the development and sale of customized system software in Hong Kong. In 1986, recognising the huge market potential for enterprise application software, he started to concentrate his efforts on the development of such category of application software. In 1987, Mr. Lok established FlexSystem Limited for the development and provision of enterprise application software. The Group's first series of enterprise application software was launched under the "FlexAccount" brandname within the same year. In 1988, an enhanced version of the FlexAccount products was released.

In 1990, the Group adopted an object-oriented programming technology for the purpose of building applications based on reusable objects or components. The Directors believe that such adoption allowed the Group to greatly reduce its development and maintenance costs of application software as compared to using traditional programming methods. Based on this programming concept, the Group re-designed and re-organized various modules of the FlexAccount products for enhanced performance. In 1996, "FlexAccount for Windows" was launched as a result of the Group's efforts in adapting the FlexAccount products for the Windows environment.

In early 1997, the Group extended its business to the PRC by setting up a subsidiary in Shanghai and commenced the localisation of FlexAccount products for the PRC market. The Shanghai office provides sales and marketing, programming, research and development, customer support and quality control services. In the same year, the Group's finance and accounting application software was certified by the Shanghai Municipal Finance Bureau to be in compliance with the accounting standards in the PRC and for its capability to fulfil the requirements of various PRC government units.

In 1997, the Group, in collaboration with SiTech, developed and launched SiTechFlex, an Internet-based workflow and accounting software package. The Directors believe that the result of such co-operation represented a technological breakthrough for the Group and for the PRC market at that time. Based on the experience gained in developing SiTechFlex, the Group commenced research in developing its own Internet enabling technology, which subsequently led to the development of Soma*AI. During the same year, another upgraded version of FlexAccount products was also released to the market.

The Group's second research and development center, which focuses on object-based development, was set up in Macau in February 1999. This arrangement enables the Group to strengthen its research and development capabilities and exploit the relatively lower operating cost environment in Macau. Object-based development refers to the design and development of basic components to be used as building blocks for construction of application software.

During the first half of 1999, the Group completed development of its own Internet enabling technology — "N-Terprise Server" which was later renamed as "Soma*AI". In the same year, the Group developed its ASP model by deploying FlexAccount products on the Internet using the Soma*AI technology.

In April 1999, the Group entered into a distribution agreement with Beijing Winner for the distribution of FlexAccount products in Beijing. The Directors believe that such alliance was an important milestone for the Group's expansion into the PRC market as Beijing Winner was one of the leading software houses in Beijing and its established distribution network would facilitate the introduction of FlexAccount products into the PRC market. In addition, the Group strengthened its distribution network in the PRC by establishing distribution channels in Beijing in early 1999 to coordinate sales activities in the respective areas.

In early 2000, three additional distribution channels for the FlexAccount products were set up in Guangzhou, Dalian and Changshu.

The Group first tapped into the ASP market in March 2000 by launching the FlexAccount Data Center. This service allows users to outsource application deployment and IT infrastructure by means of subscribing to a wide range of application software developed by the Group via the Internet.

The Company was incorporated on 8th May, 2000 and became the holding company of the Group pursuant to the group reorganisation exercise which is described in the section headed “Corporate reorganisation” in Appendix IV to this prospectus.

The Group is currently preparing for the establishment of another new research and development centre in Malaysia. This set up is expected to further the Group’s research and development efforts while allowing it to take advantage of the relatively low operating cost environment in Malaysia.

STATEMENT OF ACTIVE BUSINESS PURSUITS

The following is a statement of active business pursuits of the Group for the two years ended 31st March 2000 and for the period from 1st April, 2000 to the Latest Practicable Date:

For the year ended 31st March, 1999

Sales and Marketing

- Launched the Group’s official homepage (www.flexsystem.com) which provides corporate information about the Group and brief descriptions of the products and services of the Group

- Set up implementation team (comprising 13 members as at the Latest Practicable Date) to provide additional advisory services customers relating to the implementation of FlexAccount products as part of a complete enterprise solution

- Set up distribution channel in Beijing by appointing distributors in the northern parts of the PRC to complement marketing efforts of the Group’s Shanghai office

Research and Product Development

- Set up research and development center in Macau with a focus on object based development which relates to the design and development of basic components to be used as building blocks for construction of an application software

- Completed the development of SiTechFlex, an Internet-based workflow and accounting software package

- Commenced the development of Soma*AI, the Group's proprietary Internet enabling technology

- Continued the development of the infrastructure for the FlexAccount Data Center

Award and recognition

- Ranked as the foreign finance software house with the largest number of installations approved by the Shanghai Municipal Finance Bureau in 1998

For the year ended 31st March, 2000

Sales and Marketing

- Commenced sales and marketing activities including advertisements in various media and participation in trade shows and exhibition, to promote its ASP services in Hong Kong

- Set up distribution channels and appointed additional distributors for sales activities in Guangzhou, Dalian and Changshu

Research and Product Development

- Completed the development of its proprietary Internet enabling technology, Soma*AI

- Integrated existing FlexAccount products with the FlexAccount Data Center and studied the potential for other applications to be deployed via the FlexAccount Data Center

- Prepared for the establishment of a new research and development center in Malaysia for business logic development, which relates to the design and integration of functions which can execute rules for business logic into software products

Corporate Development

- Formed a distribution alliance with Beijing Winner, a software house for distributing FlexAccount products in Beijing

Award and Recognition

- Selected by JETRO as one of the twelve Hong Kong companies to exhibit their products at the annual World PC EXPO 2000 to be held in Japan in October 2000

For the period from 1st April, 2000 to the Latest Practicable Date

Sales and Marketing

- Continued to focus on sales and marketing activities for FlexAccount Data Center in Hong Kong

- Set up distribution channel in Changshu to coordinate sales activities

- Set up a branch office in Taiwan for coordinating sales and marketing of the FlexAccount products and preparation for the expansion of FlexAccount Data Center to the Taiwan market

- Increased the number of sales and marking personnel in Hong Kong and the PRC to 33

- Liaised with potential business partners with a view to facilitating the introduction of the services of FlexAccount Data Center in Hong Kong, the PRC, Taiwan, Malaysia and Singapore and entered into letters of intent with various partners for ASP services in Hong Kong, the PRC and Taiwan. For details of these alliances, please refer to the paragraph headed “Strategic alliance” on pages 62 to 64

Research and Product Development

- Completed the initial phase of integration of FlexAccount products (including accounting, distribution and logistics, manufacturing, payroll, human resources management, online point-of-sales and online stock brokerage) with Soma*AI

- Completed the development of the infrastructure for FlexAccount Data Center

- Completed the prototype of an enhanced version of the FlexAccount Financial Management System and continued to fine-tune its functionality, which offers more options in reporting, new inquiry functions and more powerful consolidation functions

- Continued to improve its efficiency and performance of one of the FlexAccount products - FlexAccount Financial Information ON-line by increasing its data retrieval speed by five times

- Commenced the operation of the research and development center in Macau

- Continued to prepare for the establishment of a research and development center for business logic development in Malaysia

- Commenced the localization of the FlexAccount products for Taiwan

Intellectual Property Rights

- Submitted applications to register its trademarks for “FLEXSYSTEM & device” in Hong Kong

- Submitted applications to register its trademarks for “Soma*AI” in Hong Kong, the PRC, Taiwan, Malaysia and Singapore

- Submitted applications to register its trademarks for “FlexAccount” in the PRC, Taiwan, Malaysia and Singapore

- Submitted application to register its trademark for “FION” for FlexAccount Financial Information ON-line software in Hong Kong

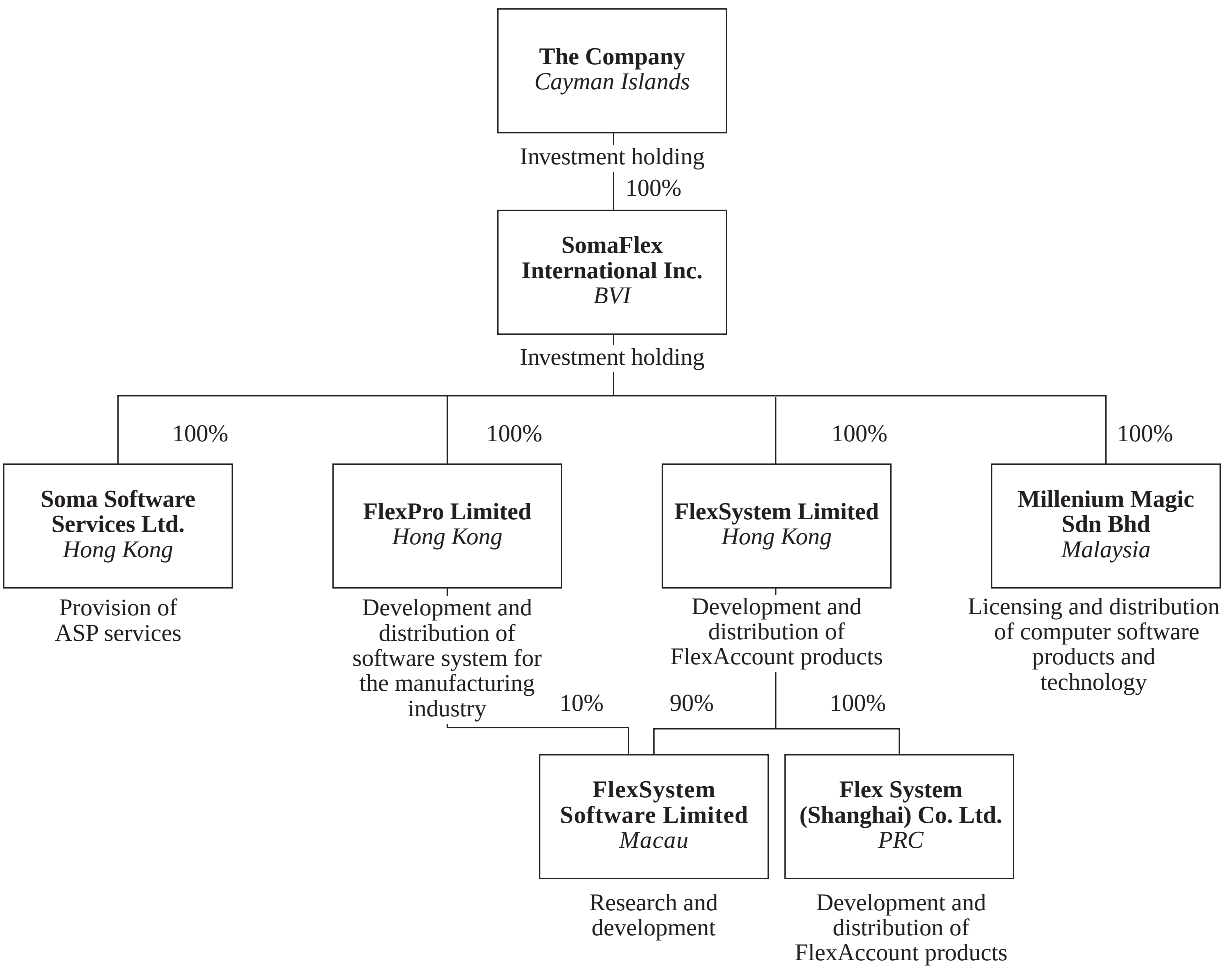
Award and recognition

- Recognized by the Shanghai Municipal Finance Bureau, SCSTDC and SSBA as the only Hong Kong-based finance and accounting software company in Shanghai

- Certified by NSTC in recognition of the high standards of the technological capabilities of Soma*AI

GROUP STRUCTURE

The structure of the Company's principal subsidiaries upon the listing of the Shares on GEM and their respective places of incorporation and principal activities are as follows:



ENTERPRISE SOFTWARE

The Group develops, markets and supports enterprise software products that operate on multiple computing platforms. The enterprise software products developed by the Group are designed to provide a complete enterprise solution, which improves the efficiency of businesses in executing day-to-day operations and in reducing the operating costs of the customers' business. The products have been promoted under the brandname of "FlexAccount" for over 13 years. The FlexAccount products are able to support manufacturing, finance, distribution and human resources operations for companies of various sizes and participating in different industries. Some of the products have been specifically designed for certain industries which rely heavily on the control of material procurement and real time update of information input from diverse locations of operation, such as trading and retailing. In addition, the Group provides a complementary range of implementation, training and support services to its customers.

Products

Currently, the FlexAccount product suite comprises eight applications, representing a valuable cumulation of business knowledge and technical expertise. The Directors believe that each of these applications has the potential to become a leading solution in their respective business application areas. All of the FlexAccount products are Internet-enabled, except for the FlexAccount Garment Trading/Manufacturing System, and can be scaled up to handle high volumes of transactions in a multi-company environment and, most importantly, can be integrated with each other to provide a complete enterprise solution. The Directors believe that these factors render FlexAccount products suitable software applications to be offered in an ASP setup.

The FlexAccount products normally require minimal customisation when they are rolled-out and implemented for different customers. Customisation, if needed, usually forms part of the services provided by the Group to supplement the sales of the FlexAccount products.

1. **FlexAccount Financial Management System**

The FlexAccount Financial Management System is the Group's flagship product within the FlexAccount portfolio. By utilizing this application software, transactions within an organization can be updated through common input procedures and extensive reports across all ledgers, accounts, accounting periods and analysis can be readily available. The latest version of this application software was released in the third quarter of 1997. The Directors expect the next updated version of this application software to be available by the end of 2001.

Major features of this application software include:

Analytical Data Management	The software features extensive user-definable, multi-dimensional and multi-level analysis, allowing various forms of financial analysis.

Integrated Environment	The software is based on an integrated ledger design which allows all kinds of transaction details to be collected from a common voucher entry. Features such as multi-currency, multi-company, consolidation, and report generator are built in the software. The combined ledger structure is designed to reduce the number of transactions required and hence to save time and reduce chances of error.
Flexible Set Up	The software is designed with a parameter driven structure which allows users to adjust the application to match business requirements. This feature reduces interruption to the existing system.
User-Customized Interface	The software allows users to customize the interface, enabling them to develop integrated solutions with third party products without extra implementation efforts. This flexibility facilitates its applicability for use in a wide range of vertical markets ranging from property management to manufacturing, retail management, sales and distribution, and others.
Report Presentation	The software contains both text reporting and visual presentation tools which enable users to present their data graphically.

2. **FlexAccount Financial Information ON-line**

This application is a component-based financial reporting tool for supporting management's decision-making processes. The latest version of this application software was released in the first quarter of 1997. The Directors expect the next updated version of this application software to be available by the end of 2001.

Major features of this application software include:

Business Mapping Interface	With this application, users can extract financial data for different ledgers and time periods via commonly used office applications such as Excel. This software is designed to create a user-friendly operating environment in which database columns are labeled by standard accounting terms.
ActiveX Automation	This application permits easy data conversion under the Windows environment. Instead of data import/export, it is a real-time on-line access from the commonly used office application to the central database. Due to its integration with Windows operating environment, the need of training and support for using this software in report writing will be greatly minimized.

Ease of Use	Its component-based design allows users to break complex reports into manageable query blocks. Hence, processes ranging from simple transaction document filtering to complex account grouping can assembled to construct sophisticated financial reports by non-technical users without extensive training.

3. **FlexAccount Distribution and Logistics System**

This is an integrated financial management software solution designed to perform all business functions relating to trading business. The software allows users to monitor, track and analyse every order entry, so as to streamline workflow and facilitate efficient resource allocation. This software supports a multi-user environment which is compatible with most operating systems and also provides fully automated order entry and inventory processing. The software comes with a suite of order processing modules, including inventory control, purchase order and sales order. Furthermore, the software contains both order processing module and accounting module, which allows real-time accounting information update. The latest version of this application software was released in the second quarter of 1998. The Directors expect the next updated version of this application software to be available by the end of 2002.

Major features of this application software include:

Order Entry	The sales order and purchase order modules of this software fully automate the order entry and invoicing workflow. It helps users to keep track and control of orders received and issued. The module provides real-time customer and vendor information and inventory verification at the time of order entry. Confirmation of goods delivered or received will be recorded and reflected in the stock and accounting modules accordingly.
Inventory Control	The inventory control module of this software is designed to simplify the effort required for maintaining control of inventory items and allowing users to manage their inventory at desired level by providing information about stock valuation, stock movement and quantities held or committed.
Reporting	The software also comprises easy-to-use system tools for management information reporting. Report format include detailed or abridged version of transaction history, periodic sales and purchase reports, inventory reports and comprehensive financial reports.

4. **FlexAccount MFG System**

This application software is a complete suite of multi-tier client/server based manufacturing control system covering accounting, inventory control, sales/purchase order handling, manufacturing order control, bill of materials, engineering change note and material requirement planning. The functions assist users to maintain all kinds of production-related information, to monitor and schedule the manufacturing cycle with an aim to attain optimum efficiency while maintaining a minimum amount of stock.

The software provides users with global access to production information. Multiple users around the world can simultaneously log-on to the central server. The latest version of this application software was released in the fourth quarter of 1997. The Directors expect the next updated version of this application software to be available by the end of 2002.

