

Excel

Excel Technology International
Holdings Limited

(Incorporated in Bermuda with limited liability)

Placing and Public Offer



Solutions

Global Co-ordinator,
Sponsor and Lead Manager



HSBC Investment Bank Asia Limited

IMPORTANT

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

Excel

EXCEL TECHNOLOGY INTERNATIONAL HOLDINGS LIMITED

(志鴻科技國際控股有限公司)*

(Incorporated in Bermuda with limited liability)

PLACING AND PUBLIC OFFER

Number of Placing Shares:	127,500,000 (subject to adjustment and reallocation)
Number of Public Offer Shares:	22,500,000 (subject to adjustment and reallocation)
Offer Price:	not more than HK\$1.40 per Share payable in full on application
Nominal Value:	HK\$0.10 each
Stock Code:	8048

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Global Co-ordinator, Sponsor and Lead Manager

HSBC

HSBC Investment Bank Asia Limited

Co-Lead Managers

Bear Stearns Asia Limited

CEF Capital Limited

Co-Managers

Advanced Partners Brokerage Limited
CLSA Emerging Markets

Cazenove Asia Limited
Vickers Ballas Capital Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix VII to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). A copy of this prospectus, together with copies of the application forms, has also been filed with the Registrar of Companies in Bermuda. The Securities and Futures Commission and the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement between HSBC Investment Bank Asia, on behalf of the Underwriters, and the Company on the IPO Pricing Date, which is expected to be on or around 23rd June, 2000 and in any event will be on or before 27th June, 2000. The Offer Price will not be more than HK\$1.40 per Offer Share and is expected to be not less than HK\$1.35 per Offer Share. HSBC Investment Bank Asia, on behalf of the Underwriters, may, with the consent of the Company, reduce the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offer, cause to be published on the GEM Web-site and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese notice of the reduction of the Offer Price range. Applicants should note that in no circumstances can applications be withdrawn once submitted. If, for any reason, the Offer Price is not agreed on or before 27th June, 2000 between the Company and HSBC Investment Bank Asia, on behalf of the Underwriters, the Share Offer will not proceed.

A copy of this prospectus has been lodged with the Registrar of Companies and Businesses in Singapore as an information memorandum for the purposes of Section 106D of the Companies Act, Chapter 50 of Singapore. The Registrar of Companies and Businesses in Singapore takes no responsibility as to the content of this prospectus.

* For identification only

20th June, 2000

GROWTH ENTERPRISE MARKET

Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited

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 web-site operated by the Stock Exchange. 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 the GEM Web-site in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

2000

Application lists open (*Note 1*) 11:45 a.m. on Friday, 23rd June

Latest time to lodge white and yellow

application forms and to give electronic

application instructions to Hongkong Clearing 12:00 noon on Friday, 23rd June

Application lists close 12:00 noon on Friday, 23rd June

IPO Pricing Date (expected) (*Note 2*) on or around Friday, 23rd June

Announcement of Offer Price, the level of indication of interests in the Placing, results of applications and basis of allotment of Shares under the Public Offer to be published on the GEM Web-site, and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese Wednesday, 28th June

Despatch of share certificates and refund cheques in respect of wholly or partially unsuccessful applications (*Note 3*) Wednesday, 28th June

Dealings in the Shares on GEM to commence on Friday, 30th June

All times refer to Hong Kong local time, except as otherwise stated. For details of the Share Offer, including conditions, see the section headed "Structure of the Share Offer" of this prospectus.

Notes:

1. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 23rd June, 2000, the application lists will not open on that day. Further information is set out under "How to apply for Public Offer Shares — Effect of bad weather on the opening of the application lists".
2. The IPO Pricing Date is expected to be on or around Friday, 23rd June, 2000, and in any event will be on or before 27th June, 2000. If, for any reason, the Offer Price is not agreed on or before 27th June, 2000, the Share Offer will not proceed.
3. Applicants for 1,000,000 Public Offer Shares or more and who have indicated in their application forms that they wish to collect refund cheques and (where relevant) share certificates personally from the Company's share registrar may collect refund cheques and (where relevant) share certificates personally from the Company's share registrar, Central Registration Hong Kong Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Hong Kong between 9:00 a.m. to 1:00 p.m. on Wednesday, 28th June, 2000. Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Both individuals and authorised representatives (if applicable) must produce at the time of collection evidence of identity acceptable to Central Registration Hong Kong Limited. Uncollected share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant application forms. Further information is set out under "How to apply for Public Offer Shares".

Applicants who wish to apply by giving electronic instructions to Hongkong Clearing should refer to the section headed "How to apply for Public Offer Shares — Applying by giving electronic instructions to Hongkong Clearing".

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You should rely only on the information contained in this prospectus to make your investment decision. The Company has not authorised any person 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 Underwriters, any of their respective directors or any other person or party involved in the Share Offer.

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SUMMARY OF THIS PROSPECTUS

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

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

Business

The Group is a leading business application solutions provider in the banking and finance sector in Hong Kong, and is principally engaged in (i) the development, sale and implementation of enterprise software, (ii) the operation of the ASP Business through a joint venture in which the Group owns a 37.5 per cent. interest and a wholly-owned subsidiary of iBusiness Corporation (whose shareholders, in turn, include Cheung Kong, Hutchison Whampoa Limited, HSBC and Hang Seng Bank) owns the remaining 62.5 per cent., (iii) IT consultancy (including the provision of e-business solutions) and customised application system development, and (iv) systems integration and resale and maintenance of IT products, all with a principal focus on providing solutions to the banking and finance sector. The Group also has a strategic investment (being a 10 per cent. shareholding interest) in Net Fun Limited, a company which owns and operates a multi-lingual portal offering on-line interactive games and on-line Internet services.

The Group's enterprise software are capable of providing integration and interface with the legacy and operation systems of its customers, and have been sold to major banks and financial institutions in Hong Kong and elsewhere. The Group's enterprise software are multi-lingual and a majority of the enterprise software are already Internet-enabled. The Directors believe that the Group's management team has extensive experience in the IT industry and an in-depth understanding and knowledge of the banking and finance sector. As such, the Directors believe that the Group is well-positioned to become a leading solutions provider to facilitate the growth and expansion of e-business in the Asia Pacific region.

Business model

The Group has a focused business model comprising three inter-related and synergistic components, namely, enterprise software, the ASP Business (through i21 Limited, the joint venture with a wholly-owned subsidiary of iBusiness Corporation) and the provision of IT consultancy services and e-business solutions. In addition, the Group will continue to provide systems integration services and engage in the resale of IT products as part of its solutions offering. Through this model, the Group aims to become the leading business application solutions provider in the Asia Pacific region.

Enterprise software

The enterprise software business of the Group involves the development of business software applications that can be licensed to and (with minor customisation) implemented for different enterprises. The Group has developed a suite of nine software applications that distinguishes the Group as a provider of enterprise software primarily servicing the banking

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and finance sector in Hong Kong. The Group will seek to maintain and build upon this position through product development and enhancement, aggressive marketing and geographical expansion into the PRC and other countries in Southeast Asia. The Group will continue to focus on developing new software applications which facilitate B2B and B2C transactions and provide e-commerce solutions over the Internet, in particular, for the banking and finance sector. The Group also intends to continue to harness its proprietary enterprise software to develop the ASP Business and other e-business initiatives.

The ASP Business

In March, 2000, the Group and iBusiness Corporation formed a joint venture, i21 Limited, to operate the ASP Business under the brandname "i21". i21 Limited is owned as to 37.5 per cent. by the Group, and a wholly-owned subsidiary of iBusiness Corporation holds the remaining interest in i21 Limited. i21 Limited is one of the early entrants in the ASP market in Hong Kong. The ASP Business provides enterprises with use of application functionality and data which are managed centrally and are delivered through the Internet and other means including leased lines and mobile phones. The Group possesses proprietary technology in the form of its enterprise software and a track record of providing ancillary services to its customers, which the Directors believe will benefit the ASP Business. i21 Limited has formed strategic alliance with hardware vendors (Sun Microsystems and Cisco) and networking products and facilities management provider (Hutchison Global Crossing), all of whom are leading players in their respective fields, and the Directors expect that the i21 Limited will continue to form other strategic partnerships.

iStock 21, a stock trading software and the first application implemented through the ASP Business, was first deployed for customer use in June, 2000. The ASP Business will seek to offer an increasing number of software applications with the aim of capturing the Hong Kong and Southeast Asian ASP market for:

- specific sectors within the banking and finance industry, such as insurance; and
- specific functions within businesses such as human resource management and accounting.