Major features of this application software include:

Master Production Schedule	This software facilitates review of management information such as those relating to production, staffing and inventory at an aggregate level, paralleled with budgeted amounts for a pre-defined time period for comparison.
Sales Order	This software compares stock level with orders received. Reports will be generated when the order exceeds inventory level in accordance with the memory code setting defined by users.
Purchase Order	This software allows users to input suppliers' quotes and orders. Status of the open order can be reviewed through on-screen enquiry. Outstanding and overdue order can be closely tracked. Detailed vendors analysis about purchase price, contract price, vendor lead times and vendor stock level can be generated any time.
Manufacturing Order	This software assists users to maintain a complete manufacturing record. A manufacturing order can be automatically initiated. Relevant information will also be updated automatically throughout the manufacturing cycle from work order entry to complete job costing report.
Inventory Control	Sales and purchase information is continuously compared for inventory control. By maintaining an updated record of stock items, inventory level can be balanced with customers' orders to ensure "just-in-time" shipment without overstocking.

Bill of Materials	This software provides a comprehensive quantitative listing of raw materials, parts and labour components required in the assembly or manufacture of finished products. The software assists in maintaining accurate and updated records about the production process.
Material Requirement Planning	This software assists users to attain optimal inventory level by allowing users to establish a capacity planning to determine the amount of material required during various phases of the production process, balance the supply and demand for all components required to satisfy the master production schedule, thereby utilizing production resources more effectively.
Purchase Requisition	This software facilitates the management of purchase requisition process. The purchase requisitions can be categorised by manufacturing order or by sales order. Each requisition generated will have a unique tracking number, which allows users to monitor the status at all times.

5. **FlexAccount Payroll & MPF System**

This software allows users to keep track of employees' payroll information, handle allowances and deductions, calculate taxes and also initiates payment transactions via banking system and print customizable payroll forms and reports. When this software is integrated with the FlexAccount Financial Management System, it will facilitate automated update of relevant payroll figures of the company's financial statements. The latest version of this application software was released in the second quarter of 2000. The Directors expect the next updated version of this application software to be available by the end of 2003.

Major features of this application software include:

Easy MPF Calculation	The software will capture employees' information including MPF ratio onto the master file. Monthly MPF calculation can be completed automatically. Once the MPF system comes into operation, it is expected that MPF reports can be forwarded via the Internet to the MPF provider for consolidation.
Taxation	The software has incorporated a tax computation module which is in compliance with the requirements of the Inland Revenue Department in Hong Kong. A variety of deductions and allowances can be defined with parameter driven calculation formula. The result can be outputted to file according to the format required by the tax authority.
Autopay via e-banking	Monthly payroll will be calculated and effected through the banking system automatically.

Since it will become mandatory for most employers and employees in Hong Kong to adopt the MPF scheme by the end of 2000, the Group plans to integrate this software as an online MPF/payroll system by then. This service is expected to provide real-time information transmission between employers and MPF administrators. Financial institutions will be charged with a monthly fee for the provision of the applications and continuous maintenance and upgrades.

6. **FlexAccount On-line Point-of-Sales System**

This software enables users to efficiently record business activities by monitoring the related stock movements. With this application, users can have information about transactions made at each sales outlets assimilated into a central database and generate sophisticated management reports. This allows users to maintain minimum inventory level, increase the efficiency of store check-out processes and perform financial analysis. The latest version of this application software was released in the second quarter of 2000. The Directors expect the next updated version of this application software to be available by the end of 2003.

Major features of this application software include:

Cash Management	This software enables users to obtain the most up-to-date sales and profit figures using on-screen enquiry. With its multi-currency function, cashiers can handle different currencies within the same transaction, thereby improving the check-out process and resulting in better customer services.
Security Control	Through direct communications such as LAN, sales related data will be transmitted to the head office automatically, which allows better control over movement of inventory and loss of stock items.
Reporting	Linked up with validated data of the front office, the system can automatically produce various kinds of management reports. To cope with highly competitive retail businesses, automatic control, fast decisive management and efficient operations are some of the factors that place the user in the right position in his role. The back office modules provide reports such as: (1) sales report; (2) stock movement report; (3) stock valuation report; (4) monthly sales performance report; and (5) sales analysis report with details on each product and gross profit made.

7. **FlexAccount Property Management System**

The FlexAccount Property Management System is a tool for rental-related billing. It enables property management companies to keep track of information about lease, property, tenants and suppliers. This application software facilitates maintenance of transaction history including rental fees, deposits, interest, management fees and utility bills, and automatically effects payments through the banking system. The latest version of this application software was released in the second quarter of 1996. The Directors expect the next updated version of this application software to be available by the end of 2002.

Major features of this application software include:

Automated Invoicing	This software contains unlimited user definable charge code such as charging ratio, default account code as well as analysis code. Following entry of contract details, users can call up the pre-defined charge code as applicable to the contract details. The system will then automate the billing process according to the parameter within the contract.
Automated Settlement	The system can initiate settlement via cheque and autopay.

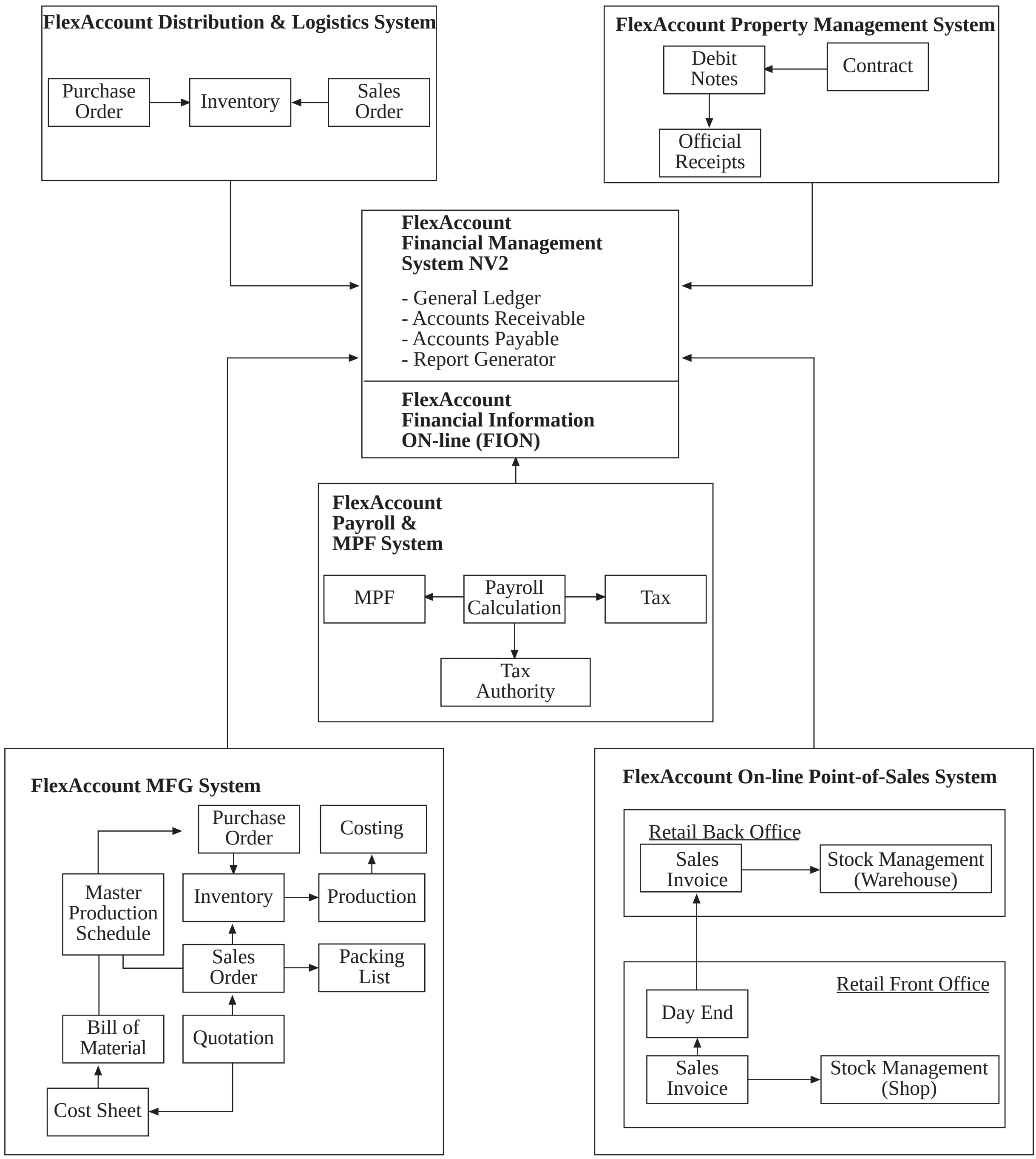
8. **FlexAccount Garment Trading/Manufacturing System**

This application is an integrated business suite specially designed for the garment, apparel, shoe and leather industry. The system is designed to handle the entire operation cycle, from costing, sampling, order processing, material requirement planning, material purchase, inventory management, production control and shipping handling. All modules are fully functional as an individual module yet can be integrated together as the business grows. The latest version of this application software was released in the second quarter of 2000. The Directors expect the next updated version of this application software to be available by the end of 2002.

Major features of this application software include:

Multidimensional Information Processing	The software is capable of handling a large combination of style-colour-size requirement, plus multiple deliveries, multiple destinations, and multiple packing methods.
Open System Design	The software supports a wide range of hardware platforms and different operating systems.
Multi-media Features	Sketch, photo image and video clip can be embedded within the record.
Extensive Inquiry Functions	Easy to use inquiry function for users to locate and retrieve data quickly. User can access data through various types of search methods.
Peripheral Functions	Additional modules to provide support to other related business functions such as shipping documents, quota management, export/import, payroll and retail management.

The FlexAccount products can be integrated with each other to provide a complete enterprise solution. The following diagram illustrates the concept of such complete enterprise solution.



Markets for FlexAccount products

Hong Kong

The Directors consider the Group as a leading developer and distributor of enterprise software products in Hong Kong. The Directors also believe that the FlexAccount products are widely used by a large group of corporate users in Hong Kong. The FlexAccount products have been promoted in Hong Kong for more than 13 years. The Group's existing client base comprises over 20% of the companies (including their respective subsidiaries) listed on the Main Board as at 30 April 2000.

The PRC

The Group has devoted efforts in developing its enterprise software business in the PRC since 1997. During the past three years, the FlexAccount products have been distributed to more than 10 provinces covering over 20 cities in the PRC. In addition, the Group gained recognition in relation to its FlexAccount products from various entities in the PRC, including:

— the Shanghai Municipal Finance Bureau certified the finance and accounting application software of the FlexAccount suite as being in compliance with the accounting standards in the PRC in 1997 and for its capability to fulfil the requirements of various PRC government units;

— Ranked as the foreign finance software house with the largest number of installations approved by the Shanghai Municipal Finance Bureau in 1998; and

— the Shanghai Municipal Finance Bureau, SCSTDC and SSBA certified in April 2000 the Group as the only Hong Kong-based finance and accounting software house in Shanghai.

Others

The Group also has distribution networks in Malaysia, Singapore and Taiwan. Occasionally, clients require the FlexAccount products to be installed in other areas. Apart from Hong Kong and the PRC, the FlexAccount products have been installed in various other locations in the world.

The following diagram illustrates the locations where the FlexAccount products have been installed.

ASP BUSINESS

The ASP business of the Group principally involves the provision of FlexAccount products via the Internet to users on a subscription basis and the provision of related support services. The mission of the Group's ASP services is to allow users to outsource application deployment and the IT infrastructure, which results in lower investment required in hardware, software upgrades and system maintanence and enhanced operation efficiency. The Directors believe that by using the Group's ASP services, users can save significant resources for building up their own application software, reduce the risk of implementation failure and the cost of retaining qualified technical personnel.

In the initial stage, the Group intends to focus its resources on Hong Kong and PRC markets.

Technology

The Group utilises its proprietary Internet enabling technology, Soma*AI, to deliver services for its ASP business. Soma*AI is specifically designed to enable massive data transmission and interactive software application under limited bandwidth environment. The Directors are of the view that Soma*AI is more suitable for business applications as compared with commonly used Internet browsers, particularly in terms of speed, bandwidth consumption and security.

According to an assessment report issued by NSTC, Soma*AI exhibits, among others, the following features: (i) reduced bandwidth requirement as a result of its data compression technology and task-focused design for business applications; (ii) an encryption method, which avoids reliance on commonly used browsers and thereby allows security levels of 128 bits, 1024 bits or even higher; (iii) an enhanced data transmission speed via Internet; and (iv) an ability to operate satisfactorily even at a low bandwidth of 9.6kbps.

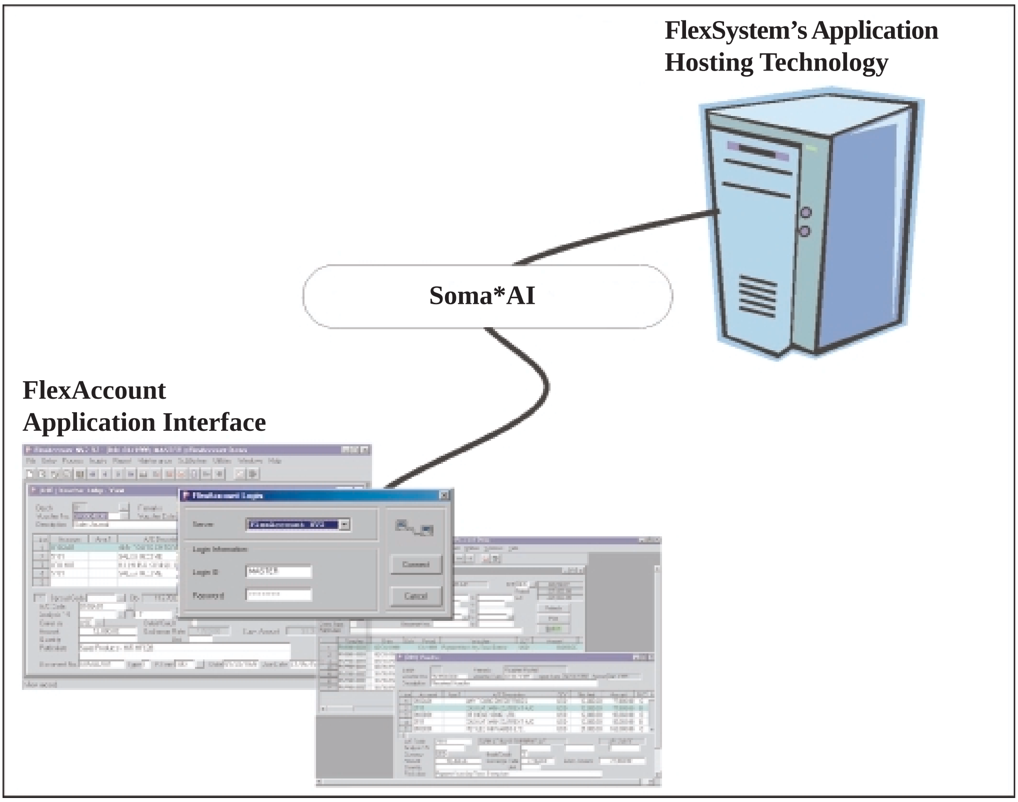
Based on the findings of NSTC as stated above, the Directors are of the view that Soma*AI has significant advantages over conventional Internet browsers commonly used for supporting ASP services. Furthermore, the Directors believe that the Group is able to offer its ASP services at a lower cost as compared to other ASPs using Internet browsers and broadband communication channels to support their services due to:

(i) the low bandwidth requirement of Soma*AI, which reduces communication costs, such as usage cost of broadband networks;

(ii) the low host server resources requirement of the Group's data compression technology, which reduces the investment required in hardware; and

(iii) the Group's proprietary Internet enabling technology which eliminates the need to pay licensing fees to use Internet enabling technology provided by other technology providers.

The Directors consider that Soma*AI is technologically advanced and is relatively too complicated for replication without the source code. The source code of Soma*AI is safe-kept by the Group in a proprietary system controlled by the Company's research and development department. The design of Soma*AI has also incorporated hardware protection so that users of the Enterprise Data Center can only access Soma* AI installed at their premises with the specific key lock provided by the Group and manufactured by a world-renowned manufacturer, while other users can only access Soma* AI through Internet via the hardware installed and maintained at the Group's premises, which is also incorporated with the same key lock. Therefore, the Directors consider that the probability of Soma*AI being stolen or replicated by other parties as being remote.