IT consulting and e-business solutions

The Group provides IT strategic consulting and planning services and develops customised IT solutions for customers.

Since early 1999, the Group has expanded its consulting and planning services to cover e-business strategy and solutions (including maintenance and support services) for customers who are seeking to develop e-businesses. As an extension of its IT consultancy business, the Group is continuing looking into taking on a more active role in helping its customers implement their e-business plans. The services offered by the Group will be expanded to include the provision of consulting services, software solutions, business connections and day-to-day operational support to the customers' e-business on an on-going basis.

The Directors believe that the quality of the Group's services will be enhanced by the synergistic value of the Group's enterprise software and the ASP Business, and the Group will be able to provide a "one-stop" service for customers implementing e-business strategies.

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Revenue model

The Directors believe that the IT consulting and systems integration businesses will continue to be a significant contributor to the Group's revenue. The Directors also expect that an increasing portion of its revenue will come from its enterprise software, the ASP Business and the provision of e-business solutions. Set out below is a summary of the expected development of the revenue profile of the Group. In line with the market trend in the IT sector, the Group will explore new revenue models such as charging periodic subscription fees and participating in equity and revenue sharing arrangements.

(i) *Enterprise software*

The Group's enterprise software business has relied on up-front "one-off" licence fees as a principal revenue source. While the Directors expect that this will continue to be the case, the Directors also expect that the Group may charge some of its future customers on the basis of an initial licence fee coupled with on-going periodic subscription payments.

(ii) *ASP*

It is expected that different revenue models will be implemented for the different i21 applications offered by the ASP Business depending on the nature of the software and services provided. The Directors expect that the ASP Business will use a combination of one or more of the following charging schemes: initial joining fee, periodic subscription fees, access charges and transaction fees calculated based on volume of usage.

i21 Limited has entered into revenue sharing arrangements with two business partners in connection with iStock21, and the Directors anticipate that it may enter into additional revenue sharing arrangements with other business and technology partners of the i21 applications.

(iii) *IT consulting and e-business solutions*

The Group charges its customers for services provided either on a per project basis or on a time and material basis. In relation to the provision of IT consulting services and e-business solutions, the Group may also participate in revenue and commission sharing arrangements, and may also be paid in the form of equity interests in the relevant projects.

Target customers and geographical expansion

The Group intends to position itself as a leading business application solutions provider in the banking and finance sector in the Asia Pacific region. At present, the Group's customer base comprises some of the leading financial institutions in the Asia Pacific region. The Group intends to expand aggressively to target the banking and finance sector in the PRC and Southeast Asia.

SUMMARY OF THIS PROSPECTUS

Principal strengths

The Directors attribute the Group's successful growth and development to the following principal factors:

- **Market focus on the banking and finance sector**

Since its establishment in 1988, the Group has targeted customers in the banking and finance sector, and the Directors believe that the Group's focus on building up its image as a leader in this sector will help the Group increase its market share in the future.

- **Strong and dedicated management team**

All of the executive Directors, with the exception of one, have more than 15 years of IT experience and have been working together since 1996 and have accumulated in-depth knowledge through their previous project engagements with major multinational banks and financial institutions in Hong Kong and overseas.

- **Reputable customer base**

Having served the banking and finance sector in Hong Kong for more than 10 years, the Group has built up a customer base which includes many large multinational and financial institutions in Hong Kong. This has generated repeated business, and has become a source of new business for the Group through referrals and references by such customers.

- **Established reputation and product recognition**

The Group has been established for over 10 years and has built a reputation in Hong Kong for delivering high quality enterprise software.

- **Technical expertise on the Internet**

The Group has developed technical expertise in a number of Internet-related technologies in the areas of software development, on-line security and e-commerce. Such skills and knowledge have enabled the Group to benefit from the growth of e-businesses in the Asia Pacific region.

- **A portfolio of valuable software assets**

Through research and development, the Group has developed a set of software frameworks which can be re-used from one software development project to another. This set of reusable frameworks will effectively shorten the development time of future enterprise software, and improve the quality of products developed. The enterprise software developed by the Group are multi-lingual, and a number of the enterprise software are also multi-channel (accessible through the Internet and mobile phones).

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● **Strategic alliance and partnership with reputable organisations**

The Group's Strategic Investors comprise the UOB Investors and wholly-owned subsidiaries of Cheung Kong and ChinaVest. The Group has entered into a joint venture with iBusiness Corporation to set up the ASP Business under the brandname "i21". The Group has also fostered close business relationships with many reputable corporations in the IT industry. The Directors believe that the Group will benefit from such close on-going relationships with shareholders and business partners since the Group can leverage off their industry expertise, market coverage and brand recognition in implementing its future business strategies.

Future business objectives

The Group's overall business objective is to be a leading business application solutions provider in the banking and finance sector in the Asia Pacific region. The Group has identified the following key strategies to achieve this goal:

- to continue its commitment to research and development in order to expand its range of products for the banking and finance sector and other sectors;
- to continue to form alliances with leading strategic and technology partners to aggressively implement the ASP and e-business solutions initiatives;
- to expand geographically by establishing regional operations, and in particular, to establish software development centres and distribution channels and networks for its products and services in the PRC and in Southeast Asia; and
- to strengthen its sales and marketing capabilities and organise and conduct joint marketing with branded computer product suppliers.

Further details of the Group's business strategies for the period until the end of 2002 are set out under "Statement of business objectives and strategies".

Use of proceeds of the Share Offer

The proceeds of the Share Offer, after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Share Offer, are estimated to be approximately HK\$188 million (on the basis that the Over-allotment Option is not exercised) based on an Offer Price of HK\$1.40. If the Over-allotment Option is exercised in full, the net proceeds based on such Offer Price will increase to approximately HK\$30 million. The Company currently intends to use the net proceeds of the Share Offer as follows:

- approximately HK\$40 million for the development of the ASP Business for the period until the end of year 2002;
- approximately HK\$20 million for the research and development of new enterprise software for the period until the end of year 2002;

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- approximately HK\$20 million for the geographical expansion of the Group into the PRC and Southeast Asia for the period until the end of year 2002;
- approximately HK\$10 million for setting up the e-Centre for the period until the end of year 2001;
- approximately HK\$10 million for marketing and promotional activities for the period until the end of year 2002;
- approximately HK\$50 million for acquisitions of and investments in companies and businesses which fit into the Group's business strategy for the period until the end of year 2000;
- the balance of approximately HK\$38 million for general working capital; and
- in the event the Over-allotment Option is exercised in full, the additional net proceeds (based on an Offer Price of HK\$1.40) of approximately HK\$30 million will be applied by the Group as additional general working capital.

To the extent that the net proceeds of the Share Offer are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in interest-bearing deposits with financial institutions. In the event there is to be any material modification to the use of proceeds as described above, the Company will issue an announcement of the change.

In the event the Offer Price is less than HK\$1.40, the net proceeds allocated in respect of working capital shall be reduced accordingly.

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Trading record

Summary of combined results of the Group

The table below sets out a summary of the combined results of the Company and its subsidiaries for each of the three years ended 31st December, 1999 as if the current Group structure had been in existence throughout such periods, based on the information included in the Accountants' Report as set out in Appendix I to this prospectus.

	Year ended 31st December,		
	1997	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(except per Share data)</i>		
Turnover (<i>Note 1</i>)			
Fixed price projects	25,477	26,438	39,097
Hardware and software resale	22,982	15,506	35,699
Time and material projects	27,723	30,988	20,575
Maintenance services	<u>944</u>	<u>2,052</u>	<u>2,700</u>
Total Turnover	77,126	74,984	98,071
Cost of computer hardware and software	<u>(18,373)</u>	<u>(17,773)</u>	<u>(43,623)</u>
	58,753	57,211	54,448
Other revenue	1,282	1,007	847
Other net income	11	—	108
Staff costs	(42,673)	(43,093)	(52,359)
Depreciation	(1,560)	(1,582)	(2,614)
Other operating expenses	<u>(13,722)</u>	<u>(10,485)</u>	<u>(10,749)</u>
Profit/(Loss) from operations	2,091	3,058	(10,319)
Finance costs	<u>(529)</u>	<u>(569)</u>	<u>(566)</u>
Profit/(Loss) from ordinary activities before taxation	1,562	2,489	(10,885)
Taxation	<u>(382)</u>	<u>(764)</u>	<u>227</u>
Profit/(Loss) for the year	<u>1,180</u>	<u>1,725</u>	<u>(10,658)</u>
Dividends	<u>—</u>	<u>—</u>	<u>(5,000)</u>
Basic and diluted earnings/(loss) per Share (<i>Note 2</i>)	<u>HK\$0.59</u>	<u>HK\$0.86</u>	<u>HK\$(5.33)</u>

Notes:

1. Turnover represents income from computer software sales, hardware and software resales and computer services rendered to customers during the year, net of returns and discounts allowed, after eliminating intra-Group transactions.
2. Based on 2,000,000 Shares (being the number of Shares in issue and outstanding prior to the conversion of the Convertible Notes), as if those Shares had been outstanding for each year presented.

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Profit forecast for the year ending 31st December, 2000

Forecast combined profit after taxation but

before extraordinary items (*Note 1*) not less than HK\$13 million

	Based on an Offer Price of HK\$1.35	Based on an Offer Price of HK\$1.40
Forecast earnings per Share		
(a) pro forma fully diluted (<i>Note 2</i>)	HK\$0.018	HK\$0.018
(b) weighted average (<i>Note 3</i>)	HK\$0.015	HK\$0.015

Share Offer statistics

	Based on an Offer Price of HK\$1.35	Based on an Offer Price of HK\$1.40
Market capitalisation (<i>Note 4</i>)	HK\$1,350 million	HK\$1,400 million
Estimated price/earnings multiple		
(a) pro forma fully diluted (<i>Note 5</i>)	75 times	78 times
(b) weighted average (<i>Note 6</i>)	90 times	93 times
Adjusted net tangible asset value per Share (<i>Note 7</i>)	HK\$0.29	HK\$0.30

Notes:

1. The bases and assumptions on which the forecast combined profit after taxation but before extraordinary items of the Group and forecast earnings per Share for the year ending 31st December, 2000 have been prepared are set out in Part 1 of Appendix II to this prospectus. The forecast combined profit after taxation but before extraordinary items includes the share of forecast loss in an associated company.
2. The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 2000 assuming that the Company had been listed since 1st January, 2000 and had a total of 1,000,000,000 Shares in issue during the year and which does not take into account potential Shares which would be in issue upon the issue and conversion of the Additional Convertible Note, any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, or 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 described under "Shareholders' resolutions of the Company passed on 16th June, 2000" in Appendix VI to this prospectus. The forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 2000 for the purposes of this calculation has been adjusted to take into account the interest income that would have been earned if the net proceeds from the Share Offer had been received on 1st January, 2000 and interest had been earned thereon at a rate of 5 per cent. per annum for the whole of the year.

SUMMARY OF THIS PROSPECTUS

3. The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 2000 and the weighted average number of approximately 858,557,892 Shares expected to be in issue during the year, but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or upon conversion of the Additional Convertible Note or 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 described under "Shareholders' resolutions of the Company passed on 16th June, 2000" in Appendix VI to this prospectus.
4. The market capitalisation of the Shares is based on 1,000,000,000 Shares in issue immediately after the completion of the Share Offer and the Capitalisation Issue but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or upon conversion of the Additional Convertible Note or 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 described under "Shareholders' resolutions of the Company passed on 16th June, 2000" in Appendix VI to this prospectus.
5. The forecast price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis for the year ending 31st December, 2000 of HK\$0.018 (based on an Offer Price of HK\$1.35) and HK\$0.018 (based on an Offer Price of HK\$1.40).
6. The forecast price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis for the year ending 31st December, 2000 of HK\$0.015 (based on an Offer Price of HK\$1.35) and HK\$0.015 (based on an Offer Price of HK\$1.40).
7. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to under "Financial information — Adjusted net tangible assets" and on the basis of an aggregate of 1,000,000,000 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 of any options which may be granted under the Share Option Scheme or upon conversion of the Additional Convertible Note or 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 described under "Shareholders' resolutions of the Company passed on 16th June, 2000" in Appendix VI to this prospectus. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value per Share and the pro forma fully diluted earnings per Share would be increased, while the weighted average earnings per Share would be decreased.

SUMMARY OF THIS PROSPECTUS

Substantial, Initial Management and Significant Shareholders, Strategic Investors and other existing shareholders of the Company

The Company was established as an exempted company on 21st January, 2000 under the laws of Bermuda. When the Company was established, Ms. Peggy Chan, the founder of the Group, held the entire issued share capital of the Company. The shareholding structure of the Company subsequently underwent certain changes, details of which are set out under “Further information about the Company — Transfer of Shares by controlling shareholder” in Appendix VI to this prospectus. The interests of the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders, the Significant Shareholders, the Strategic Investors and the other existing shareholders in the enlarged issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised), the cost at which they acquired their Shares and the relevant lock-up period (if any) are set out below:

Shareholders	Date of becoming a direct/indirect shareholder	Number of Shares (includes direct and indirect shareholding interest)	Approximate percentage of holding (includes direct and indirect shareholding interest) (%)	Lock-up period	Acquisition cost per Share <i>(Note 8)</i> <i>(HK\$)</i>	Total cost of acquisition <i>(HK\$)</i>
<i>Substantial Shareholders and Initial Management Shareholders</i>						
Ms. Peggy Chan <i>(Note 3)</i>	24th January, 2000	579,956,044	57.99	during the first six-month period following the Listing Date for 579,956,044 Shares <i>(Note 1)</i>	not applicable	not applicable
				during the second six-month period following the Listing Date for 350,000,000 Shares <i>(Note 2)</i>		
Passion <i>(Note 3)</i>	15th June, 2000	579,956,044	57.99	during the first six-month period following the Listing Date for 579,956,044 Shares <i>(Note 1)</i>	nominal	1
				during the second six-month period following the Listing Date for 350,000,000 Shares <i>(Note 2)</i>		

SUMMARY OF THIS PROSPECTUS

Shareholders	Date of becoming a direct/indirect shareholder	Number of Shares (includes direct and indirect shareholding interest)	Approximate percentage of holding (includes direct and indirect shareholding interest) (%)	Lock-up period	Acquisition cost per Share (Note 8) (HK\$)	Total cost of acquisition (HK\$)
<i>Initial Management Shareholders</i>						
Mr. Fung Din Chung, Rickie (Note 4)	15th June, 2000	24,559,498	2.46	during the six-month period following the Listing Date (Note 1)	nominal	1
Ms. Leung Lucy, Michele (Note 4)	15th June, 2000	24,559,498	2.46	during the six-month period following the Listing Date (Note 1)	not applicable (Note 4)	not applicable (Note 4)
Mossell (Note 4)	15th June, 2000	24,559,498	2.46	during the six-month period following the Listing Date (Note 1)	nominal	1
Mr. Ng Wai King, Steve (Note 4)	15th June, 2000	21,050,998	2.10	during the six-month period following the Listing Date (Note 1)	nominal	1
Mr. Ip Kim Kuen (Note 4)	15th June, 2000	1,403,400	0.14	during the six-month period following the Listing Date (Note 1)	nominal	1
<i>Significant Shareholders</i>						
Cheung Kong (Note 5)	15th June, 2000	71,969,151	7.20	during the six-month period following the Listing Date (Note 1)	not applicable (Note 5)	not applicable (Note 5)
Alps (Note 6)	15th June, 2000	71,969,151	7.20	during the six-month period following the Listing Date (Note 1)	0.71	51,282,000