FlexAccount Data Center

In March 2000, the Group launched its ASP services under the service name "FlexAccount Data Center". By subscribing to the Group's services under "FlexAccount Data Center", users can access the full range of FlexAccount products, excluding the FlexAccount Garment Trading/ Manufacturing System, with support by call center and other related services. In order to capture a greater clientele, the services of FlexAccount Data Center are offered under the following models:

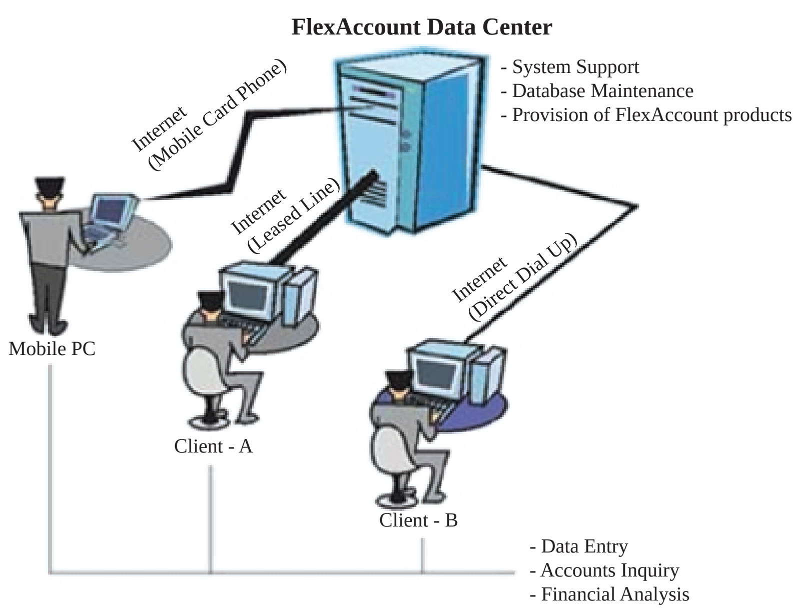
1. **SME Data Center**

The SME Data Center is targeted to serve SMEs which have limited resources to develop their own IT infrastructure. Under this model, the Group can provide FlexAccount products via the Internet to users on a subscription basis. The client is charged with an initial lump sum for implementation and the establishment of Internet access to the data center managed by the Group on its own, or together with other business partners. Currently, the initial lump sum fee payable for the services is HK$1,000. The client's database will be maintained by the Group at the data center. In addition, the client is charged with a fixed monthly fee, which is payable in advance, for usage of the applications, technical support, unlimited application upgrade and regular system and database maintenance services. Currently, the monthly fee payable by users of SME Data Center for the usage of one application ranges from HK$980 to HK$3,980 per station per month.

The Directors believe that the SME Data Center will have great potential in the long run as SMEs have a genuine need to reduce the cost of their operations by subscribing to ASP services. The Directors consider that the Group has substantial competitive advantages over many of its competitors in this particular segment of the ASP market as the Group's proprietary Internet enabling technology, Soma*AI is able to facilitate transmission of data and applications at a relatively high speed even in a narrow bandwidth environment. The Directors believe that before broadband Internet becomes widely available in Hong Kong and, in particular, in the PRC, the Group is in a position to enjoy great competitive advantages over its competitors as the relatively slower transmission speed of data and applications and the resultant higher requirement for Internet connection costs in narrow bandwidth environment are expected to reduce the incentives of SMEs to subscribe to ASP services.

The Directors consider that Soma*AI is able to support a relatively higher transmission speed and a relatively lower requirement for hardware compared with conventional Internet browsers even under broadband connections. Accordingly, the Directors believe that the Group will be able to capture a good share of the ASP market for SMEs with, inter alia, its own proprietary Internet enabling technology and the proven effectiveness of FlexAccount application software products.

The following illustrates the relationship between the Group and the users of the SME Data Center:



2. **Trusted Data Center**

The Trusted Data Center is a model to be implemented in collaboration with business partners such as international accounting firms. The Directors consider that the efficiency of the financial or other administrative services offered by these partners can be greatly enhanced by adopting the Internet as a service medium. Moreover, the Internet is also regarded as an efficient medium for communication between accounting firms and their clients who entrust these firms with their data. This model can create an e-commerce environment for the accounting firms and their clients.

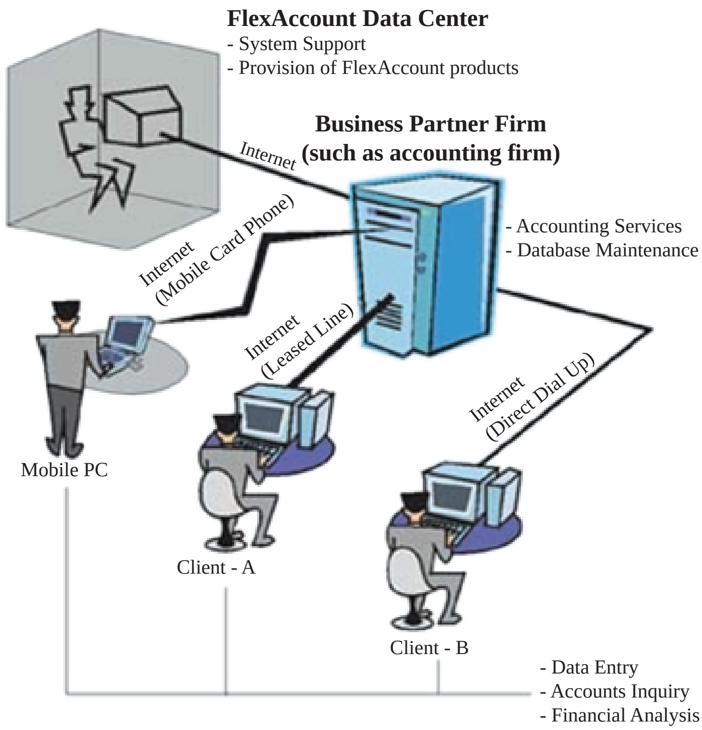
Through the Trusted Data Center, the Group aims to provide application hosting and related technical support services for its various business partners and their clients. The Group provides the platform and application solutions to facilitate efficient workflow for reporting and analysis purposes, whilst the database is to be maintained by the respective business partners. The clients of the business partners will be charged an initial lump sum, which is payable in advance, for the implementation. In addition, subscription fees for the services and the applications as well as unlimited applications upgrade and regular system maintenance services during the subscription period are payable in advance on a monthly basis. Typically, the business partner is responsible for the billing process and the clients are required to pay the business partners based on a normal payment term of about 7 days.

Under the Trusted Data Center, the data of the clients of the Group's business partners is maintained in the data centers of the business partners rather than in the data centres operated by the Group. Therefore, the clients are expected to face relatively fewer security concerns. The Directors consider that this will facilitate the adoption of ASP services by these clients, particularly among multi-national corporations which need to access their books and records via the Internet in a timely manner.

The Directors believe that the specialized features of Soma*AI as described above together with the proven market acceptability of the Group's FlexAccount products will put the Group in an advantageous position to capture the potential of this market segment of the ASP market. Recently, the Group entered into a letter of intent with Deloitte & Touche Management Consulting Co., Limited in Taiwan to set up a joint venture called DeloitteFlex e-Business Inc. to engage in the ASP business in Taiwan. Under the arrangement, the Group will be responsible for providing the FlexAccount products and technical support while Deloitte & Touche Management Consulting Co., Limited in Taiwan will be responsible for management support, marketing and client liaison. In addition, Deloitte & Touche Management Consulting Co., Limited in Taiwan will provide the bulk of the client base by tapping into its existing audit and other services clientele. The Group will make appropriate announcement in accordance with the GEM Listing Rules when a formal agreement is entered into. Further details of the collaboration is described in the paragraph headed "Strategic alliance" below.

The Directors believe that the Trusted Data Center is also a cost-effective means for the Group to expand geographically.

The following illustrates the relationship between the Group, the business partner and the users of Trusted Data Center:



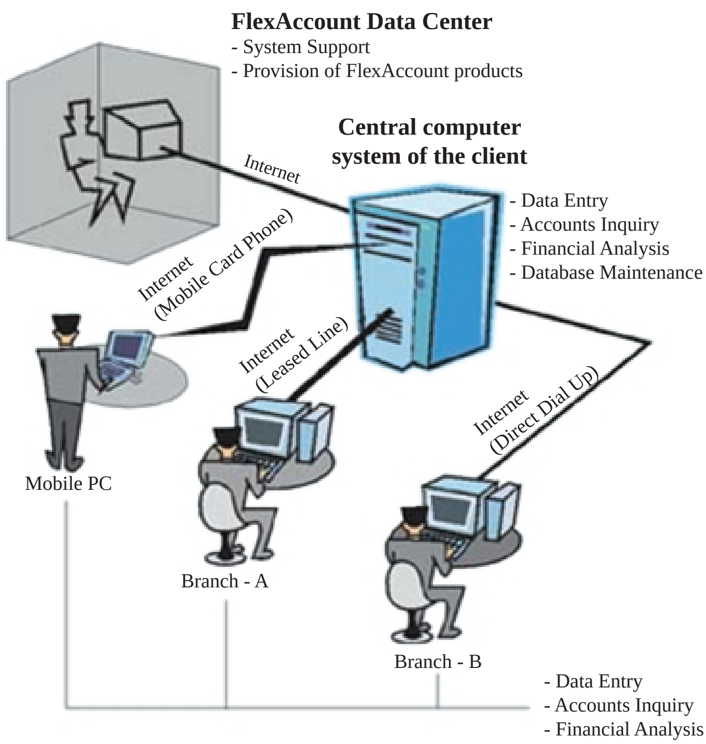
3. Enterprise Data Center

The Enterprise Data Center offers the Group's ASP services to medium to large sized enterprises which can attain economies of scale by having their own Intranet platform for data transmission. Under this model, the Group provides on-line enterprise solutions to its clients whose operations are scattered in different locations, whether in Hong Kong or abroad. The solutions to be provided by the Group will facilitate information and applications sharing among the different branches of its clients in a cost-effective way. The Group only provides applications and supports the system maintenance of the data centers, whilst the clients are responsible for their own data warehousing. The Group helps its clients to build or customize their enterprise solutions for an initial lump sum being the implementation cost. In addition, the clients are charged with fixed monthly fees for the usage of applications offered by the Group, unlimited applications upgrade and regular system maintenance services during the subscription period. The fees will be billed in advance on a monthly basis upon activation of the account. The clients are required to pay the Group within 7 days from the date of billing.

While certain market researchers have expressed positive views on the market size of the ASP business, there are general concerns over the issue of data privacy for companies using ASP services provided via the Internet. The Directors believe that the Enterprise Data Center can resolve the issue of data privacy as data is maintained by the enterprises themselves. Moreover, since many of the Group's existing clients are international corporations, the Directors believe that offering the services of the Enterprise Data Center to these companies represents a huge potential for the Group's ASP business and that the Enterprise Data Center will be able to provide recurrent revenue stream for the Group in the near future.

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.

FUTURE PLANS

The Directors believe that the Group is one of the key leaders of the packaged enterprise application software market in Hong Kong. While the sales of application software in the local market provide a solid base for the Group's business, expansion of the ASP business and sales of FlexAccount products to markets outside Hong Kong are regarded by the Directors as major growth areas. The Directors believe that the benefits of expanding into other markets could be huge as the initial investment of development of application software has already been made and further sales of the FlexAccount products would translate into immediate profit for the Group. The Directors consider the extension of the Group's business into the ASP market is also another example of increasing the sales of the established FlexAccount products.

ASP Business

Building on its established application software business, the Group began to tap into the ASP business in Hong Kong in March 2000. The Directors believe that the Group already possesses several key elements required for developing a successful ASP business, including (i) an efficient and cost-effective proprietary Internet enabling technology, namely Soma*AI, (ii) an extensive range of well-developed applications, (iii) an established and broad client base and (iv) a long established brandname.

The Directors consider that with technological advancement and innovation, there can be a wide variety of ASP services to be offered to the market. In the initial stage, the Company intends to concentrate its efforts in achieving a distinct market position by adopting certain models of ASP business through the FlexAccount Data Center which primarily offers to reduce the burden of IT related investment of companies. In addition, the Group intends to offer certain other models of ASP business for immediate development in the near future, which should generate significant amounts of revenue. Moreover, to expedite the expansion of the Group's ASP business, the Group has established and is establishing various strategic alliances which will allow the Group to reach a wide range of potential users of its ASP services in a relatively short period of time.

Geographic Expansion

The Directors foresee huge market potential in the PRC market for the Group's ASP services. The Directors consider the Group being a recognised player in the PRC software market and is well positioned to capitalise on the market opportunities. The Internet enabled features of the Group's products match the needs of companies in the PRC, which may have scattered points of operation acrosss the nation. In addition, given the close economic ties between Hong Kong and the PRC, a significant number of companies with cross-border operations can benefit from using the Group's ASP services. The Directors believe that these factors will contribute to demand for the Group's ASP services in the PRC.

Based on their experience in developing enterprise application solutions, the Directors believe that the FlexAccount products would be applicable to other overseas markets after localisation. With a proper distribution network, other markets in Asia could be a prime target for the Group's products. Therefore, the Group intends to seek value added partners in the relevant markets and to expand into these markets in the near future.

BUSINESS STRATEGIES

In order to achieve the Group's business objectives of becoming a leading ASP in Asia, the Directors envisage that the Group's development strategies will comprise of three principal areas, namely (i) development and implementation of its ASP models to capture a larger market share; (ii) expansion into selected overseas markets; and (iii) continual research and development efforts to enhance the FlexAccount products and the Soma*AI technology. Adequate financial and human resources will be committed to implement these future plans and development strategies.

ASP Business

The Directors are confident that the existing business models adopted by the Group's ASP business, namely SME Data Center, Trusted Data Center and Enterprise Data Center, can cater the needs of most commercial organisations. The Directors believe that with its proprietary Internet enabling technology, Soma*AI, the Group's ASP business is capable of providing on-line enterprise solutions of quality to its clients. To capitalise on the advantages of the Group, the Directors intend to promote the Group's ASP business with further marketing efforts, particularly through print advertisements and Internet marketing.

In addition to the existing ASP models, the Group also intends to introduce the following business models in the near future:

1. *Joint ASP services*

   To capture market share more efficiently, the Group will co-operate with certain value-added business partners who are expected to be an accountancy firm, ISPs and other ASPs for the development and provision of ASP services in Hong Kong and overseas markets. It is expected that the Group will be responsible for the provision of applications and the subsequent upgrades and maintenance support, technical support and implementation of the data centers, whilst the business partners will be responsible for the marketing, customer liaison and maintenance of the data centers. Further details of such alliances are described in the paragraph headed "Strategic alliance" under the section headed "Business" in this prospectus.

2. *On-line stock trading*

   The Directors intend to launch this service once AMS/3 goes into operation. AMS/3 is expected to be launched by the Stock Exchange around the second half of 2000. This intended ASP service aims to provide security brokers with software applications for on-line trading and comprehensive accounting functions on a subscription basis. This service is intended to target at over 400 security broking houses in Hong Kong. The Directors are of the opinion that this service will have great potential due to the growing trend of on-line trading in Hong Kong and the significant saving on IT investment of brokers as compared to establishing their own IT infrastructure for similar purposes.

3. *Real-time stock quote*

   The Group has been authorised by the Stock Exchange to offer real-time stock quote service to subscribers. It is expected that the Group would charge a fixed monthly fee for the services. The Group plans to commence the related marketing activities and commence this service around August 2000.

Geographic Expansion

The PRC

Currently, the Group intends to establish data centers in Shanghai and Changshu. Such services will be launched by the end of 2000. The service is expected to host data for users in servers maintained by the accounting firms and to provide the Group's application software for their users. Clients will be charged an initial lump sum for the implementation of the system plus a fixed monthly fee for usage of the data hosting services and the applications offered by the Group and subsequent unlimited upgrades. The Group has already entered into a letter of intent for the establishment of a joint venture company with Huamei Software. Under this arrangement, the Group will collaborate with Huamei Software to offer ASP services (including data hosting and provision of FlexAccount products via the Internet) in Changshu. Details of the co-operation is set out in paragraph headed "Strategic alliance" under the section headed "Business" in this prospectus. The Group plans to set up additional data centers in the PRC by the end of 2000.

Taiwan

The Directors consider that the ASP market in Taiwan is still undeveloped and the Group should be more active in expanding into this market. 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 company, "DeloitteFlex e-Business, Inc.", to engage in the ASP business, sale of software and provision of related services in Taiwan. Each of the Group and Deloitte & Touche Management Consulting Co., Limited, Taiwan will hold 50% interest in the joint venture company.

Under this arrangement, the Group will be responsible for providing its technical skills and knowledge for application software while Deloitte & Touche Management Consulting Co., Limited, Taiwan will be responsible for the management support, marketing of the service as well as client liaison. In addition, Deloitte & Touche Management Consulting Co., Limited, Taiwan will provide the bulk of the client base in Taiwan by tapping into its existing audit and other services' clientele.

The Group is in the process of localising the FlexAccount products for the Taiwanese market with the assistance of Deloitte & Touche Management Consulting Co., Limited, Taiwan.