SUMMARY OF THIS PROSPECTUS

Shareholders	Date of becoming a direct/indirect shareholder	Number of Shares (includes direct and indirect shareholding interest)	Approximate percentage of holding (includes direct and indirect shareholding interest) (%)	Lock-up period	Acquisition cost per Share (Note 8) (HK\$)	Total cost of acquisition (HK\$)
<i>Strategic Investors</i>						
UOB Investors (Note 6)	15th June, 2000	43,617,668	4.36	during the six-month period following the Listing Date (Note 1)	0.71	31,080,000
ChinaVest (Note 5)	15th June, 2000	32,713,251	3.27	during the six-month period following the Listing Date (Note 1)	not applicable (Note 5)	not applicable (Note 5)
CV Software Holdings (Note 6)	15th June, 2000	32,713,251	3.27	during the six-month period following the Listing Date (Note 1)	0.71	23,310,000
<i>Other shareholders of the Company</i>						
Other existing shareholders (Note 7)	23rd February, 2000	50,170,492	5.02	—	0.71	35,742,000

Notes:

- 1 Each of the Initial Management Shareholders, Significant Shareholders and Strategic Investors has undertaken with the Company, the Stock Exchange and (in the case of the Initial Management Shareholders) HSBC Investment Bank Asia that it/he/she will not dispose of any of its/his/her respective direct or indirect interest in the Company during the first six months after the Listing Date.
- 2 Each of Ms. Peggy Chan and Passion has undertaken to the Company, HSBC Investment Bank Asia and the Stock Exchange that she/it will not dispose of any of her/its direct or indirect interest in the Company during the second six-month period following the Listing Date so that they would together hold less than 35 per cent. of the issued share capital of the Company.
3. The indirect shareholding interest of Ms. Peggy Chan in the Company is held through Passion, a company wholly-owned by Ms. Peggy Chan. The shareholding interest of Passion represents Shares acquired from Ms. Peggy Chan on 15th June, 2000 and Shares to be received pursuant to the Capitalisation Issue.

SUMMARY OF THIS PROSPECTUS

4. Each of Mr. Fung Din Chung, Rickie, Ms. Leung Lucy, Michele, Mr. Ng Wai King, Steve and Mr. Ip Kim Kuen is an executive Director. The indirect shareholding interest of Ms. Leung Lucy, Michele in the Company is held through Mossell, a company wholly-owned by her. The shareholding interest of each of these executive Directors (in the case of Ms. Leung Lucy, Michele, through Mossell) represents Shares acquired from Ms. Peggy Chan on 15th June, 2000 and Shares to be received pursuant to the Capitalisation Issue.
5. The indirect shareholding interest of Cheung Kong in the Company is held through Alps, a wholly-owned subsidiary of Cheung Kong. The indirect shareholding interest of ChinaVest in the Company is held through CV Software Holdings, a wholly-owned subsidiary of ChinaVest.
6. On 2nd March, 2000, the Company issued the Convertible Notes with principal amounts of US\$6,600,000, US\$4,000,000 and US\$3,000,000 to Alps, the UOB Investors and CV Software Holdings, respectively. The direct shareholding interests of Alps, CV Software and the UOB Investors and the indirect shareholding interests of Cheung Kong and ChinaVest represent Shares acquired upon the full conversion of the Convertible Notes on 15th June, 2000 based on a conversion price of HK\$250 per Share and Shares to be received pursuant to the Capitalisation Issue.
7. The identities of the other existing shareholders and the shareholding interest to be held by each of them immediately following the completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option) are set out below:

Shareholder	Approximate percentage of holding (%)
Mr. Ting Kit Chung	0.70
Farrow Star Limited	0.70
Giant Wizard Corporation	0.70
DLS International Investment Limited	0.11
Supreme Star Holdings Limited	0.70
Suit Strong Investments Limited	1.40
Mr. So Kai Sing	0.71

The shareholding interest of each of the above-named shareholders represents Shares acquired from Ms. Peggy Chan on 23rd February, 2000 and Shares to be received pursuant to the Capitalisation Issue. Apart from their shareholding interest in the Company, each of the above-named shareholders is independent of the Company and its connected persons (as defined in the GEM Listing Rules).

8. The calculation of the acquisition cost per Share takes into account Shares which will be issued to the existing shareholders of the Company pursuant to the Capitalisation Issue.

SUMMARY OF THIS PROSPECTUS

Risk factors

The Directors consider that there are certain risks involved in investing in the Company. They can be categorised into: (i) risks relating to the business and operations of the Group and the industry, (ii) risks relating to political and economic considerations, and (iii) risks relating to the Share Offer and information contained in this prospectus. These risks factors are set out under the section “Risk factors” in this prospectus as follows:

Risks relating to the business and operations of the Group and the industry

- Risks related to the joint venture with iBusiness Corporation and non-competition undertaking in connection with the provision of ASP services
- Limited operating history of the ASP Business and unproven e-commerce business model
- Risks related to intellectual property rights and name of the Company
- Risks related to rapid technological change
- Competition
- Risks related to rapid growth and expansion
- Lack of long term contracts and diverse customer base
- Dependence on key executives and personnel
- Potential service and product liabilities
- Unpredictability of revenue and profitability
- Failure to accurately estimate the time and resources necessary for the performance of the Group’s services
- Risks associated with maintaining reputation and name recognition
- Reliance on the banking and finance sector
- Potential systems failures and disruptions
- Reliance on third party providers and business partners
- Risks associated with possible acquisitions
- Year 2000 compliance
- Reliance on Internet infrastructure
- Exposure to security risks associated with transacting business over the Internet

SUMMARY OF THIS PROSPECTUS

- Dependence on Internet as viable mass commercial marketplace
- Uncertain government regulations over conduct of business on the Internet

Risks relating to political and economic considerations

- Risks related to geographical expansion of operations
- Potential currency exchange rate risk
- Political and economic risks of doing business in Hong Kong

Risks relating to the Share Offer and information contained in this prospectus

- Possible differing interests of the Initial Management Shareholders and other shareholders
- Certain statistics derived from unofficial publications
- Potential future dilution of shareholders' interests
- Potential Share price volatility
- Possible deviation in use of proceeds from the Share Offer from the intended use

DEFINITIONS

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

“Additional Convertible Note”	the HK\$47,220,278 convertible note due 31st May, 2002 agreed to be issued by the Company to Alps on 15th June, 2000, details of which are set out under “Business — Additional Convertible Note” and the principal terms of which are set out in Appendix V to this prospectus
“Alps”	Alps Mountain Agent Limited, a wholly-owned subsidiary of Cheung Kong
“APS”	Application Processing System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”
“ASP Business”	the ASP business operated by i21 Limited, a joint venture company which is owned as to 37.5 per cent. by the Group and 62.5 per cent. by iService21 Holdings Limited, a wholly-owned subsidiary of iBusiness Corporation
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to under “Shareholders’ resolutions of the Company passed on 16th June, 2000” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person or persons admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“Cheung Kong”	Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong with its shares listed on the Main Board, details of which are set out under “Business — Strategic alliances”

DEFINITIONS

“ChinaVest”	ChinaVest V LP, a private equity investment company, details of which are set out under “Business — Strategic alliances”
“ChinaVest Group”	a series of investment funds managed by ChinaVest Limited, which include ChinaVest
“Cisco”	Cisco Systems (Hong Kong) Limited, a company that supplies data networking products to corporate enterprises and public wide area service provider markets, or where the context so requires, its associated or affiliated companies
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Excel Technology International Holdings Limited, a company incorporated in Bermuda on 21st January, 2000 with limited liability
“Compaq”	Compaq Computer Limited, a computer company that develops and markets hardware, software, solutions and services, or where the context so requires, its associated or affiliated companies
“Convertible Notes”	the US\$13.6 million non-interest bearing convertible notes due 2003 issued by the Company to the Strategic Investors on 2nd March, 2000 and which were fully converted into 422,688 Shares on 15th June, 2000
“CV Software Holdings”	CV Software Holdings Limited, a wholly-owned subsidiary of ChinaVest
“Designated Employees”	employees of the Group (140 in total) who have been granted options to purchase existing Shares from Passion under the Share Option Deeds
“Directors”	the directors of the Company
“Eastman Software Inc.”	Eastman Software Inc., a wholly-owned subsidiary of Eastman Kodak Company and a company that provides business process management solutions that feature workflow, imaging and enterprise report management (ERM) solutions, or where the context so requires, its associated or affiliated companies
“EDS”	Electronic Data Systems (Hong Kong) Limited, a company that offers systems and technology services, business process management, management consulting and electronic business