Japan

The Group has recently been selected by JETRO as one of the twelve vendors from Hong Kong to participate in the annual World PC EXPO 2000 to be held in Japan in October. The World PC EXPO 2000 is considered to be the largest IT trade showcase to be held in Asia. JETRO expects that there will be over 350,000 visitors representing Japanese and other Asian IT companies attending this exhibition. Such invitation signifies that JETRO has identified the Group's products as having sales potential in the Japanese market. This reassures the Directors' confidence in the Group's products and localization procedures are being implemented to fine-tune the functionality of the FlexAccount products according to the standard for the Japanese market. The Group will also seek to form alliances with Japanese business partners who are market leaders with the appropriate client base in order to have access to a well-established distribution network in Japan.

Others

The Group also targets to launch its FlexAccount products and ASP services to selected markets in the Asia Pacific region, including Malaysia and Singapore, as well as to US and Australia. The Group plans to establish representative offices in these markets after conducting a series of feasibility studies on these markets. The Group will also commence to localise the FlexAccount products to cater for the specific needs of enterprises in the respective markets. Meanwhile, the Group will attempt to identify local partners. Following completion of the localisation process, the Group will appoint local distributors for the FlexAccount products and also establish data centers for its ASP business.

Research and development

To maintain its competitive advantage, the Group will strive to enhance its technical capabilities through investment in research and development. The Group's strategy is to foster its own research and development team and to focus resources on areas with high potential which can provide the Group with substantial profit contribution. Moreover, the Group will also look out for suitable technology-based companies as acquisition candidates. However, it is possible that suitable candidates may not be identified or that the proposed acquisition price may be unacceptable to the Group. If this occurs, the Group may not proceed with such acquisition and the Directors will apply the net proceeds for the Placing reserved for future strategic acquisition and investment to the Group's research and development.

ERP application software development

The Directors believe that the foundation of the success of the Company relies on its full range of FlexAccount products which offer users a comprehensive and cost-effective range of ERP solutions. Therefore, the Group will carry out continuous enhancement of the FlexAccount products both in terms of breath and depth of the offering.

The Group will continue to devote resources to enhance the functionality of its existing FlexAccount products to meet the changing market needs. New versions of each of the products will be progressively launched starting from 2001. In fact, upgraded versions of the FlexAccount Financial Management System and FlexAccount Financial Information On-line are expected to be launched by the end of 2001. The Group has also committed its resources to the development of application solutions for specific industries as well as localization of applications for the overseas markets. As the Directors foresee a more widespread use of the Linux platform in the future, the Group plans to offer a Linux compatible version of the FlexAccount products.

ASP related research and development

Further enhancement of the Soma*AI technology will be another focus of the research and development efforts of the Group. The Directors believe that although the Soma*AI technology has already gained recognition in various aspects, there is room for improvement in terms of speed, security, bandwidth consumption and server capacity. The Group aims to raise the efficiency of the Soma*AI technology with a view to further lowering the cost structure of the Group and to provide a more competitive pricing to its users.

Moreover, with the emerging trend in the wireless market, the Group will also devote resources to enhance its ASP services to support wireless solutions based on platforms such as WAP.

STATEMENT OF BUSINESS OBJECTIVES

Set out below is the statement of business objectives of the Group for the period from the Latest Practicable Date to 31st March, 2003:

Principal Areas	Business Plans	Latest Practicable Date to 30th September, 2000	For the six-month period ending				
			31st March, 2001	30th September, 2001	31st March, 2002	30th September, 2002	31st March, 2003
Research and Development							
Product Development	- To develop the next generation of FlexAccount products	●	—	—	—	—	●
	- To enhance the functionality such as data mining, reporting, user's interactive of FlexAccount products	●	—	—	—	—	●
	- To develop application solution for the stock broking industry	●	▶				
	- To develop application for the catering and hotel industry			■	▶		
	- To develop application to handle time billing and job-costing				■	▶	
	- To develop application for insurance industry					■	▶
	- To develop for membership management application		■	▶			
	- To research and explore the Linux application market		■	▶			
	- To develop Linux version for FlexAccount products			■	—	▶	
	- To perform localization of FlexAccount products for the Taiwanese and Japanese markets	■	—	▶			
	- To perform localization of FlexAccount products for the Malaysian and Singaporean markets			■	▶		
	- To perform localization of FlexAccount products for the Australian market					■	▶
	- To perform localization of FlexAccount products for the US market						■—●

Legend: ■ Commencing; ● Continuous Status; ▶ Expected Completion

Principal Areas	Business Plans	Latest Practicable Date to 30th September, 2000	For the six-month period ending 31st March, 2001	30th September, 2001	31st March, 2002	30th September, 2002	31st March, 2003
Research	- To research and implement new technology, such as component based business logic program, on FlexAccount products	●					●
	- To develop solutions to enable wireless applications on platforms such as WAP	■				▶	
	- To develop new Internet enabling technologies for deployment on the next generation of Soma*AI			■	▶		
	- To enhance the functionality of FlexAccount Data Center			■			●
	- To research and implement new technology, such as multi-lingual Internet Application Browser, high speed Internet communication algorithm and high speed data encryption algorithm, for ASP business			■			●
	- To develop the next generation of Soma*AI				■		▶
	- To implement the next generation Soma*AI on FlexAccount Data Center						■ ●
ASP business							
in the PRC	- To recruit business partners in various major cities in the PRC for the ASP business	■			▶		
	- To set up and launch data centers in various major cities in the PRC including Guangzhou, Beijing and Shenzhen	■		▶			
	- To establish 5-10 call centers for its ASP clients in the PRC			■	▶		

Legend: ■ Commencing; ● Continuous Status; ▶ Expected Completion

Principal Areas	Business Plans	Latest Practicable Date to 30th September, 2000	For the six-month period ending 31st March, 2001	30th September, 2001	31st March, 2002	30th September, 2002	31st March, 2003
in Hong Kong	- To promote ASP business by direct marketing to existing corporate users of FlexAccount products in Hong Kong	●	—	—	—	—	●
	- To recruit international accounting firms and ISPs as value-added partners	■	—	—	—	—	●
	- To recruit value-added partners who are MPF providers		■	—	—	—	●
	- To recruit value-added partners for its on-line stock trading service		■	—	—	—	●
	- To set up call center for its ASP clients in Hong Kong		■	▶			
in other Asian markets	- To expand the ASP business in selected Asian markets, including Taiwan and Japan	■	—	—	—	▶	
	- To recruit business partners in Japan for the ASP business				■	—	▶
	- To set up call center for its ASP clients in Malaysia and Singapore					■	▶
	- To recruit business partners in selected markets in the other Asian markets for the ASP business	■	—	—	—	—	●
in other markets outside Asia	- To expand the ASP business into Australia and the US					■	▶
Enterprise application business	- To launch and promote the Linux compatible version of FlexAccount products in Hong Kong and the PRC						■ ▶
	- To promote FlexAccount products by direct and Internet-based marketing to the general business sector in selected Asian markets		■	—	—	—	●

Legend: ■ Commencing; ● Continuous Status; ▶ Expected Completion

Principal Areas	Business Plans	Latest Practicable Date to 30th September, 2000	For the six-month period ending 31st March, 2001	30th September, 2001	31st March, 2002	30th September, 2002	31st March, 2003
Resources deployment	- To launch and promote the new generation of the FlexAccount Financial Management System and FION			■			●
	- To launch and promote the localised version of FlexAccount products in Japan				■		●
	- To launch and promote FlexAccount products for wireless applications in selected Asian markets					■	●
	- To set up research and development centre in Malaysia	●		▶			
	- To expand research and development team: PRC 20 staff Macau 10 staff Malaysia 10 staff			■	▶		
	- To continue to expand the research and development team in PRC, Macau and Malaysia				■		▶
	- To set up new overseas sales offices, including: Taiwan 1 office Japan 1 office	■		▶			

Legend: ■ Commencing; ● Continuous Status; ▶ Expected Completion

The estimated costs for implementing the Group's business objectives until 31st March 2003 are set out below:

(In HK$ million) Principal areas	Latest Practicable Date to 30th September, 2000	For the six-month period ending 31st March, 2001	30th September, 2001	31st March, 2002	30th September, 2002	31st March, 2003	Total
ASP business	2	5	5	5	5	3	25
Research and development	1	5	6	6	5	2	25
Strategic acquisition and investment	20	10	—	—	—	—	30
Geographic expansion	2	7	5	5	4	2	25
Marketing and promotional activities	0.5	3	2	2	1.5	1	10

BASES AND ASSUMPTIONS

General assumptions

The following summarises the general assumptions in relation to the business plans and the estimated application of the net proceeds of the Group for the current financial year and the two financial years ending 31st March, 2003:

(a) there will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong, the PRC and any other countries in which members of the Group carry on business or to which they export merchandise or services or source supplies or services;

(b) there will be no material changes in the bases or rates of taxation in Hong Kong, the PRC or in any other places in which members of the Group operate or are incorporated; and

(c) there will be no material changes in interest rates or exchange rates from those currently prevailing.

Specific assumptions

The following summarises the specific assumptions associated with the different business activities in relation to the business plan and the estimated application of the net proceeds of the Group for the current financial year and the two financial years ending 31st March, 2003:

(a) the Hong Kong Government will continue to promote and encourage the development of the IT industry;

(b) suitable technology based companies will be identified for acquisition purposes;

(c) the markets in Hong Kong, the PRC and the Asia Pacific region are sufficiently vast to accommodate the supply of services provided by the Group and its competitors;

(d) the growth of the Internet will continue and is sustainable;

(e) the demand for enterprise application solution in the various markets will continue to outstrip the supply of such services; and

(f) necessary co-operation and approvals are received from the Group's business partners and relevant government authorities.

Reference is made to the risk factors set out in the section headed "Risk factors", the occurrence of any of which may delay or otherwise affect the attainment by the Group of any of its business objectives.

USE OF PROCEEDS

The Directors believe that the listing on GEM will enhance the Company's profile and expand its capital base for its future growth and development. The net proceeds of the Placing, after deducting related expenses (assuming the Over-allotment Option is not exercised), are estimated to be approximately HK$143.3 million based on the higher end of the stated price range of HK$1.33 per Share. The Directors presently intend to use such net proceeds as follows:

- Approximately HK$25 million for the expansion of the Group's ASP business activities, including the establishment of data centers;

- Approximately HK$25 million on research and development activities, including the expansion of in-house research and development team and localisation of FlexAccount products from the Latest Practicable Date to 31st March, 2003;

- Approximately HK$30 million for strategic acquisitions of and investments in companies, yet to be identified, whose businesses fit into the Group's business strategy;

- Approximately HK$25 million to fund the geographic expansion into selected markets (including Taiwan within 2000) through, including the establishment of regional offices, recruitment of sales and technical staff and forming business partnerships;

- Approximately HK$10 million on marketing and promotional activities, including advertising through various media, participation in trade shows and exhibitions and other promotional events; and

- The remaining balance of approximately HK$28.3 million to be used as working capital of the Group.

As at the Latest Practicable Date, the Company has not yet identified any suitable candidates for acquisition or investment.

To the extent that the net proceeds of the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with financial institutions in Hong Kong.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK$23 million based on the higher end of the stated price range of HK$1.33 per Share. The Directors intend to use such additional proceeds from the Over-allotment Option as additional general working capital. If the Issue Price is set below HK$1.33, the net proceeds will accordingly be reduced and the amount to be used as working capital will correspondingly be reduced.

Based on the business plan of the Group as described in the paragraph "Statement of business objectives" under this section, the net proceeds from the Placing is expected to be used up by 31st March, 2003.

DIRECTORS

Executive Directors

Mr. Lok Wai Man, aged 40, is the founder and Chief Executive Officer of the Group. Mr. Lok is responsible for the Group's overall strategic planning and development. He has over 17 years of experience in the field of computer software industry and worked as a systems engineer in a software company in Hong Kong. Mr. Lok initiated and has been directly involved in the development of the FlexAccount products and the proprietary Internet enabling technology, Soma*AI, of the Group.

Mr. So Yiu King, aged 39, is the corporate development director of the Group. He is responsible for the finance and corporate development of the Group. He had more than 9 years of experience in accounting and finance and system development in Hong Kong. Prior to 1991, Mr. So worked for listed companies in Hong Kong as a financial controller. Mr. So worked for FlexCorp Limited which distributed the Group's products since 1996. Mr. So is one of the founding members and also the president of IT Accountants Association in Hong Kong, an organization helping the accounting professionals to prepare for the digital challenge. Mr. So is the endorsement certificate holder in Accountancy from Hong Kong Polytechnic. He also completed a Marketing Management program from National University of Singapore in 1995 and a Senior Executive Management course in Peking University in 1999. Moreover, he is the holder of Professional Diploma in Information Technology from the Hong Kong Management Association. Mr. So joined the Group in May 2000.

Mr. Chow Chi Ming, Daniel, aged 35, is the technical director of the Group. He is responsible for supervising and coordinating the research and development and technical support functions of the Group. Mr. Chow has over 15 years experience in developing large-scale tailor-made system and multi-user networking solutions. Prior to joining the Group in 1993, Mr. Chow worked for other software company and IT consulting firm. Mr. Chow is the technology consultant of IT Accountants Association in Hong Kong.

Mr. Tam Wing Yuen, aged 32, is the regional general manager for the PRC market of the Group. He joined the Group in 1992 and is responsible for the corporate development of the Group in the PRC. Mr. Tam has over 8 years experience in sales and marketing of software products. He holds a Bachelor of Science degree in Computer Studies from the University of Hong Kong. He is a part-time professor of the Shanghai Institute of Foreign Trade.

Mr. Leung Wai Cheung, aged 35, is the chief financial officer of the Group. Mr. Leung is a qualified accountant and chartered secretary with over 10 years of experience in accounting and auditing and over 3 years of experience in financial management. He graduated from Curtin University with a Bachelor of Commerce degree majoring in accounting and subsequently obtained a postgraduate diploma in corporate administration and a Master of Professional Accounting from The Hong Kong Polytechnic University. He is an associate member of each of the Hong Kong Society of Accountants, Australian Society of Certified Practicing Accountants, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Companies Secretaries and The Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Mr. Leung joined the Group in May 2000.

Non-executive Director

Mr. Lo Yip Tong, aged 42, is the proprietor of Y.T. Lo & Co, certified public accountants. He established his own firm, Y.T. Lo & Co, in 1991. Y.T. Lo & Co. acted as auditors for certain subsidiaries of the Company and certain companies controlled by Mr. Lok during 1992 to April 2000. Mr. Lo has over 15 years of experience in statistical, accountancy and audit work. He is currently a member of the Hong Kong Society of Accountants, a fellow member of the Chartered Association of Certified Accountants and a certified public accountant of Hong Kong. Mr. Lo joined the Group in May 2000.

Independent Non-executive Directors

Mr. Mak Wing Kwong, David, aged 38, is currently the managing director of VTech Computers Systems Limited. VTech Computers Systems Limited is one of the Group's suppliers and also an user of FlexAccount products. He has over 13 years of experience in computer and Internet related industries. Mr. Mak holds a Master of Science degree in International Marketing from Strathclyde University and Diploma in Management Studies from The Hong Kong Polytechnic. He is a member of both the Chartered Institute of Marketing and the Hong Kong Institute of Directors. Mr. Mak is also active in community services. He was the president of Victoria Jaycees in 1993 and the president of Peninsula Lions Club of Hong Kong in 1999. Mr. Mak joined the Group in May 2000.

Mr. Tse Lin Chung, aged 39, is a practising solicitor. He graduated from the University of Hong Kong in 1985 with a Bachelor of Social Sciences degree. In 1988, he obtained a Bachelor of Laws degree from the University of London and in 1989, a Postgraduate Certificate in Laws from the University of Hong Kong. He was qualified as a solicitor in Hong Kong in 1991 and in England and Wales in 1992. He is the founding partner of Yip, Tse & Tang (formerly known as Yip & Tse), solicitors since 1994. Yip, Tse & Tang currently acts for the Group on certain legal matters in Hong Kong. He is the chief executive officer of Internet Solicitor.com founded in 1999 and it operates the legal information portal site of solicitor.com.hk founded in 1997. Since early 2000, he has been offering seminars on e-commerce and Internet laws to executives of e-commerce and IT fields. Mr. Tse joined the Group in May 2000.

Directors' remuneration

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of two years commencing from 1st July, 2000 and which will continue thereafter until terminated by three months' notice in writing served by either party on the other, which notice shall not expire until after the initial fixed term of two years. Each of the executive Directors will receive a salary subject to an annual review. In addition, the executive Directors are also entitled to a fixed sum bonus equal to their one month's salary and a discretionary bonus payable to all the executive Directors at the absolute discretion of the Board. The Company's independent board of directors will regularly review the performance and contribution of the board of executive directors as a basis for determining the discretionary bonus to be made payable. The Company intends to set a limit of HK$1,000,000 as a maximum amount of discretionary bonus to be payable to each executive Director. Under the present arrangement, the aggregate of the executive Directors' renumeration in cash and in kind for the year ending 31st March, 2001 is estimated to be about HK$3,860,000. Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" in the section headed "Further information about the Directors, senior management and staff" in Appendix IV to this prospectus.