DEFINITIONS

“Employees’ Options”	the options granted by Passion to each of the Designated Employees under the Share Option Deeds, the details of which are set out under “Directors, senior management and staff”
“EZ-File”	Electronic Document Management System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“GEM Web-site”	http://www.hkgem.com , being the Internet web-site operated by the Stock Exchange for the purposes of GEM
“Greater China”	PRC, Taiwan and Hong Kong
“Group”	the Company and its subsidiaries or, when the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the Company’s present subsidiaries or the businesses operated by such subsidiaries or (as the case may be) their predecessors
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“HRMS”	Human Resources Management System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”
“HSBC”	The Hongkong and Shanghai Banking Corporation Limited
“HSBC Investment Bank Asia”	HSBC Investment Bank Asia Limited

DEFINITIONS

“Hutchison Global Crossing”	a joint venture company between Hutchison Whampoa Limited (whose shares are listed on the Main Board) and Global Crossing Ltd., which provides telecommunication, multimedia, data center, facility management and Internet-related services
“iBank”	Internet Banking System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”
“iBusiness Corporation”	iBusiness Corporation.com Limited, a joint venture between Cheung Kong, Hutchison Whampoa Limited, HSBC and Hang Seng Bank
“IBM”	International Business Machines Corporation, or where the context so requires, its associated or affiliated companies, whose business includes the creation, development and manufacture of information technologies computer systems, software, networking systems storage devices and microelectronics in the information technology industry
“IDC”	International Data Corporation, a company incorporated in Massachusetts, the United States, which provides information technology market research
“Industry Department”	the Industry Department of the Hong Kong government
“Initial Management Shareholders”	Ms. Peggy Chan, Passion, Mr. Fung Din Chung, Rickie, Ms. Leung Lucy, Michele, Mossell, Mr. Ng Wai King, Steve, and Mr. Ip Kim Kuen
“Insurance21”	Insurance Policy System, one of the enterprise software that the Group intends to develop or upgrade during the year 2000, details of which are set out under “Business — Enterprise software applications”
“InterTrade”	Integrated Securities Trading System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”
“IPO Pricing Date”	the date, expected to be on or around 23rd June, 2000 and which in any event will be on or before 27th June, 2000, on which the Offer Price is fixed for the purposes of the Share Offer
“Latest Practicable Date”	15th June, 2000 being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus
“Listing Date”	the date trading in the Shares commences on GEM

DEFINITIONS

“LMS”	Property Leasing Management System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”
“LOANS”	Loans Processing and Management System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”
“LOS”	Loans Origination System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”
“Lotus”	Lotus Development Software (HK) Ltd, a subsidiary of IBM
“Main Board”	the stock market operated by the Stock Exchange, which excludes GEM and the options market
“MBS”	Modular Banking System, one of the enterprise software that the Group intends to develop or upgrade during the year 2000, details of which are set out under “Business — Enterprise software applications”
“Microsoft”	Microsofts Hong Kong Limited, a company that develops, manufactures, licenses, sells and supports software products, or where the context so requires, its associated or affiliated companies
“Mossell”	Mossell Green Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Ms. Leung Lucy, Michele, who is one of the executive Directors
“Ms. Peggy Chan”	Zee Chan, Mei Chu Peggy, an executive Director
“Nasdaq”	the National Securities Dealers Automated Quotation in the US
“Offer Price”	the price per Offer Share (exclusive of brokerage and the Stock Exchange transaction levy) at which the Shares are to be subscribed and issued pursuant to the Share Offer, to be determined as described under “Structure of the Share Offer — Determining the Offer Price”
“Offer Shares”	the Placing Shares and the Public Offer Shares

DEFINITIONS

“Oracle”	Oracle Systems Hong Kong Limited, a company that supplies software for enterprise information management, database and relational servers, application development and division support tools, or where the context so requires, its associated or affiliated companies
“Over-allotment Option”	the option granted by the Company to the Underwriters exercisable by HSBC Investment Bank Asia (on behalf of the Underwriters) pursuant to the Underwriting Agreement under which the Company may be required to issue up to 22,500,000 additional new Shares, representing 15 per cent. of the Shares initially available under the Share Offer, to cover over-allocations in the Placing and/or over-subscriptions in the Public Offer
“Passion”	Passion Investment (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Ms. Peggy Chan
“Placing”	the placing of the Placing Shares for cash at the Offer Price with professional, institutional and other investors expected to have a sizeable demand for Shares and with full-time employees of the Group (excluding the Directors) on a preferential basis as to allocation only by the Placing Underwriters on behalf of the Company on and subject to the terms and conditions described in this prospectus and the placing letters relating thereto
“Placing Shares”	the 127,500,000 new Shares (subject to adjustment and reallocation) being offered pursuant to the Placing
“Placing Underwriters”	HSBC Investment Bank Asia, Bear Stearns Asia Limited, CEF Capital Limited, Advanced Partners Brokerage Limited, Cazenove Asia Limited, CLSA Limited and Vickers Ballas Capital Limited
“PRC” or “China”	the People’s Republic of China, which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan
“Public Offer”	the issue of the Public Offer Shares pursuant to an offer for subscription by the Company in Hong Kong on and subject to the terms and conditions described in this prospectus and the application forms relating thereto
“Public Offer Shares”	the 22,500,000 new Shares (subject to adjustment and reallocation) being offered at the Offer Price for subscription under the Public Offer

DEFINITIONS

“Public Offer Underwriters”	HSBC Investment Bank Asia, Bear Stearns Asia Limited, CEF Capital Limited, Advanced Partners Brokerage Limited, Cazenove Asia Limited, CLSA Limited and Vickers Ballas Capital Limited
“Qualified Institutional Buyer”	“qualified institutional buyer” within the meaning of Rule 144A
“Regulation S”	Regulation S under the US Securities Act
“Relevant Lock-up Period”	the period commencing on the date on which dealings in the Shares first commence on GEM and ending six months thereafter
“Relevant Securities”	the Company’s securities of the types listed in paragraphs (4)(a) to (4)(d) under Rule 13.15 of the GEM Listing Rules in respect of which the relevant Initial Management Shareholder, Significant Shareholder or Strategic Investor (as the case may be) is entitled to exercise or control the exercise of voting power at general meetings of the Company, and, in the case of Ms. Peggy Chan, includes Shares that may be re-transferred to her by the Directors as described under “Further information about the Company — Changes in share capital” in Appendix VI to this prospectus
“Reorganisation”	the reorganisation of the Group in preparation for the listing of the Shares on GEM, the details of which are set out under “Corporate reorganisation” in Appendix VI to this prospectus
“Rule 144A”	Rule 144A under the US Securities Act
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Share Offer”	the Placing and the Public Offer
“Share Option Deeds”	share option deeds executed by Passion in favour of the Designated Employees on 15th June, 2000, brief particulars of which are set out under “Directors, senior management and staff”
“Share Option Scheme”	the share option scheme conditionally approved by the shareholders of the Company for the granting of options to subscribe for Shares to full-time employees of the Group, details of which are set out under “Share Option Scheme” in Appendix VI to this prospectus
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Significant Shareholders”	Cheung Kong and Alps

DEFINITIONS

“Software Centre”	the Group’s software development centre in Hong Kong
“Stock Borrowing Agreement”	the stock borrowing agreement entered into on 19th June, 2000 between HSBC Investment Bank Asia and Passion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the same meaning as provided in section 2 of the Companies Ordinance
“Strategic Investors”	Cheung Kong (through Alps), ChinaVest (through CV Software Holdings) and the UOB Investors
“Sun Microsystems”	Sun Microsystems of California Limited, a subsidiary of Sun Microsystems Inc. and a company that provides products, services, and support solutions for building network computing environments and Internet infrastructure, or where the context so requires, its associated or affiliated companies
“Sybase”	Sybase Hong Kong Limited, a company that delivers end-to-end solutions for mobile and embedded computing, database management system, data warehousing and web computing environments, or where the context so requires, its associated or affiliated companies
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers as amended from time to time
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreement”	the underwriting and placing agreement dated 19th June, 2000 relating to the Share Offer entered into among the Company, the Underwriters and others named therein
“United States” or “US”	the United States of America
“UOB”	United Overseas Bank Limited, a company with its shares listed on the Singapore Stock Exchange, details of which are set out under “Business — Strategic alliances”
“UOB Investors”	UOB, UOB Venture Investments Limited, UOB Venture Investments II Limited and UOB Venture Technology Investments Limited
“US Securities Act”	the US Securities Act of 1933, as amended
“UTS”	Unit Trust System, one of the enterprise software that has been developed and implemented by the Group, details of which are set out under “Business — Enterprise software applications”

DEFINITIONS

“WTO”	World Trade Organisation
“HK\$” or “\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Renminbi”	Renminbi, the lawful currency of the PRC
“S\$” or “Singapore dollars”	Singapore dollars, the lawful currency of Singapore
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“sq.m.”	square metres
“sq.ft.”	square feet

GLOSSARY

The glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“applet”	a small application that runs on an Internet or Intranet workstation
“ASP”	application service provider, a service firm that provides a contractual service offering to deploy, host, manage and rent access to computer applications from a centrally managed facility
“AMS/3”	the third generation of the Automatic Order Matching & Execution System of the Stock Exchange
“BASIC”	Beginners All Purpose Symbolic Instruction Code
“B2B”	an e-commerce model whereby businesses transact with other businesses on-line
“B2C”	an e-commerce model whereby businesses transact with consumers on-line
“client/server”	a configuration in which one computer, designated as a server, communicates and interacts with a number of other computers known as clients
“COBOL”	Common Business Oriented Language, a high-level business programming language
“content”	information contained in a web-site
“CORBA”	Common Object Request Broker Architecture, a standard which provides a way to execute programmes written in any language no matter where they reside in the network or what platform they run on and allows a programme in one location to use a programme’s services in another
“cyber”	a prefix attached to words to add a computer, electronic or on-line connotation
“domain name”	the Internet name of a web-site which is registered with Network Solutions Inc.
“ERP”	Enterprise Resources Planning, being software developed to achieve company-wide integration of business and technical information with the aim of improving business processes, including both front office and back office functions

GLOSSARY

“e-business”	conducting business and business-related activities and processes over the Internet, including the automation of business processes, transaction of sales, optimisation of supply chains, improvements of operating efficiencies and management of customer service
“e-commerce”	electronic commerce utilising the Internet
“e-marketplace”	a web-site where buyers and sellers gather to, among other things, conduct e-commerce transactions, communicate, exchange ideas and advertise
“firewall”	a network node set up as a boundary to prevent traffic crossing from one segment to another
“framework”	the building blocks of an application
“Internet”	a combination of computer networks that communicate using the same protocols and that are connected to each other by circuits through which information providers can make information available to users globally
“Intranet”	a network internal to an enterprise that uses the same methodology and techniques as the Internet. An Intranet is not necessarily connected to the Internet and is commonly secured from it using firewalls. Intranets are often used in an organisation’s LANs or WANs
“ISP”	Internet service provider, a company that provides businesses and individuals with access to the Internet
“IT”	information technology
“Java”	a computing environment which enables the development of dynamic, interactive applications that can be distributed across the Internet/Intranet and run on any computing platform
“LAN”	local area network, a communications network that serves users within a confined geographical area
“legacy system”	a computer information system that has been in existence for a long time
“network”	the transmission channels interconnecting all client and server stations as well as all supporting hardware and software
“networking”	a technique for distributing data processing functions through communications facilities (the interconnection of two or more networks)

GLOSSARY

“NT”	New Technology, Windows NT is a 32-bit operating system that boots directly and includes built-in networking
“on-line”	being connected to the Internet or computer
“on-line community”	a collection of Internet users organised around topics in such a way that the users actively contribute to both the dialogue and content within the community
“outsourcing”	relying on external computer companies to support day-to-day computer operations
“PC”	personal computer
“platform”	a computing environment, made up of specific types of hardware and operating system, which allows the development and execution of computer applications
“portal”	an entry point and gateway for using the Internet that provides web-related services and links
“reusable framework”	the same unit of software infrastructure that can be used as a building block to develop different software applications
“scalable”	capable of being changed in size and configuration
“server”	a computer that provides services for users of a computer network such as a file server, print server or database server
“servlet”	a small application that runs on an Internet or Intranet server
“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
“SQA certification”	Systems Quality Assurance certification issued by the Productivity Council of Hong Kong
“systems integration”	a process to integrate different computers, networks, devices and application software packages together to provide a solution
“UNIX”	a multi-user, multi-tasking operating system
“vertical portal”	a narrow specialised portal focusing on a specific area of interest such as sports, travel or dining
“VisualBasic”	a version of BASIC from Microsoft specialised for Windows applications. User interfaces are developed by dragging objects from the VisualBasic toolbox onto the application form

GLOSSARY

“WAN”	wide area network, a communications network that covers a wide geographical area
“WAP”	wireless application protocol, an open, global specification that allows Internet access and other services on mobile wireless devices
“web” or “world wide web”	a worldwide network of servers that supports hypertext connections and other links using hypertext mark-up language and hypertext transfer protocol and which permits the communication of text, graphics, video, sound and other data over the Internet
“web-site”	a collection of web pages which are linked together by a web-site operator
“Windows”	a suite of PC operating system developed by Microsoft
“XML”	Extensible Markup Language, a document language designed for use on the web
“year 2000 problem”	also known as the millennium or Y2K bug, a problem in certain computer systems which use only two digits to represent the year, in that these systems may not function correctly in the year 2000 and beyond as they cannot distinguish between, for example, 1st January, 1900 and 1st January, 2000

RISK FACTORS

Prospective investors of the Offer Shares should consider carefully all the information set out in this prospectus and, in particular, should evaluate the following risks in connection with any investment in the Company, certain of which may not be typically associated with investing in equity securities of companies in Hong Kong or other economically advanced jurisdictions.

RISKS RELATING TO THE BUSINESS AND OPERATIONS OF THE GROUP AND THE INDUSTRY

Risks related to the joint venture with iBusiness Corporation and non-competition undertaking in connection with the provision of ASP services

The ASP Business is conducted through i21 Limited, a joint venture owned as to 37.5 per cent. by the Group and 62.5 per cent. by a wholly-owned subsidiary of iBusiness Corporation. Pursuant to the joint venture agreement, the Group will make available its suite of enterprise software to and allow the use of its infrastructure of technology development platform and technology knowhow by i21 Limited. Co-operation between the Group and iBusiness Corporation on existing and future business decisions is an important factor for the sound operation and financial success of the ASP Business. The joint venture may involve special risks associated with the possibility that iBusiness Corporation may (i) have interests or goals that are inconsistent with those of the Group, (ii) take actions contrary to the instructions, requests, policies or objectives of the Group, and (iii) be unwilling or unable to fulfil its obligations relating to the joint venture. Although the Directors expect that the Group will be responsible for the day-to-day operation of the ASP Business, the Company, as an indirect minority shareholder in the joint venture, is not able to control the decision making process at the board or shareholders level. In addition, any disputes between them over the joint venture could affect the operations and financial results of the ASP Business.

Either the Group or iBusiness Corporation may terminate the joint venture if the other party fails to meet its obligations. In such a situation, the non-defaulting party will have the right to purchase all of the shares of the defaulting party in i21 Limited within three months of the date of default at a price of 65 per cent. of the fair value thereof as determined by the auditors of the Company. The joint venture agreement includes a non-competition provision to the effect that if at any time when the Company is a shareholder in i21 Limited or within 12 months after the Company ceases to be a shareholder of i21 Limited, the Company shall not, in any country or place, carry on or be engaged, concerned or interested directly or indirectly in carrying on any business carried on by i21 Limited then or within one year prior to the date of such cessation. Therefore, termination of the joint venture may adversely affect the prospects of the ASP Business, which could have a material adverse effect on the Group's reputation and business.