SENIOR MANAGEMENT

Mr. Cheung Hon Sang, Kevin, aged 35, is the general manager of the Group. He is responsible for the execution of corporate policy formulated by the board of Directors and also for corporate communications. Mr. Cheung joined the Group in 1989. He holds an Honours Diploma in Business Administration from Shue Yan College.

Mr. Wong Kar Yin, aged 36, is the senior vice president of the Group. He is responsible for its overall business development of the Group. He has over 14 years of experience in system and database consultancy. Prior to joining the Group in April 2000, Mr. Wong worked for Sybase Hong Kong Ltd., Telxon Australia Pty. Limited and the Sydney Futures Exchange Limited. He holds a Bachelor of Science degree in Computer Science from the University of Washington.

Ms. Lau Wai Fung, aged 28, is the financial controller of the Group. She is responsible for the overall financial management of the Group. Ms. Lau has over 5 years of experience in the audit and the accounting fields. She obtained her first degree of Bachelor of Art (Hons) in Business Studies from the Hong Kong Polytechnic University and a Master of Science in Financial Management from University of London. She is an associate member of The Hong Kong Society of Accountant and The Association of Chartered Certified Accountants. Ms. Lau joined the Group in May 2000.

Mr. Chan Yu Ki, Terence, aged 34, is the customer support manager of the Group. He is responsible for the overall supervision and management of the Group's customer support department. Mr. Chan also helps to co-ordinate the development and implementation of new products with the Group's marketing efforts. Mr. Chan has over 8 years of experience in customer system support and holds a diploma in business administration from Shue Yan College. Mr. Chan joined the Group in 1992.

Ms. Chow Ching Lan, aged 36, is the business development manager of the Group. She is responsible for defining the Group's business model by combining strategic business perspective with full features customer support and extensive technology experience. Ms. Chow is one of the founders of SKY Computers, a system integrator specialised in RDBMS and membership management system with business partners in Hong Kong, Singapore and Malaysia. Ms. Chow graduated from the University of Washington with a bachelor degree in Arts. Ms. Chow joined the Group in June 2000.

Mr. Ng Wing Kan, Bruce, aged 30, is the marketing manager of the Group. He is responsible for the overall co-ordination of the Group's marketing efforts. Mr. Ng is also in charge of liaising with potential business partners to initiate alliances. Mr. Ng had over 4 years of sales and marketing experience in the IT industry. Mr. Ng holds a bachelor degree in Economics from the University of Alberta. Mr. Ng joined the Group in 1996.

AUDIT COMMITTEE

The Company has established an audit committee on 22nd May, 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules.

Functions of the Audit Committee

The duties of the audit committee include reviewing, in draft form, the Company's annual report and accounts, half-year report and quarterly report and providing advice and comments to the board of Directors. In this regard, members of the audit committee will liaise with the board of Directors, senior management and its qualified accountant, the Company's reporting accountants and auditors. The audit committee will also consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by the Company's accountant, compliance officer or auditors. Members of the audit committee are also responsible for reviewing the Company's financial reporting process and internal control system.

The audit committee comprises Mr. Mak Wing Kwong, David and Mr. Tse Lin Chung who are the independent non-executive Directors. Mr. Mak Wing Kwong, David is the chairman of the audit committee.

STAFF

As at the Latest Practicable Date, the Group had a workforce of 162 engaged in the following operations:

Job category	**HK**	**PRC**	**Macau**	**Total**
Management	7	1	1	9
Sales and marketing	25	8	—	33
Research and development	49	9	8	66
Customer support	21	18	—	39
Administration and accounting	7	8	—	15
Total	109	44	9	162

THE GROUP'S RELATIONSHIP WITH STAFF

The Group has not experienced any disruption of its operations due to major labour disputes in the past. The Directors consider that the Group has a good relationship with its employees. The staff turnover rates for each of the two years ended 31 March 2000 are approximately 1.1% and 2.7% respectively.

REMUNERATION POLICY

The Company's policies concerning remuneration of executive Directors are:

(a) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;

(b) non-cash benefits may be provided to the Directors under their remuneration package; and

(c) the executive Directors may be granted, at the discretion of the board of Directors, share options of the Company, as part of their remuneration package.

As an incentive to the sales and marketing personnel of the Group to generate more business, the sales staff of the Group are entitled to discretionary bonuses and commissions as determined by the sales director. They are provided with in-house and on-the-job training by the senior sales manager and project managers in both marketing and technical aspects. Most of the non-sales staff receive a fixed salary.

BENEFIT SCHEMES

The Group's Shanghai subsidiary has, in compliance with the applicable regulations of the PRC, participated in an employee's pension scheme operated by the relevant local government authorities in the PRC. The Group is required to make contribution to those employees who are registered permanent residents in the PRC. The Group's contribution for each of the two years ended 31st March, 2000 amounted to approximately HK$444,016 and HK$574,945, respectively.

The Group provides a provident fund scheme by participating in a group retirement plan for its staff in Hong Kong during the Active Business Pursuit Period. The Group will implement a provident fund scheme for its staff in Hong Kong in compliance with the requirements of the MPF effective by the end of 2000.

In accordance with the relevant provisions of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Group may be required to provide for long service payment to its employees in Hong Kong. As at the Latest Practicable Date, the Group had no significant obligation for long service payments to its employees in Hong Kong pursuant to the Employment Ordinance.

The Group contributes to a defined contribution retirement scheme for its employees in Hong Kong during the Active Business Pursuit Period. Contributions to the scheme by the Group are calculated at 5% of the employees' basic salaries.

The Group's Shanghai subsidiary has participated in an employees' pension scheme implemented by the Shanghai Municipal Government. Contributions are made to the scheme based on approximately 31.5% of the applicable payroll costs.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme whereby full time employees and executive Directors of the Group may be granted options which entitle them to subscribe for Shares representing up to a maximum of 30% of the Shares in issue from time to time (excluding Shares which have been duly allotted and issued pursuant to the Share Option Scheme). The principal terms of the Share Option Scheme are set out in the paragraph headed "Share Option Scheme" of Appendix IV to this prospectus. The Directors believe that the Share Option Scheme will assist the Group in its recruitment and retention of high calibre computer professionals, executives and employees.

SUBSTANTIAL SHAREHOLDERS

After the 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), the following company/person will be interested in 10% or more of the voting power at any general meeting of the Company:

Name	**Number and percentage of direct/indirect holding of Shares immediately after the Placing**	
SHI *(Note 1)*	475,500,000 Shares	79.25%
Mr. Lok *(Note 2)*	475,500,000 Shares	79.25%

Notes:

1. SHI is beneficially owned as to 97.51% by Mr. Lok, 0.76% by Mr. So Yiu King, 0.76% by Mr. Chow Chi Ming, Daniel, 0.76% by Mr. Tam Wing Yuen and 0.21% by Mr. Leung Wai Cheung.

2. As Mr. Lok is entitled to exercise or control the exercise of one third or more of the voting rights of SHI, he is deemed, by virtue of the SDI Ordinance, to be interested in the same 475,500,000 Shares held by SHI.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, as at the Latest Practicable Date, apart from the substantial shareholders and the Initial Management Shareholders referred to above, no shareholder is interested in 5% or more of the voting power at any general meeting of the Company.

INITIAL MANAGEMENT SHAREHOLDERS

Immediately prior to the date of this prospectus, SHI and Mr. Lok being the substantial shareholders of the Company were entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company and were able, as a practical matter, to direct or influence the management of the Company and are therefore regarded as initial management shareholders (as defined in the GEM Listing Rules) of the Company. Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung are executive directors of the Company and are also considered to be initial management shareholders of the Company.

The shareholdings of the Initial Management Shareholders are set out below:

Name	Number and percentage of direct and/or indirect holding of Shares immediately after the Placing		
	Direct interest	**Indirect interest**	**%**
SHI	475,500,000	Nil	79.25%
Mr. Lok	Nil	475,500,000	79.25%
Mr. So Yiu King	Nil	3,600,000 *(Note)*	0.60%
Mr. Chow Chi Ming, Daniel	Nil	3,600,000 *(Note)*	0.60%
Mr. Tam Wing Yuen	Nil	3,600,000 *(Note)*	0.60%
Mr. Leung Wai Cheung	Nil	1,000,000 *(Note)*	0.17%

Note: The indirect interest of Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung are calculations of the corresponding number of Shares held by SHI by reference to their respective shareholdings in SHI.

UNDERTAKINGS

SHI, Mr. Lok, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung are considered to be the initial management shareholders of the Company. Each of the Initial Management Shareholders has undertaken with the Company and will undertake to the Stock Exchange before commencement of dealings in the Shares on GEM that, save as provided under the waivers granted by the Stock Exchange as described under the section headed "Waivers from compliance with the GEM Listing Rules":

(i) for a period of six months from the Listing Date, it/he will not dispose of (or enter into any agreement to dispose of) nor permit the registered holder of the Shares to dispose of (or enter into any agreement to dispose of) any of its/his direct or indirect interests in the Relevant Securities;

(ii) it/he will place in escrow, with an escrow agent acceptable to the Stock Exchange, its/his Relevant Securities for a period of six months from the Listing Date; and

(iii) if it/he pledges or charges any direct or indirect interest in Relevant Securities under Rule 13.17(2) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.17(5) of the GEM Listing Rules, it/he will inform the Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and having pledged or charged any interest in relevant securities under the above, it/he must inform the Company immediately in the event that it/he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected. Upon receiving such information in writing, the Company will forthwith make a public disclosure by way of an announcement.

SHI has undertaken with the Company and the Stock Exchange that for the second six-month period after the Listing Date, it (i) will not dispose of (or enter into any agreement to dispose of) nor permit the registered holder of the Shares to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interests in the Relevant Securities which would result in its aggregate interest in the Company becoming less than 35% of the issued share capital of the Company, and (ii) will place in escrow such number of Shares (which represent 35% of the issued share capital of the Company) with an escrow agent acceptable to the Stock Exchange.

Each of Mr. Lok, Mr. So Yiu King, Mr. Chow Chi Ming, Daniel, Mr. Tam Wing Yuen and Mr. Leung Wai Cheung has undertaken not to dispose of their respective direct or indirect interests in SHI or the Company during the second six-month period after the Listing Date which would result in their aggregate interest in the entire issued share capital of the Company becoming less than 35%. These persons have further undertaken to the Company and Vickers to place in escrow, their respective shares in SHI for the second six-month period after the Listing Date.

Further undertakings of the Initial Management Shareholders to the Company and Vickers (for itself and on behalf of the Underwriters) are set out in the paragraph headed "Undertakings" in the section headed "Underwriting".

Further details of the escrow arrangements are disclosed in the section headed "Underwriting" in this prospectus.

Authorised:		*HK$*
2,000,000,000	Shares	200,000,000

Issued and to be issued, fully paid or credited as fully paid:		*HK$*
480,000,000	Shares in issue	48,000,000
120,000,000	Shares to be issued pursuant to the Placing	12,000,000
600,000,000	Shares	60,000,000

Notes:

Minimum Public Float

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of its issued share capital in the hands of the public which, in the case of the Company, is not less than 20%.

Assumptions

This table assumes that the Placing becomes unconditional. It takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or of any options granted under the Share Option Scheme, or which may be allotted and issued under the general mandate to allot, issue and deal with Shares (see below), or which may be bought by the Company pursuant to the share repurchase mandate (see below).

Ranking

The Placing Shares will rank pari passu in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus,

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in paragraph headed "Share Option Scheme" of Appendix IV to this prospectus.

Under the Share Option Scheme, options to subscribe for Shares may be granted to executive Directors and full-time employees of the Group provided that the aggregate nominal value of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed, when aggregated with any Shares subject to any other share option schemes of the Company, 30% of the aggregate nominal value of all the issued Shares from time to time (excluding Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme).

General mandate to issue Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into shares in the capital of the Company with a total nominal value of not more than the sum of:

(i) 20% of the aggregate nominal amount of Shares in issue immediately following the completion of the Placing, plus such number of Shares as may be issued upon the exercise of the Over-allotment Option; and

(ii) the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed "General mandate to purchase Shares" below.

This mandate is in addition to the power of the Directors to allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme.

This mandate will expire:

(i) at the conclusion of the Company's next annual general meeting; or

(ii) at the end of the period within which the Company is required by law or its articles of association to hold its next annual general meeting: or

(iii) when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the paragraph headed "Further information about the Company" in Appendix IV to this prospectus.

General mandate to purchase Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to purchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the Shares in issue immediately following the completion of the Placing, plus such number of Shares as may be issued upon the exercise of the Over-allotment Option.

This mandate only relates to purchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in Appendix IV to this prospectus.

This mandate will expire:

(i) at the conclusion of the Company's next annual general meeting; or

(ii) at the end of the period within which the Company is required by law or its articles of association to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the paragraph headed "Further information about the Company" in Appendix IV to this prospectus.

INDEBTEDNESS

Borrowings

As at 31st May, 2000, the Group had no outstanding borrowings as at that date.

Contingent liabilities

Save as aforesaid or as otherwise disclosed herein and apart from intra-Group liabilities, no companies within the Group had any loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31st May, 2000.

Disclaimer

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 31st May, 2000.

The Directors have confirmed that save as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31st May, 2000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowing and banking facilities

As at 31st May, 2000, the Group had no outstanding borrowings and banking facilities including overdraft facilities.

Net current assets

As at 31st May, 2000, the Group had unaudited net current assets of approximately HK$5.2 million. The unaudited current assets were approximately HK$21.3 million in aggregate. The unaudited current liabilities were approximately HK$16.1 million in aggregate.

Capital structure

As at 31st May, 2000, the Group had unaudited net assets of approximately HK$10.6 million, comprising fixed assets of approximately HK$1.7 million, investment securities of HK$1.6 million, net current assets of approximately HK$5.2 million and intangible assets of approximately HK$2.1 million.

TRADING RECORD

The following is a summary of the combined results of the Group for the two years ended 31st March, 2000. The summary is prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31st March,	
	1999	**2000**
	HK$'000	*HK$'000*
Turnover		
Sale of application software	29,836	33,800
Maintenance services	7,359	10,777
Resale of hardware	1,213	179
Total turnover	38,408	44,756
Gross profit	33,291	39,079
Profit before taxation	11,879	18,954
Taxation	(1,962)	(2,760)
Profit after taxation	9,917	16,194
Earnings per share *(Note)*	2.07 cents	3.37 cents
Dividends	20,000	11,070

Note: The calculation of the earnings per share for the two years ended 31st March, 1999 and 2000, presented here for information purposes only, is based on the profit after taxation during these two years and the 480 million shares in issue immediately before the Placing.

Overview

During the Active Business Pursuit Period, the Group's turnover grew in accordance with its increase in sales activities. For the two years ended 31st March, 2000, the Group recorded combined turnover of approximately HK$38.4 million and HK$44.8 million respectively. The Group's net profit was approximately HK$9.9 million and HK$16.2 million respectively for the two years ended 31st March, 2000.

Financial year ended 31st March, 1999

For the year ended 31st March, 1999, the Group recorded a turnover of approximately HK$38.4 million which was mainly derived from the sales of FlexAccount products and the provision of maintenance services in Hong Kong and the PRC. During the year, the Group released a new version of FlexAccount Financial Management System which contributed to the increased sales of the Group during this period. The gross profit amounted to approximately HK$33.3 million representing a gross profit margin of approximately 86.7%. This relatively high gross profit margin is principally due to the nature of the Group's business and the fact that the cost of investment in application software development has been provided for previously. As part of its continual efforts in developing a proprietary Internet enabling technology, the Group devoted resources to the development of Soma*AI during the year. The Group recorded a net profit of approximately HK$9.9 million for the year representing a net profit margin of approximately 25.8%.

Financial year ended 31st March, 2000

For the year ended 31st March, 2000, the Group recorded a turnover of approximately HK$44.8 million, representing an increase of approximately 16.6% due to an increase in sales of FlexAccount products. The increase in sales of FlexAccount products for Hong Kong and the PRC during the year was approximately 11.9% and 28.1% respectively. The gross profit amounted to approximately HK$39.1 million representing a gross profit margin of approximately 87.3%.

During the year, the distribution cost increased principally due to more intensive sales and marketing activities of FlexAccount products and the initial launch of the ASP business of the Group. On the other hand, operating costs were reduced as a result of the capitalisation of development cost of Soma*AI. The development process of Soma*AI was completed and it was used for the Group's ASP business in the year.

During the year, the Group recorded a net profit of approximately HK$16.2 million, representing a net profit margin of approximately 36.2%. The net profit rose by approximately 63.6% principally due to the increase in turnover and relatively stable operating costs.

Taxation

Provision for Hong Kong profits tax has been made as the companies within the Group had assessable profits in the respective jurisdictions for each of the two financial years ended 31st March, 2000. The effective tax rates for the two years ended 31st March, 1999 and 2000 are 16.5% and 14.6% respectively. The lower effective tax rate for the year ended 31st March, 2000 is mainly because of the capitalised deferred development cost for the year ended 31st March, 2000 which is tax deductible for taxation purpose. Danfaith Limited, a BVI incorporated company and a wholly-owned subsidiary of the Company, received income from licensing of computer software developed outside Hong Kong. Although the management of the Group considers that Danfaith Limited carries on its business outside Hong Kong, provision for Hong Kong profits tax in respect of the offshore income received by Danfaith Limited is made for prudence purpose.