Limited operating history of the ASP Business and unproven e-commerce business model

The launch of the ASP Business was only recently announced in March, 2000 and the strategy in connection with the ASP Business and the Group's e-commerce initiatives is unproven. The potential of the ASP Business and other e-commerce initiatives must be assessed in light of the risks and uncertainties associated with developing a new line of business, many of which may be beyond the Group's and/or its partners' control. In addition,

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since the information technology and Internet markets are new and rapidly evolving, companies competing in them may face additional uncertainties not faced by companies operating in more established market segments. There can be no assurance that the Group will be successful in meeting the challenges and addressing the risks and uncertainties that will be faced by it. Failure by the Group to do so may have a material adverse effect on the Group's results of operations.

In particular, the business model of the ASP Business is relatively new and although it offers significant growth opportunities, it also faces challenges associated with emerging industries. ASPs will face off-line substitutes in the form of legacy systems, non-networked PC-based systems as well as conventionally networked enterprise applications. Potential customers may have direct channels to other software suppliers and legacy systems and prefer to continue with their existing systems and relationships. As a result, they may be reluctant to adopt the services provided by the ASP Business because of their comfort with the status quo, security and privacy concerns or general reticence about technology or the Internet. In addition, there may be a large number of companies who will seek to take advantage of businesses' increased demands for Internet applications and services. ASPs may also face competition from data centres and ISPs, as well as more traditional hardware and software companies who form strategic partnerships to offer similar services. For the above reasons, there can be no assurance that the ASP Business will succeed and failure of the ASP Business may affect the Group's reputation and financial condition.

Risks related to intellectual property rights and name of the Company

The Group relies on a combination of nondisclosure, confidentiality and other contractual agreements with its directors, employees and other third parties, as well as privacy and trade secret laws, to protect and limit access to and distribution of intellectual property the Group has developed or acquired. In addition, the Group's software requires specific customisation according to the particular needs of its customers and this therefore reduces the likelihood that the Group's software will be pirated. However, given that the Group is operating in the IT industry, it may be possible that the Group will have to litigate to enforce or protect the intellectual property rights of the Group, including copyright, trade marks, service marks, or to determine the validity and scope of the proprietary rights of others, which could result in substantial costs and diversion of the Group's resources. In addition, if the Group is unable to establish or protect these rights in the domestic and international markets in which the Group competes, its competitors may be able to use the intellectual property of the Group to compete against the Group in such markets. The Group cannot be certain that the steps it has taken to protect its intellectual property rights will be adequate or that third parties will not infringe or misappropriate its proprietary rights. Any infringement or misappropriation could have a material adverse effect on its business.

The Group has been using the "Excel" mark in Hong Kong since 1988 in relation to IT consultancy services. The Company applied for the registration of the trade marks "志鴻" and "Excel" in Hong Kong under classes 9, 35 and 42 on 24th February, 2000, "Excel 志鴻" in Hong Kong under classes 37 and 41 on 28th April, 2000, and the trade marks "志鴻" and "Excel" in Singapore under classes 9, 35 and 42 on 8th March, 2000. Currently, the Directors are aware that two companies in the United States have a name or product bearing reference to "Excel" which may be confused with the Company. Excel Technology Inc., a Nasdaq listed company incorporated under Delaware law, designs, develops, manufactures and markets laser systems and electro-optical components for industry, science and medicine. In addition,

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Microsoft Inc. has been producing a spreadsheet software under the mark “Excel”. The search of the Trade Mark Registry in Hong Kong conducted in January, 2000 did not disclose any trade mark applications or registrations for the word “Excel” in Hong Kong in the name of Microsoft Inc. or Excel Technology Inc. The Company is not in any way related to the above-mentioned companies or product, is not aware of any instances of confusion arising due to the use by the Group of the “Excel” mark, and has not received any complaint from either of the said companies or any other parties about the use of the word “Excel” as the name and trade mark of the Company. Should a complaint arise, the Company will vigorously defend its right to the use of the word “Excel” as part of its name and trade mark. The Company realises that if it were unsuccessful in its defence, it could face an award of damages and legal costs and restrictions on its ability to use “Excel Technology” or “Excel” as its name or trade mark. In addition, any such defence would result in the diversion of resources, which could, regardless of the merit of any such complaint, or the outcome of any litigation in respect thereof, have a material adverse effect on the financial condition and results of operations of the Group.

Risks related to rapid technological change

The markets in which the Group operates are characterised by rapidly changing technology, evolving industry standards, frequent new service and product announcements, introductions and enhancements and changing customer demands. These market characteristics are exacerbated by the emerging nature of the Internet and the growing tendency for web-based products and services for a multitude of industries to be provided through the Internet. Accordingly, the Group’s future success will depend on its ability to adapt to rapidly changing technologies, to adapt its services to evolving industry standards and continually to improve the performance, features and reliability of its products and services in response to competitive service and product offerings and evolving demands of the market place. Failure of the Group to adapt to such changes could have a material adverse effect on the Group’s business.

In addition, the adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditure by the Group to modify or adapt its products and services, which could have a material adverse effect on the Group’s business.

Competition

The markets for software applications and services and Internet-based software services are highly competitive and are characterised by an increasing number of entrants that have introduced or developed products and services similar to those offered by the Group. The Group competes with Hong Kong and international vendors or service providers, and as the Group expands its geographical coverage outside Hong Kong, it will also have to compete with other local and international vendors or service providers. The Group’s competitors (including potential competitors) may have substantially greater resources, larger customer bases, greater name recognition and more established relationships than the Group. As a result, these competitors may be able to adapt to new or emerging technologies and changes in customer requirements more quickly, take advantage of business opportunities more readily, devote greater resources to the marketing and sale of their products and services and adopt more aggressive pricing policies than the Group. This intense competition may limit the profitability of the Group or result in a loss in the Group’s market share.

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The introduction of new technologies may also increase the competitive pressures on the Group by, for example, enabling the Group's competitors to offer a lower-cost product or service.

Risks related to rapid growth and expansion

The Group is currently undergoing a phase of expansion and intends to continue to grow its business in terms of geographical coverage, products portfolio, distribution channels, facilities and headcount. The Group has entered and may in the future continue to enter into strategic alliances and other business relationships with one or more of its Strategic Investors and other third parties. Such expansion may place a significant strain on the Group's management, operational and financial resources.

In particular, the Group believes that the promotion and continuous strengthening of the ASP Business and the Group's e-business services is critical to achieving widespread acceptance of such services and customer loyalty. Competition from other ASPs and content providers increases the importance of establishing and maintaining recognition of the ASP Business and the Group's e-business services which in turn will depend largely on the success of marketing efforts and the ability to provide high quality products and services that can effectively make use of the Internet as the communication medium. In order to achieve this, the Group may need to significantly increase its research and development and marketing budget and otherwise increase its financial commitment.

There can be no assurance that the Group will be successful in generating sufficient cash from sales of products and services or in raising capital in sufficient amounts in a timely manner and on terms acceptable to it for implementing the Group's expansion plans. There can also be no assurance that the Group's current and planned personnel, systems, procedures and controls will be adequate to support the Group's future operations, that management will be able to hire, train, retain, motivate and manage required personnel or that the Group's management will be able to identify, manage and exploit existing and potential strategic relationships and market opportunities. The various growth initiatives may or may not yield increased revenue that will offset the expenses incurred by the Group. The failure of the Group to manage growth effectively could have a material adverse effect on the Group's business.

Lack of long term contracts and diverse customer base

The Group's revenues are primarily derived from fees for services rendered (including on a project-by-project basis), rather than from long term contracts. Historically, the Group's revenue has been derived from a limited number of customers that use the Group's products and services and the Group expects that a limited number of customers may continue to account for significant percentage of its revenue for the foreseeable future. The Group's top five customers accounted for about 40 per cent. of the Group's turnover for each of the two years ended 31st December, 1998 and 1999, respectively. Customers purchase the Group's products and services on an order-by-order basis and are not obliged to choose to work with the Group on future projects. The absence of long term contracts creates uncertainty as to future revenue streams. To the extent that the Group is unable to add new major customers or secure new engagements with existing customers, the Group's business will be materially adversely affected.