DIVIDEND POLICY

The Directors currently do not propose to recommend payment of any dividends for the six months ending 30th September, 2000. The amount of any dividends to be declared in future will depend on, among other things, the Company's results from operations, cash flows and financial condition, operating and capital requirements. The Directors expect that interim and final dividends will be paid in around November and July of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

PROPERTY INTERESTS

Hong Kong

At present, the Group occupies under licence the following premises in Hong Kong from a connected person on normal commercial terms:

Address	**Term**	**Monthly licence fees** *HK$*	**Approximate saleable area** *(sq.m.)*	**Usage**
1st Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	Due to expire on 16th February, 2001	55,100	529.08	Computer workshop and ancillary office
Car Parking Space Nos. 10 and 13 on Ground Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	Due to expire on 16th February, 2001	6,600	N/A	Car parking
Unit No. 204 on 2nd Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	Due to expire on 31st December, 2000	7,845	64.10	Computer workshop and ancillary office
Unit No. 301 on 3rd Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	1st April, 2000 to 31st March, 2001	12,350.50	93.37	Computer workshop and ancillary office

At present, the Group rents the following premises in Hong Kong from a connected person on normal commercial terms:

Address	**Term**	**Monthly rental** *HK$*	**Approximate gross floor area** *(sq.m.)*	**Usage**
Flat F on 21st Floor, Block 3, Pokfulam Gardens, 180 Pok Fu Lam Road, Pokfulam, Hong Kong	1st July, 2000 to 30th June, 2002	30,000	124.95	Staff quarters

The PRC

At present, the Group rents the following premises in the PRC from independent third parties:

Address	Term	Monthly rental *RMB*	Approximate gross floor area *(sq.m.)*	Usage
Unit Nos. 301 and 302, Yixiang Building, 1599 Yanan West Road, Changning District, Shanghai	9th November, 1998 to 8th May, 2000 and extended to 30th September, 2000	14,399.25	263	Office
Unit No. B-20 Basement, Yixiang Building, 1599 Yanan West Road, Changning District, Shanghai	5th June, 2000 to 22nd July, 2000 and extended to 30th September, 2000	800	40	Store room

The Group also owns the following premises in the PRC:

Unit No. 102, Block No. 6, London Garden, Grand Shanghai Garden, 1555 Caobao Road, Minhang District, Shanghai	N/A	N/A	106.34	Staff quarters

Macau

The Group rents a premises situated at Unit I on 5th Floor (including Car Parking Space No. A150 on Basement), Office Block, Edificio Zhu Kuan, Avenida Xian Xing Hai, Lote N24, Zona dos Novos Aterros do Porto Exterior, Macau with a gross floor area of approximately 255.11 sq.m. as a research and development center. The premises are leased from an independent third party pursuant to a tenancy agreement for a term from 15th May, 2000 to 15th May, 2002 at a monthly rental of MOP5,492 for the first year of the term and MOP8,238 for the second year of the term, exclusive of management fees.

DISTRIBUTABLE RESERVES

As at 31st March, 2000, the Company had not been incorporated. There were, accordingly, no reserves available for distribution to the shareholders of the Company as at that date.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds from the issue of Placing Shares (excluding the Over-allotment Shares) under the Placing, the Group has sufficient working capital for its present requirements.

FOREIGN EXCHANGE RISK

Since most of the income and expenditure of the Group prior to 31st March, 2000 were denominated in Hong Kong dollars, and most of the assets and liabilities as at 31st March, 2000 were denominated in Hong Kong dollars, the Directors are of the view that the Group is not significantly exposed to any foreign currency exchange risk.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31st March, 2000, as shown in the accountants' report set out in Appendix I to this prospectus, adjusted as described below:

	HK$'000
Audited combined net tangible assets of the Group as at 31st March, 2000	5,592
Unaudited combined profit after taxation of the Group for the two months ended 31st May, 2000	3,260
Estimated net proceeds from the Placing (excluding Over-allotment Option) *(Note 1)*	143,300
Surplus arising on revaluation of the Group's property interests as at 31st May, 2000 *(Note 2)*	44
Adjusted net tangible assets	152,196
Adjusted net tangible asset value per Share *(Note 3)*	HK$0.25

Notes:

1. The calculation of net proceeds of the Placing is based on an Issue Price of HK$1.33 per Share (being the higher of the stated price range of the Issue Price of between HK$1.23 and HK$1.33 per Share) and 120,000,000 Shares to be offered under the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately HK$23 million.

2. The above surplus arising from the Group's property interests will be incorporated into the Group's financial statements for the year ending 31st March, 2001.

3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 600,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option or any options granted under the Share Option Scheme or which may be alloted and issued or repurchased by the Company pursuant to the mandates described in the paragraph headed "Written resolutions of the sole shareholder of the Company passed on 10th July, 2000" in Appendix IV to this prospectus.

NO MATERIAL CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Group since 31st March, 2000, being the date to which the latest audited financial statements of the Group were made up.

UNDERWRITERS

Vickers Ballas Capital Limited

Indosuez W.I. Carr Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by way of Placing on and subject to the terms and conditions of this prospectus. Subject to the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus being granted by the GEM Listing Committee of the Stock Exchange (subject only to allotment) and to certain other conditions set out in the Underwriting Agreement being satisfied not later than 17th August, 2000, the Underwriters have severally agreed to subscribe, or procure subscribers to subscribe, for the Placing Shares on and subject to the terms and conditions of the Placing which have not been subscribed for or placed pursuant to the Placing.

Grounds for termination

The Underwriters are entitled to terminate their obligations under the Underwriting Agreement upon occurrence of the following events prior to 9:00 a.m. on the day of the despatch of the share certificates:

(a) any breach, considered by Vickers to be material in the overall context of the Placing, of any of the warranties or any other provision of the Underwriting Agreement;

(b) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted an omission considered by Vickers to be material in the overall context of the Placing;

(c) any statement considered to be material by Vickers contained in the prospectus is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the reasonable opinion of Vickers to be material;

(d) any event, act or omission which gives or is likely to give rise to any material liability of the Company or the Initial Management Shareholders pursuant to the indemnities contained in the Underwriting Agreement;

(e) there is any adverse change in the business or in the financial or trading position of any member of the Group which in the opinion of Vickers is material in the context of the Placing; or

(f) any event or series of events, matters or circumstances concerning or relating to, or any change or prospective change (whether or not permanent) in:

    (i) any local, national or financial, political, economic, military, industrial, currency, conflict-related, legal, exchange control, fiscal, regulatory, stock or other financial market conditions, circumstances or sentiments or matters, whether or not of the same kind with any of the foregoing (including without limitation any moratorium on or suspension of commercial banking activities or trading in securities on GEM) in the BVI, the Cayman Islands, Hong Kong, Macau, the PRC or the US;

(ii) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, Macau, the PRC, the Cayman Islands, the BVI or any other relevant jurisdiction;

(iii) any event of force majeure affecting the BVI, the Cayman Islands, Hong Kong, Macau, the PRC or any other relevant jurisdiction including, without limiting the generally thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out;

(iv) the conditions or sentiments of the Hong Kong or the US equity securities or other financial markets;

(v) any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US;

(vi) the imposition of any moratorium, suspension or material restriction or trading in securities generally on the Stock Exchange or in the New York Stock Exchange due to exceptional financial circumstances or otherwise; or

(vii) a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdiction relevant to the Group or affecting an investment in the Shares or the transfer or dividend payment in respect thereof;

which, in the reasonable opinion of Vickers, is or will be, or is likely to be, materially adverse to the business, financial or other condition or prospects of the Group taken as a whole or makes it inappropriate, inadvisable or inexpedient to proceed with the Placing.

Undertakings

Under the GEM Listing Rules, no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of agreement to issue within the first 6 months of the date on which the Shares first commence dealing in GEM, save in respect of any capitalisation issue or any consolidation, sub-division or capital reduction of shares.

Further to the undertakings set out in the section headed “Substantial and Initial Management Shareholders”, each of the Initial Management Shareholders and Vandome has undertaken to the Company and Vickers (for itself and on behalf of the Underwriters) that:

(i) the Initial Management Shareholders and Vandome will not and will procure that none of their respective associates or companies controlled by it/him will dispose of (or enter into any agreement to dispose of) any of the Shares or any interests therein, or any shares, directly or indirectly held by it/him or its/his respective associates, in any company which is the beneficial owner of any of such Shares or interests, in each case, as at the Listing Date (including but not limited to the relevant securities (as defined in Rule 13.15 of the GEM Listing Rules) held by it/him) to be effected after the Listing Date but excluding Shares allotted by way of scrip dividend ("Relevant Shares") nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Shares for the period up to and including the day falling six months from the Listing Date;

(ii) the Initial Management Shareholders and Vandome will enter into an escrow agreement with an escrow agent (such escrow agent as shall be acceptable to the Stock Exchange and Vickers) on terms acceptable to the Stock Exchange and Vickers and place in escrow, with such escrow agent, its relevant securities (as defined in the GEM Listing Rules) for a period of six months commencing from the Listing Date;

(iii) in the event that any of the Initial Management Shareholders and Vandome pledges or charges any direct or indirect interest in the Relevant Shares under Rule 13.17(2) of the GEM Listing Rules it must inform the Company immediately thereafter, disclosing the details as required by the GEM Listing Rules and any of the Initial Management Shareholders and Vandome, should inform the Company immediately in the event that each of them becomes aware that the pledgee or chargee has disposed of or intends to dispose of any such interest in the Relevant Shares and of the number of the Relevant Shares affected.

SHI further undertakes with the Company and Vickers (for itself and on behalf of the Underwriters) that for the second six months from the Listing Date:—

(i) it shall not dispose of any Relevant Shares if such disposal would result in SHI cease to have control of at least 35% of the voting powers at general meeting of the Company;

(ii) it will place in escrow, with an escrow agent acceptable to the Stock Exchange, such number of its Relevant Shares representing not less than 35% of the issued share capital of the Company.

The Company has undertaken to Vickers (for itself and on behalf of the Underwriters) and each of the Initial Management Shareholders undertakes and covenants with Vickers (for itself and on behalf of the Underwriters) to procure that subject to prior written consent from Vickers (for itself and on behalf of the Underwriters) the Company will not, save as mentioned in this prospectus and save pursuant to the Share Option Scheme or the exercise of any option granted under the Over-allotment Option, allot or issue any shares or other securities of the Company, or agree conditionally or unconditionally to allot or issue or grant or agree to grant options over any shares or other securities of the Company during the period from the date of the Underwriting Agreement up to and the day falling twelve months from the Listing Date so as to result in SHI ceasing to be the ultimate controlling shareholder (within the meaning of the GEM Listing Rules) of the Company.

Each of the shareholders of SHI has undertaken to the Company and Vickers (for and on behalf of the Underwriters) (i) not to dispose of their respective direct or indirect interests in SHI during the second six month period after the Listing Date which would result in their aggregate interest in the issued share capital of the Company becoming less than 35% and (ii) to place in escrow, with an escrow agent acceptable to the Stock Exchange, their respective shares in SHI for the second six month period after the Listing Date.

Each of the Company and the Initial Management Shareholders undertakes and covenants with Vickers (for and on behalf of the Underwriters) that after expiry of twelve months from the Listing Date, each of them will take all reasonable steps to ensure that any disposal of the relevant securities (as defined in Rule 17.15 of the GEM Listing Rules) will not create a false or disorderly market in the Shares.

Commission and expenses

The Underwriters will receive an underwriting commission of 2.5% on the aggregate Issue Price of all the Placing Shares now being offered, out of which they will pay any sub-underwriting commissions. Vickers will, in addition, receive a documentation and advisory fee. Vandome, having been nominated by DTCF, will be allotted 0.75% of the issued share capital of the Company immediately after the completion of the Placing (assuming the Over-allotment Option is not exercised) as partial settlement of the management fee and advisory fee for its services as the Co-Sponsor of the Placing upon completion of the Placing. The underwriting commission, management fee, advisory fee, documentation fee, transaction levy, brokerage, legal, promotional and other expenses relating to the Placing are estimated to amount to approximately HK$16.3 million in total (based on an Issue Price of HK$1.33 per Share) and are payable by the Company.

Underwriters' interest in the Company

Save for its interests and obligations under the Underwriting Agreement and save as disclosed in this prospectus, none of the Underwriters or any of its associates is interested beneficially or non-beneficially in any shares in any member of the Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

Vickers and the Company have agreed that, upon listing of the Shares on GEM, Vickers and the Company entered into an agreement pursuant to which Vickers will fulfill its continuing obligations as sponsor under Rules 6.50 to 6.58 of the GEM Listing Rules for a period up to 31st March, 2003 subject to terms and conditions to be agreed between the parties thereto.

Vandome, having been nominated by DTCF, will be allotted 4,500,000 Shares, representing 0.75% of the enlarged issued share capital of the Company immediately after the completion of the Placing (assuming the Over-allotment Option is not exercised) as partial settlement of the management fee and advisory fee for DTCF's services as the Co-Sponsor to the Placing conditional upon completion of the Placing.

Deloitte & Touche Management Consulting Co., Limited, Taiwan, which is beneficially and wholly owned by Deloitte & Touche, Taiwan, has entered into a letter of intent with the Group to set up a joint venture company in Taiwan. This joint venture company will engage in the ASP business, sales of software and provision of related services in Taiwan. Further details of this joint venture are described in the paragraph headed "Strategic alliance" under the section headed "Business" in this prospectus. Deloitte & Touche Management Consulting Co., Limited, Taiwan and DTCF are under separate ownership and management.

The Company has also entered into a letter of intent with Secretaries Limited, which is beneficially and wholly owned by Deloitte Touche Tohmatsu, Hong Kong which wholly owns DTCF, to jointly develop the ASP business in Hong Kong. Further details of this alliance are described in the paragraph headed "Strategic alliance" under the section headed "Business" in the prospectus.

Save for Vickers' interests and obligations under the Underwriting Agreement and save as disclosed in this prospectus:

(i) none of the Sponsor or the Co-Sponsor or any of their respective associates is interested beneficially or non-beneficially in any shares in any member of the Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any share in any member of the Group;

(ii) none of the directors or employees of the Sponsor or the Co-Sponsor which are involved in providing advice to the Company has or may, as a result of the Placing, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing);

(iii) neither the Sponsor, the Co-Sponsor nor any of their respective associates has accrued any material benefit as a result of the successful outcome of the Placing, including by way of example, the repayment of material outstanding indebtedness or success fees save and except for the receipt of underwriting commission, management commission and documentation fee by Vickers and the management fee and advisory fee by DTCF pursuant to the agreements between the parties; and

(iv) none of the directors or employees of the Sponsor or the Co-Sponsor has a directorship in the Company or any other company in the Group.

DETERMINING THE ISSUE PRICE

The Issue Price is expected to be fixed on or around 19th July, or on a date which is no later than 21st July, 2000 by agreement between Vickers (on behalf of the Underwriters) and the Company with reference to market demand for the Shares.

If Vickers (on behalf of the Underwriters) and the Company are unable to reach agreement on the Issue Price on or before 9:00 a.m. on 21st July, 2000, the Placing will not become unconditional and will not proceed.

An announcement of the Issue Price is expected to be published on or about Friday, 21st July, 2000.

CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares are conditional upon:

(i) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; and

(ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional which requires, amongst others, that the Issue Price be duly determined and the Price Determination Agreement be entered into between Vickers (on behalf of the Underwriters) and the Company on the Price Determination Date and such obligations under the Underwriting Agreement not being terminated in accordance with its terms or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times). Details of the Underwriting Agreement, its conditions and grounds for termination, are set out in the section headed "Underwriting" of this prospectus.

The Placing

The Company is initially offering 120,000,000 Shares for subscription by way of the Placing. The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement.

Assuming an initial placing of 120,000,000 Shares, the Placing will represent 20% of the Company's enlarged issued share capital immediately after completion of the Placing, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Placing Shares together with the Over-allotment Shares will represent approximately 19.4% of the enlarged issued share capital of the Company immediately after completion of the Placing and the exercise of the Over-allotment Option. The net proceeds from the issue of the Placing Shares, assuming that the Over-allotment Option is not exercised, and after deducting related expenses, are estimated to be approximately HK$143.3 million. If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately HK$23 million (based on an Issue Price of HK$1.33 per Share, being the higher end of the stated range of the Issue Price), after deducting brokerage, commission and expenses attributable to the exercise of the Over-allotment Option.

Pursuant to the Placing, the Underwriters or selling agents nominated by the Underwriters on behalf of the Company shall place the Placing Shares at the Issue Price payable by the subscribers of the Placing Shares. Investors subscribing for the Placing Shares are also required to pay 1% brokerage and 0.01% Stock Exchange transaction levy. A total of not more than 6,000,000 Placing Shares, representing 5% of the total number of Shares initially being offered under the Placing, will be available for full-time employees of the Group (other than the Directors or the chief executives of the Company or the existing beneficial owners of Shares or an associate of any of them) under the Placing on a preferential basis as to allocation only. The balance of the Placing Shares (including Placing Shares not being applied for by such full-time employees) are expected to be placed with professional and institutional investors and other investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in securities.

Allocation of Placing Shares to professional and institutional investors will be based on a number of factors, including the investment horizon of the investors, the level and timing of demand and whether or not it is expected that the investor is likely to acquire further Shares, and/or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of the Company and its shareholders as a whole.

OVER-ALLOTMENT OPTION

Pursuant to the Underwriting Agreement, the Company has granted to Vickers a right (but not an obligation) to exercise the Over-allotment Option, which is exercisable no earlier than the Price Determination Date and will expire at 5:00 p.m. on 24th August, 2000, to require the Company to issue up to an aggregate of 18,000,000 additional Shares, representing 15% of the number of Shares initially available under the Placing. These Shares will be issued at the Issue Price for the purpose of covering over-allocations in the Placing, if any.

In order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option, a stock borrowing arrangement has also been entered into between Vickers and SHI.

Pursuant to this arrangement, SHI has agreed that, if so requested by the Vickers, SHI will lend to Vickers up to 18,000,000 Shares on the following terms:

(i) the borrowed Shares will only be used to settle over-allocations in the Placing; and

(ii) the same number of Shares must be returned to SHI, no later than three business days following the earlier of (a) the date on which the Over-allotment Option is exercised in full and (b) the last day on which the Over-allotment Option may be exercised and redeposited with an escrow agent as soon as practicable.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by SHI for the period of two years from the date of listing of the Shares on GEM (which has been granted to

the effect that such period and details of such waiver are set out in the section headed "Waivers from compliance with the GEM Listing Rules" in this prospectus), in order to allow SHI to enter into this stock borrowing arrangement. Vickers may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or by a combination of purchases in secondary market and exercise of the Over-allotment Option either in part or in full. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

STABILISATION

In connection with the Placing, Vickers may over-allot up to an aggregate of 18,000,000 additional Shares (such over-allocations may be covered by exercising the Over-allotment Option in full or in part, at any time up to 30 days from the date of this prospectus or by purchasing Shares in the secondary market) and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Issue Price. Any such over-allocation purchase transactions will be made in compliance with all applicable laws.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public issue prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocations in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the absolute discretion of Vickers. The stablisation price to cover the over-allocation will not normally be higher than the Issue Price. Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stablising the price of securities in certain circumstances.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the GEM is expected to commence on Monday, 24th July, 2000.

Shares will be traded in board lots of 2,000 Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on GEM, as well as the compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date Hongkong Clearing chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

In respect of the dealings in the Shares which may be settled through CCASS, investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

18th July, 2000

The Directors
FlexSystem Holdings Limited
Vickers Ballas Capital Limited
Deloitte & Touche Corporate Finance Limited

Dear Sirs

We set out below our report on the financial information regarding FlexSystem Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the two years ended 31st March, 2000 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 18th July, 2000 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 8th May, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation"), as detailed in Appendix IV to the Prospectus, which was completed on 15th July, 2000, the Company became the holding company of the subsidiaries set out below.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies (or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong private company). Details of these companies are as follows:

Company	Country/place and date of incorporation/ establishment	Issued and fully paid up share capital/registered capital	Attributable equity interest %	Principal activities
Subsidiary held directly:				
SomaFlex International Inc.	British Virgin Islands ("BVI") 8th May, 2000	US$1 1 ordinary share of US$1	100	Investment holding

Company	Country/place and date of incorporation/ establishment	Issued and fully paid up share capital/registered capital	Attributable equity interest %	Principal activities
Subsidiaries held indirectly:				
FlexSystem Limited	Hong Kong 3rd April, 1987	HK$120,000 120,000 ordinary shares of HK$1 each	100	Development and distribution of software and related services
FlexPro Limited	Hong Kong 10th March, 1992	HK$2 2 ordinary shares of HK$1 each	100	Development and distribution of software system for manufacturing industries
Danfaith Limited	BVI 21st February, 1995	US$1 1 ordinary share of US$1	100	Licensing of computer software
Millenium Magic Sdn Bhd	Malaysia 10th December, 1999	RM2 2 ordinary shares of RM1 each	100	Licensing and distribution of computer software products and technology
Soma Software Services Limited	Hong Kong 6th December, 1999	HK$100 100 ordinary shares of HK$1 each	100	Provision of ASP services
Flex System (Shanghai) Co. Ltd. ("Flex System (Shanghai)")	People's Republic of China (the "PRC") 26th February, 1997	Registered capital US$200,000	100	Development and distribution of FlexAccount products
FlexSystem Software Limited	Macau 24th February, 1999	Registered capital MOP30,000	100	Operation of research and development center

All companies now comprising the Group, except Flex System (Shanghai) and FlexSystem Software Limited, have adopted 31st March as their financial year end date throughout the Relevant Periods. Flex System (Shanghai) and FlexSystem Software Limited have adopted 31st December as their financial year end date for statutory reporting purposes.

We acted as auditors of FlexSystem Limited and FlexPro Limited for the year ended 31st March, 2000. The following statutory accounts were not audited by PricewaterhouseCoopers:—

Name	Financial period From	To	Auditors
FlexSystem Limited	1st April, 1998	31st March, 1999	Y.T. Lo & Co. Certified Public Accountants
FlexPro Limited	1st April, 1998	31st March, 1999	Y.T. Lo & Co. Certified Public Accountants
Flex System (Shanghai)	1st January, 1998	31st December, 1999	Shanghai Gao Ke Certified Public Accountants Co., Ltd.

No audited accounts have been prepared for the Company, SomaFlex International Inc., Danfaith Limited, Millenium Magic Sdn Bhd, Soma Software Services Limited and FlexSystem Software Limited since their respective dates of incorporation or establishment. We have, however, reviewed all significant transactions, as appropriate, of these companies for the Relevant Periods since their respective dates of incorporation or establishment to the date of this report.

The accounts of FlexSystem (Shanghai) are prepared in accordance with the applicable accounting principles and relevant financial regulations in the PRC. For the purpose of this report, we have carried out an independent audit of the accounts of FlexSystem (Shanghai) for the Relevant Periods in compliance with generally accepted accounting principles in Hong Kong. We have also examined the audited accounts or, where appropriate, the management accounts of all companies now comprising the Group for the Relevant Periods and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for the Relevant Periods and of the combined net assets of the Group as at 31st March, 2000 (the "Summaries"), have been prepared based on the audited accounts or, where appropriate, management accounts of all companies now comprising the Group, on the basis set out in Section 1 below, after making such adjustments as are appropriate.

The directors of the respective group companies are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for preparing the financial information in sections 1 to 6 below, including the Summaries. It is our responsibility to form an independent opinion on the combined results of the Group for the Relevant Periods and the combined net assets of the Group as at 31st March, 2000.

In our opinion, the Summaries set out below together with the notes thereto, for the purpose of this report, and prepared on the basis set out in section 1 below, give a true and fair view of the combined results of the Group for the Relevant Periods and of the combined net assets of the Group as at 31st March, 2000.

1 BASIS OF PREPARATION

For the purpose of this report, the summary of the combined results, as detailed in section 3 below, includes the results of the companies now comprising the Group as a result of the Reorganisation as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, whichever is a shorter period.

The summary of the combined net assets of the Group as at 31st March, 2000, as detailed in section 4 below, has been prepared to present the assets and liabilities of the Group as at that date, as if the current group structure had been in existence at that date.

All significant intra-group transactions and balances have been eliminated on combination.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies which have been adopted by the Group in arriving at the financial information in this report are set out below. These policies conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong. The accounts are prepared under the historical cost convention.

(a) Subsidiaries

Subsidiaries are companies in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or the composition of board of directors.

(b) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment securities should be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account. Income from investment securities is recognised when the right to receive the income is established.

(c) Fixed assets

Leasehold properties and improvements are stated at cost less accumulated depreciation. Depreciation of leasehold properties and improvements is calculated to write off their cost on a straight-line basis over the unexpired period of lease or their expected useful lives to the Group, whichever is the shorter. The principal annual rate used is 4%.

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of fixed assets is calculated to write off their cost on a reducing balance basis over their expected useful lives to the Group. The principal annual rate used for each of the categories of fixed assets is 20%.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value on disposal. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account at the time of disposal.

(d) **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(e) **Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the statement of net assets are stated net of such provision.

(f) **Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

(g) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(h) **Revenue recognition**

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

(ii) Maintenance service income is recognised over the life of the agreement on a straight-line basis. The unearned portion of the maintenance service income received is stated as deferred income in the statement of net assets.

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(i) **Retirement benefit costs**

The Group's contributions to the defined contribution retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(j) **Research and development costs**

Research and development costs are expensed as incurred except where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. Such costs are recognised as an asset and amortised on a straght-line basis over a period of not more than 3 years to reflect the pattern in which the related economic benefits are recognised.

3 RESULTS

The following is a summary of the combined results of the Group for the Relevant Periods, prepared on the basis set out in section 1 above, after making such adjustments as are appropriate:

		Year ended 31st March,	
		1999	**2000**
	Note	*HK$'000*	*HK$'000*
Turnover	(a)	38,408	44,756
Cost of sales		(5,117)	(5,677)
Gross profit		33,291	39,079
Other revenues	(a)	90	2
Distribution costs		(6,895)	(7,468)
Administrative expenses		(5,083)	(4,081)
Other operating expenses		(9,524)	(8,578)
Operating profit before taxation	(b)	11,879	18,954
Taxation	(c)	(1,962)	(2,760)
Profit after taxation		9,917	16,194
Dividends	(d)	20,000	11,070

Notes:

(a) **Revenues and turnover**

The amounts of each significant category of revenue recognised during the Relevant Periods are as follows:

	Year ended 31st March, 1999 *HK$'000*	2000 *HK$'000*
Turnover		
Sale of goods	31,049	33,979
Rendering of maintenance services	7,359	10,777
	38,408	44,756
Other revenues		
Interest income	67	2
Others	23	—
	90	2
Total revenues	38,498	44,758

(b) **Operating profit before taxation**

Operating profit before taxation is stated after charging the following:

	Year ended 31st March, 1999 *HK$'000*	2000 *HK$'000*
Staff costs	14,346	16,291
Operating leases in respect of land and buildings	1,226	1,170
Research and development expenses	2,970	1,622
Amortisation of deferred development costs	—	860
Depreciation of fixed assets	295	297
Auditors' remuneration	67	200
Provision for doubtful debts	738	953
Retirement scheme contributions	444	575

(c) **Taxation**

The taxation charge represents:

	Year ended 31st March, 1999 HK$'000	2000 HK$'000
Hong Kong profits tax (i)	1,962	2,774
10% 1997/1998 tax rebate	—	(14)
	1,962	2,760

(i) Hong Kong profits tax has been provided for at the rate of 16% on the respective estimated assessable profits of FlexSystem Limited, FlexPro Limited and Danfaith Limited during the Relevant Periods.

(ii) No provision for PRC income tax has been made in the accounts as the Group has no assessable profit for the Relevant Periods.

(iii) There was no material unprovided deferred taxation for the Relevant Periods.

(d) **Dividends**

No dividends have been paid or declared by the Company since its incorporation. Dividends amounting to HK$20,000,000 and HK$11,070,000 were paid by certain subsidiaries of the Group to its then shareholders prior to the Reorganisation for the years ended 31st March, 1999 and 2000 respectively. The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of the report.

(e) **Directors' and senior management's emoluments**

(i) The aggregate amounts of emoluments paid and payable to directors of the Company for the Relevant Periods are as follows:

	Year ended 31st March, 1999 HK$'000	2000 HK$'000
Fees	—	—
Basic salaries, allowances and benefits in kind	1,182	1,000
	1,182	1,000

No directors waived any emoluments and no incentive payment or compensation for loss of office was paid or payable to any director during the Relevant Periods.

The number of directors whose emoluments fall within the following bands is as follows:—

	Year ended 31st March, 1999	2000
Nil to HK$1,000,000	2	2

These two directors received individual emoluments of approximately HK$920,000 (1999: HK$720,000) and HK$80,000 (1999: HK$462,000) respectively for the year ended 31st March, 2000.

(ii) The five individuals whose emoluments were the highest in the Group are as follows:

	Year ended 31st March, 1999	2000
Director	1	1
Employees	4	4
	5	5

Details of the emoluments of employees as mentioned above are as follows:

	Year ended 31st March, 1999	2000
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits in kind	2,431	2,318
Pension scheme contributions	51	70
	2,482	2,388

The number of employees whose emoluments fall within the following bands is as follows:—

	Year ended 31st March, 1999	2000
Nil to HK$ 1,000,000	4	4

(iii) During the Relevant Periods, no emoluments have been paid by the Group to the directors and the highest paid employees mentioned above as an inducement to join the Group or as compensation for loss of office.

(f) **Retirement scheme**

The Group contributed to a defined contribution retirement scheme for its employees in Hong Kong during the Relevant Periods. Contributions to the scheme by the Group are calculated at 5% of the employees' basic salaries.

The PRC subsidiary of the Company has participated in an employees' retirement scheme implemented by the Shanghai Municipal Government. Contributions are made to the scheme based on 31.5% of the applicable basic payroll costs.

The Group has no other obligations other than the above-mentioned contributions.

(g) **Earnings per share**

No earnings per share information is presented as this would be hypothetical due to the Reorganisation and preparation of the results on a combined basis, as disclosed in section 1 of this report.

(h) **Related party transactions**

Save as disclosed elsewhere in this report, the following significant related party transactions have been entered into by the Group during the Relevant Periods:

		Year ended 31st March,	
		1999	**2000**
	Note	*HK$'000*	*HK$'000*
Sales to FlexCorp Limited	(i)	4,930	4,347
Property rental, management fees and related expenses paid to Oriental Palace Limited ("Oriental Palace")	(ii)	805	817

(i) Mr. Lok Wai Man and Mr. So Yiu King, both directors and shareholders of the Company, each has a 45% interest in FlexCorp Limited. The sales made to FlexCorp Limited are conducted in the normal course of business at prices and terms comparable with those charged to and contracted with independent third party customers of the Group. The Directors of the Company have confirmed that these transactions will be terminated following the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(ii) A license 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. The license agreement is for the remaining and unexpired term of the respective tenancy agreements between Oriental Palace as tenant and an independent third party as landlord in relation to the offices mentioned above. Mr. Lok Wai Man and Mr. So Yiu King, directors and shareholders of the Company, each has a 50% interest in Oriental Palace. The rental, management fees and related expenses reimbursed to Oriental Palace are the same as that charged by the landlord of the premises to Oriental Palace. The Directors of the Company have confirmed that these transactions will continue until the expiry of the rental agreements entered into by Oriental Palace and the landlord.

The directors of the Company are of the opinion that the above transactions were conducted based on normal commercial terms in the normal course of the Group's business.

4 NET ASSETS

The following is a summary of the combined net assets of the Group as at 31st March, 2000, prepared on the basis set out in section 1 above and after making such adjustments as are appropriate:

	Note	*HK$'000*	*HK$'000*
FIXED ASSETS	(a)		1,621
INVESTMENT SECURITIES	(b)		1,605
CURRENT ASSETS			
Amount due from a director	(c)	5,469	
Amount due from a related company	(d)	2,871	
Trade receivables		6,965	
Other receivables and prepayments		1,811	
Bank and cash balances	(e)	1,020	
			18,136
CURRENT LIABILITIES			
Trade payables and other payables		1,418	
Deferred income	2(h)(ii)	3,940	
Deposits received from customers		3,717	
Tax payable		6,695	
			15,770
NET CURRENT ASSETS			2,366
NET TANGIBLE ASSETS			5,592
INTANGIBLE ASSETS			
Deferred development costs	(f)		1,719
NET ASSETS			7,311

Notes:

(a) **Fixed assets**

	Cost	Accumulated depreciation	Net book value
	HK$'000	*HK$'000*	*HK$'000*
Leasehold properties in the PRC	349	(41)	308
Leasehold improvements	536	(242)	294
Furniture and fixtures	2,025	(1,289)	736
Plant and machinery	596	(477)	119
Motor vehicles	320	(156)	164
	3,826	(2,205)	1,621

(b) **Investment securities**

	HK$'000
Equity securities	
Unlisted in Hong Kong, at cost	1,605

Name	Place of incorporation/ operations	Principal activities	Particulars of issued shares held	Interest held
Starwise International Computers Limited	Hong Kong	Systems integration and provision of turnkey solutions	305,000 ordinary shares of HK$1 each	30%
Manpower Resource Computing Limited	Hong Kong	Payroll and human resources management	400,000 ordinary shares of HK$1 each	30.8%

Notwithstanding that the Company holds an interest in each of these investments in excess of 20%, the Company has no representation on their respective boards of directors and consequently the directors are of the opinion that the Company has no significant influence and the investments should not be accounted for as associated companies.

(c) **Amount due from a director**

Name of director	**Maximum amount outstanding during the Relevant Periods**	**Amount outstanding at 31st March, 1999**	**Amount outstanding at 31st March, 2000**
	HK$'000	*HK$'000*	*HK$'000*
Lok Wai Man	16,539	4,502	5,469

The amount due from a director represents funds advanced to the director during the Relevant Periods. It is unsecured, interest-free and has been fully settled on 6th July, 2000.

(d) **Amount due from a related company**

The balance represents an amount due from FlexCorp Limited, arising mainly from the related party transactions as mentioned in section 3 (h)(i), which is unsecured, interest-free and has been fully settled on 15th July 2000.

(e) **Bank and cash balances**

Included in the balance is an amount of HK$92,066 which is denominated in Renminbi. Renminbi is not a freely convertible currency.

(f) **Deferred development costs**

This represents the amount of staff costs of approximately HK$2,579,000 incurred and capitalised in relation to a development project less accumulated amortisation of approximately HK$860,000.

(g) **Commitments under operating leases**

(i) As at 31st March, 2000, the Group had a commitment in the next twelve months under an operating lease in respect of certain premises as follows:

	HK$'000
Within one year	170

(ii) The monthly licence fee payable under the license agreement as disclosed in section 3(h)(ii) for the remaining and unexpired term is HK$81,896.

(h) **Contingent liabilities**

No companies within the Group had any loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31st March, 2000.

(i) **Net assets of the Company**

The Company was incorporated in the Cayman Islands on 8th May, 2000 with an authorised share capital of HK$380,000, divided into 3,800,000 shares of HK$0.10 each. At 31st March, 2000, the Company had not been incorporated and, accordingly, it had no assets or liabilities as at that date. The net assets of the Company as at 31st March, 2000 prepared on the basis set out in section 1 above, amounted to approximately HK$7,311,000, representing its investment in the subsidiaries.

(j) **Distributable reserves**

As at 31st March, 2000, the Company had not been incorporated and hence there were no reserves available for distribution to the Company's shareholders at that date.

5 SIGNIFICANT SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31st March, 2000.

(a) Subsequent to 31st March, 2000, the companies in the Group underwent a Reorganisation in preparation for the listing of the Company's shares on GEM of the Stock Exchange. Details of the Reorganisation and alterations in the share capital of the Company are set out in the subsection headed "Further information about the Company" in Appendix IV of the Prospectus.

(b) The Group's leasehold properties situated in the PRC have been revalued by an independent valuer, DTZ Debenham Tie Leung Limited, as at 31st May, 2000. The aggregate surplus on revaluation, which is not reflected in the net assets of the Group as at 31st March, 2000, amounting to approximately HK$44,000, will be incorporated into the Group's accounts for the year ending 31st March, 2001.

Save as aforesaid, no other material events took place subsequent to 31st March, 2000.

6 SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st March, 2000 and save as disclosed in this report, no dividend or other distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 31st March, 2000.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of valuations and valuation certificates, prepared for the purposes of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent valuer, in connection with their valuations as at 31st May, 2000 of the property interests of the Group.

DTZ Debenham Tie Leung 戴德梁行
International Property Advisers

Formerly C Y Leung & Company
原梁振英測量師行

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

18th July, 2000

The Directors
FlexSystem Holdings Limited
1st Floor, PCL Group Building
18 Lee Chung Street
Chai Wan
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by FlexSystem Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in Hong Kong, the People's Republic of China (the "PRC") and Macau, we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 31st May, 2000 (the "date of valuation").

Our valuation of each of the property interests represents its open market value which we would define as intended to mean "an opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:—

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion."

Our valuations have been made on the assumption that the owners sell the property interests on the open market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of the property interests.

In forming our opinion of the value of property interest in Group I which is owned and occupied by the Group in the PRC, we have valued the property interest by direct comparison approach assuming sale of such property interest in existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. We have assumed that transferable land use right in respect of the property interest at nominal annual land use fee has been granted and that any premium payable has already been fully paid. We have assumed that the grantee or the owner of the property interest has free and uninterrupted rights to use or to assign the property interest for the whole of the unexpired term as granted. We have relied on the advice given by you regarding the title to the property interest.

Property interests in Groups II, III and IV which are rented/licenced by the Group in the PRC, Hong Kong and Macau respectively have no commercial value due to the prohibitions against assignment of the property interests or otherwise due to the lack of substantial profit rents.

We have been provided with extract of documents in relation to the title to the property interests in the PRC. We have not been provided with copies of the title documents relating to the property interests in Hong Kong and Macau but have caused searches to be made at the appropriate Land Registries. However, we have not inspected the original documents to ascertain any amendments. In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and its legal advisers on PRC laws and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion dates of buildings, particulars of occupancy, licence/tenancy details, floor areas, floor plans and all other relevant matters. Dimensions, measurements and areas included in the attached valuation certificate are based on information provided to us by you and are therefore only approximations. We have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct. We have had no reasons to doubt the truth and accuracy of the information provided to us by you which is material to the valuations. We were also advised by you that no material facts have been omitted from the information supplied. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of each of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or other structural defects. No test was carried out on any of the services.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Unless otherwise stated, all sums stated in our valuations are in Hong Kong dollars. The exchange rates adopted in our valuations are approximately US$1=HK$7.78 and HK$1=RMB1.07 which were approximately the prevailing exchange rates as at the date of valuation.

We enclose herewith a summary of our valuations and our valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K.B. Wong
Registered Professional Surveyor
A.H.K.I.S., A.R.I.C.S.
Director

Note: Mr. K.B. Wong is a Chartered Surveyor who has about 16 years' experience in the valuation of properties in Hong Kong, Macau and the PRC.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 31st May, 2000 *HK$*
Group I — Property interest owned and occupied by the Group in the PRC	
1. Unit No. 102, Block No. 6, London Garden, Grand Shanghai Garden, 1555 Caobao Road, Minhang District, Shanghai	350,000
Sub-total:	350,000
Group II — Property interests rented by the Group in the PRC	
2. Unit Nos. 301 and 302, Yixiang Building, 1599 Yanan West Road, Changning District Shanghai	No commercial value
3. Unit No. B-20, Basement, Yixiang Building, 1599 Yanan West Road, Changning District, Shanghai	No commercial value
Sub-total:	No commercial value

Property	Capital value in existing state as at 31st May, 2000 *HK$*
Group III — Property interests licenced/rented by the Group in Hong Kong	
4. 1st Floor and Car Parking Space Nos. 10 and 13 on Ground Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	No commercial value
5. Unit No. 204 on 2nd Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	No commercial value
6. Unit No. 301 on 3rd Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	No commercial value
7. Flat F on 21st Floor, Block 3, Pokfulam Gardens, 180 Pok Fu Lam Road, Pokfulam, Hong Kong	No commercial value
Sub-total:	No commercial value
Group IV — Property interest rented by the Group in Macau	
8. Unit I on 5th Floor and Car Parking Space No. A150 on Basement, Office Block, Edificio Zhu Kuan, Avenida Xian Xing Hai, Lote N24, Zona dos Novos Aterros do Porto Exterior, Macau	No commercial value
Sub-total:	No commercial value
Grand-total:	350,000

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May, 2000
Group I — Property interest owned and occupied by the Group in the PRC				
1.	Unit No.102, Block No 6, London Garden, Grand Shanghai Garden, 1555 Caobao Road, Minhang District, Shanghai	The property comprises a residential unit on the 1st level of a 7-storey residential building completed in 1996. The property comprises a gross floor area of approximately 106.34 sq.m.(1,145 sq.ft.). The land use rights of the property have been granted, with the term being unspecified yet, for residential use.	The property is currently owner-occupied as a staff quarters.	HK$350,000

Notes

(1) Pursuant to a Sale Contract of Shanghai Local Sale Commodity Housing entered into between Shenzhen Jintian Real Estate Development Co, Ltd. (Shanghai Office)("Party A") and Flex System (Shanghai) Co., Ltd. ("Party B") in which the Company has an attributable interest of 100%, Party B has agreed to purchase the property comprising a gross floor area of 106.34 sq.m. from Party A at a total consideration of RMB 373,194 for residential use.

(2) The opinion of the Group's legal adviser on PRC laws state, inter alia, that

(i) Flex System (Shanghai) Co., Ltd. (hereinafter referred to as the "WFOE") has been duly incorporated and is validly existing in the PRC as a wholly foreign owned limited liability company with legal person status under the laws of the PRC.

(ii) The WFOE has entered into a sale and purchase contract with Shenzhen Jintian Real Estate Development Co., Ltd., a Shanghai Company, in connection with the purchase by the WFOE of Unit No. 102, Block No. 6, London Garden, Grand Shanghai Garden, 1555 Caobao Road, Minhang District, Shanghai (the "Property"). The sale and purchase contract constitutes a legal, valid and binding document. The rights and obligations of the parties thereto are protected under the laws of the PRC.

(iii) The WFOE has made application on 28th June, 2000 to the Real Estate Transaction Centre of Shanghai Minhang District to obtain a real estate title certificate to the Property. Upon obtaining the real estate title certificate, the WFOE will acquire full and absolute legal title to the property. The application is only a method of formality and there should be no legal impediment under the laws of the PRC that will hinder the issue of such title certificate, provided that the WFOE has satisfied all the requirement for obtaining a title certificate, which include, but not limit to, submission of all documents as required by the Real Estate Transaction Center of Shanghai Minhang District and payment of all applicable governmental duties and charges. No land premium is payable by the WFOE to obtain the real estate title certificate to the property.

(iv) The purchase price has already been fully paid by the WFOE.

(v) Upon obtaining the title certificate, the WFOE may transfer, rent, mortgage or otherwise dispose of the property in accordance with the laws and regulations of the PRC and the relevant provisions of the sale and purchase contract, subject that the title of the property can only be transferred to PRC entities or individuals for residential purposes.

(vi) As confirmed by the WFOE, the property is not currently being transferred, mortgaged, leased or involved in any contentious or non-contentious dispute.

(3) We have relied on the aforesaid legal opinion and prepared our valuation based on the following assumptions:—

(i) FlexSystem (Shanghai) Co., Ltd. is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the PRC government.

(ii) All land premium and other costs of ancillary utilities services have seen settled in full.

(iii) The design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant authorities.

(iv) The property may be disposed of freely to local purchasers.

(4) The status of title and grant of major approvals and licences in accordance with the information provided to us by the Group and the aforesaid legal opinion regarding the property are as follows:—

Sale and Purchase Contract	Yes
Real Estate Title Certificate	No

	Property	Description and licence/tenancy particulars	Capital value in existing state as at 31st May, 2000
Group II — Property interests rented by the Group in the PRC			
2.	Unit Nos. 301 and 302, Yixiang Building, 1599 Yanan West Road, Changning District, Shanghai	The property comprises two office units on the 3rd level of a 10-storey office building plus a single level basement completed in 1995. The property has a total gross floor area of approximately 263 sq.m. (2,831 sq.ft.) and is currently occupied by the Group as offices. The property is currently rented by the Group for a term from 9th November 1998 to 8th May, 2000 and has been extended to 30th September, 2000 and at a total monthly rent of RMB14,399.25, exclusive of management fees and utilities charges.	No commercial value
3.	Unit No. B-20 Basement, Yixiang Building, 1599 Yanian West Road, Changning District, Shanghai	The property comprises an unit on the basement level of a 10-storey office building plus a single level basement completed in 1995. The property has a gross floor area of approximately 40 sq.m. (430 sq.ft.) and is currently occupied by the Group as a store room. The property is currently rented by the Group for a term from 5th June, 2000 to 22nd July, 2000 and has been extended to 30th September, 2000 at a monthly rent of RMB800, exclusive of management fees and utilities charges.	No commercial value
Group III — Property interests licenced/rented by the Group in Hong Kong			
4.	1st Floor and Car Parking Space Nos. 10 and 13 on Ground Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	The property comprises the entire 1st floor and 2 private car parking spaces on the ground floor of a 14-storey industrial building completed in 1980. The 1st floor has a saleable area of approximately 529.08 sq.m. (5,695 sq.ft.) and is currently occupited by the Group as computer workshop with ancillary office. The property is currently licenced by the Group for a term due to expire on 16th February, 2001 at a total monthly licence fee of HK$61,700, exclusive of rates and management fees.	No commercial value

	Property	Description and licence/tenancy particulars	Capital value in existing state as at 31st May, 2000
5.	Unit No. 204 on 2nd Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	The property comprises a workshop unit on the 2nd floor of a 14-storey industrial building completed in 1980. The property has a saleable area of approximately 64.10 sq.m. (690 sq.ft.) and is currently occupied by the Group as computer workshop with ancillary office. The property is currently licenced by the Group for a term due to expire on 31st December, 2000 at a monthly licence fee of HK$7,845, exclusive of rates and management fees.	No commercial value
6.	Unit No. 301 on 3rd Floor, PCL Group Building, 18 Lee Chung Street, Chai Wan, Hong Kong	The property comprises a workshop unit on the 3rd floor of a 14-storey industrial building completed in 1980. The property has a saleable area of approximately 93.37 sq.m. (1,005 sq.ft.) and is currently occupied by the Group as computer workshop with ancillary office. The property is currently licenced by the Group for a term due to expire on 31st March, 2001 at a monthly licence fee of HK$12,350.50, exclusive of rates and management fees.	No commercial value
7.	Flat F on 21st Floor, Block 3, Pokfulam Gardens, 180 Pok Fu Lam Road, Pokfulam, Hong Kong	The property comprises a domestic unit on the 21st floor of a 29-storey residential building completed in 1979. The property has a gross floor area of approximately 124.95 sq.m. (1,345 sq.ft.) and is currently occupied by the Group as staff quarters. The property is currently rented by the Group for a term of 2 years from 1st July, 2000 to 30th June, 2002 at a monthly rent of HK$30,000, inclusive of rates and management fees.	No commercial value

	Property	Description and licence/tenancy particulars	Capital value in existing state as at 31st May, 2000
Group IV — Property interest rented by the Group in Macau			
8.	Unit I on 5th Floor, and Car Parking Space No. A150 on Basement, Office Block, Edificio Zhu Kuan, Avenida Xian Xing Hai, Lote N24, Zona dos Novos Aterros do Porto Exterior, Macau	The property comprises an office unit on the 5th floor and a private car parking space on the basement of a 20-storey office building erected upon a 3-storey plus basement commercial podium. The development was completed in 1997. The office unit has a gross floor area of approximately 255.11 sq.m. (2,746 sq.ft.) and is currently occupied by the Group as offices. The property is currently rented by the Group for a term from 15th May, 2000 to 15th May, 2002 at a monthly rent of MOP 5,492, for the 1st year of the term and MOP 8,238 for the 2nd year of the term, exclusive of management fees.	No commercial value

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands' company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8th May, 2000 under the Companies Law (2000 Revision) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate, irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it necessary for the attainment of its objects, and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 10th July, 2000. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(b) **Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to confirm any amendment to the Articles or to change the name of the Company.

(c) **Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares.

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessaryquorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) **Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) **Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

If a recognised clearing house is a member of the Company it may authorise such person or persons (or its nominee) as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual member of the Company.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine. The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) **Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors; and

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital.

(j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominees(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) **Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange.

(l) **Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) **Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) **Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

(p) **Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of HK$1.00 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$10.00, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) **Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) **Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 4(e) of this Appendix.

(s) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) **Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) **Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) **Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) **Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) **Dividends and distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m), above for further details).

(f) **Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) **Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) **Accounting and auditing requirements**

A company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) **Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 30th May, 2000.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) **Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) **Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) **Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) **Winding up**

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice or otherwise as the Registrar of Companies may direct.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting shareholders of a United States corporation.

(p) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law (2000 Revision), is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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 repsect 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
Singapore				
FlexAccount	Singapore	9	T00/08586H	23rd May, 2000
Soma*AI	Singapore	9	T00/08587F	23rd May, 2000
Malaysia				
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.

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

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 DTCF, 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 ftom 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, expect 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.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed "Consents of experts" in Appendix IV, copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix IV and the related statement of adjustments made by PricewaterhouseCoopers in arriving at the figures set out in their accountants' report.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Hastings & Co. at Bank of China Tower, 21st Floor, No. 1 Garden Road, Hong Kong during normal business hours up to and including 1st August, 2000:

— the memorandum and articles of association of the Company;

— the accountants' report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I;

— such audited financial statements as have been prepared for the companies comprising the Group for each of two years ended 31st March, 2000;

— the letter, summary of values and valuation certificates prepared by DTZ Debenham Tie Leung Limited relating to the property interests of the Group, the texts of which are set out in Appendix II;

— the rules of the Share Option Scheme;

— the Companies Law;

— the PRC legal opinion issued by Fangda Partners, the Company's PRC legal advisers, in relation to, inter alia, the Group's property interests in the PRC, as referred to in Appendix II;

— the letter of advice issued by Conyers, Dill & Pearman, Cayman referred to in Appendix III;

— the service contracts referred to in the paragraph headed "Particulars of service agreements" in Appendix IV;

— the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix IV; and

— the written consents referred to in the paragraph headed "Consents of experts" in Appendix IV.