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Dependence on key executives and personnel

The Group's performance depends to a significant extent on the continued services and performance 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 employees. The Group does not have employment agreements in excess of three years with any of its executive Directors and such agreements are terminable upon not less than six months' advance notice, and employment agreements with senior management are terminable upon two months' advance notice.

In addition, the Group will need to recruit additional personnel to achieve its planned expansion. Competition for employees with the necessary experience and expertise in the IT industry is intense and is expected to increase, and the Group may not be able to retain existing employees or identify and recruit new employees because of such competition. The failure of the Group to recruit and retain the necessary personnel, or the loss of the services of any of its key personnel, could have a material adverse effect on the Group's business.

Potential service and product liabilities

Many of the solutions and software applications the Group develops are critical to the operations of its customers' businesses. Any defects or errors in these solutions and software applications could result in delayed or lost customer revenues, adverse customer reaction toward the Group, negative publicity, additional expenditures to correct the problems and claims against the Group.

The Group usually negotiates with its customers to include contract provisions limiting its liabilities arising from negligent conduct in rendering its products and services. Such exemption clauses, however, may not be completely effective in protecting the Group from liability for damages. The Group currently does not carry any product or service liability insurance.

Unpredictability of revenue and profitability

As a result of the nature of the markets in which the Group competes, the Directors believe that period-to-period comparisons of results of operations are not necessarily meaningful. Also, it is difficult to forecast the Group's periodic results due to the difficulty in predicting the amount and timing of customer expenditures and the success of the ventures and businesses entered into by the Group. The Group's results of operations may also fluctuate significantly in the future as a result of a variety of factors, many of which are beyond its control. Investors should not rely on the results of any one period as an indication of the Group's future performance. If in some future period the Group's results of operations were to fall below the expectations of securities analysts and investors, the trading price of the Shares would likely decline.

In particular, the Group enters into projects which vary in size and scope. A customer that accounts for a significant portion of the Group's revenues from its IT consultancy and systems integration business in one period may not generate a similar amount of revenues, if any, in subsequent periods. A decrease in the number or size of the Group's projects from period to period may adversely affect the results of operations of the Group. This risk also applies to sales of enterprise software.

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Failure to accurately estimate the time and resources necessary for the performance of the Group's services

Over 30 per cent. of the Group's turnover in each of the three years ended 31st December, 1999 was generated from fixed price contracts, and not on a time-and-material basis. If the Group fails to estimate accurately the resources and time required for an engagement, to manage customer expectations effectively or to complete fixed price engagements within the budget, on time and to customer expectations, the Group would be exposed to costs overruns, potentially leading to losses on these engagements and to customer dissatisfaction which could impair its ability to win future work from the customers and other potential customers.

Risks associated with maintaining reputation and name recognition

The Directors believe that establishing and maintaining a good reputation and name recognition is critical for attracting and expanding the Group's targeted customer base. The Directors also believe that the importance of reputation and name recognition will increase due to the growing number of professional Internet solutions providers. Promotion and enhancement of the Group's name will depend largely on its success in continuing to provide high quality products and services, which cannot be guaranteed. If customers do not perceive the Group's products and services to be effective or of high quality, its brand name and reputation could be materially adversely affected.

Reliance on the banking and finance sector

The principal focus of the Group's business is the banking and finance sector. This sector is the Group's biggest customer and consequently, the Group's operating results depend largely on continued sales to it. The banking and finance sector accounted for approximately 66 per cent. of the Group's net sales for 1999.

The banking and finance sector is one which is inextricably linked with the economic cycle and the Asian region recently experienced an economic downturn. The Hong Kong banking and finance sector is also deeply connected with the state of the international banking and finance sector due to the significant presence of leading financial institutions in Hong Kong and the international operations of Hong Kong financial institutions. There can be no assurance that any future adverse fluctuations in the Asian or world markets which leads to a recession or further consolidation of the banking and finance sector would not have an adverse impact on the Group's operations and financial condition.

The Group's business is likely to continue to depend in the foreseeable future on the banking and finance sector as its biggest customer. In the event that this sector's need for the services and products provided by the Group were to significantly lessen or if the Group's competitors were to capture the application software products market for the banking and finance sector, this may have a material adverse effect on the Group's operations and financial condition.

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Potential systems failures and disruptions

The performance of the ASP hardware and software infrastructure is critical to the ability of the ASP Business to process transactions, provide high quality service and attract and retain customers and strategic partners. The Group's IT systems and facilities are situated in three different locations, and the systems and facilities at one of the locations are therefore able to provide back-up for the systems and facilities situated at the other two locations. Currently, infrastructure and systems of the ASP Business are located at one site in Hong Kong. Pursuant to a memorandum of understanding entered into by i21 Limited as further described under "Business — The ASP Business — Strategic alliances", it is contemplated that the back-up for the ASP Business will be provided by facilities management provider Hutchison Global Crossing. Nevertheless, any disruption to this infrastructure and to the Group's general operating systems resulting from a natural disaster or other event could result in an interruption in service, fewer transactions and, if sustained or repeated, could impair the reputation and the attractiveness of the products and services offered by the Group and the ASP Business.

Reliance on third party providers and business partners

The Group depends on third party suppliers of hardware and (to a lesser extent) software components, in particular, in connection with its IT consultancy and systems integration business and the ASP Business. The ASP Business relies on business partners and on other third parties for the provision of hardware and software infrastructure, networking support and facilities management services, and the ability of the ASP Business to deliver a quality service also depends on the performance of such business partners. The Group is an authorised reseller of a number of brandname IT products. The resale of IT products often comes as part of a systems integration project in which the Group is appointed to provide an integrated solution, involving the use and bundling of the Group's enterprise software as well as the brandname IT products. If the authorised reseller status of the Group were terminated, or should there be any failure of the Group's suppliers to satisfy the requirement for software and hardware infrastructure in relation to the ASP Business, it could affect the operating efficiency and results of operations of the Group and impair the Group's ability to execute its strategies and business objectives. This is particularly so if the Group were unable to identify alternative sources of supply for such software and hardware components.

The Group's e-commerce initiatives (including its joint venture with iBusiness Corporation to operate the ASP Business) are dependent upon ISPs and telecom carriers, some of which may have experienced significant system failures and electrical outages in the past. Users of the services offered by the Group and the ASP Business may in the future experience difficulties due to system failures unrelated to the systems and services of the Group. Any system failure or inadequacy that causes interruptions in the availability of services, or increases the response time, could reduce user satisfaction and the attractiveness of the services to customers and may result in potential liabilities to such customers.

Risks associated with possible acquisitions

The Group may pursue potential acquisitions of businesses, products and technologies that could complement or expand the Group's business. There can be no assurance that the Group will be able to identify any appropriate acquisition candidates. Even if the Group is able to identify an acquisition candidate, there can be no assurance that the Group will be able to

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successfully negotiate the terms of any such acquisition, finance such acquisition or integrate such acquired business, products or technologies into the Group's existing business and products. Furthermore, the negotiation of potential acquisitions as well as the integration of an acquired business may cause diversion of management's time and resources, and require the Group to use proceeds from the Share Offer to consummate a potential acquisition. There can be no assurance that a given potential acquisition, whether or not consummated, would not have a material adverse effect on the Group's business, financial condition and results of operations. If the Company consummates one or more significant acquisitions the consideration of which consists of Shares, shareholders could suffer dilution of their ownership interests in the Company.

Year 2000 compliance

The Directors believe that the Group's internal software and hardware systems will function properly with respect to dates in the year 2000 and thereafter. However, certain problems could arise during this year and future periods which have yet to become apparent.

The Group has verified that its enterprise software are year 2000 compliant. Although the Group does not warrant the compliance of third party software and hardware, the Group has given year 2000 warranties in respect of the software applications that it developed. There is therefore a risk that customers for whom the Group has created, implemented or reviewed software or systems will attempt to hold the Group liable for any damages that may result in connection with year 2000 problems with such software or systems. There can be no assurance that such actions against the Group would not adversely affect the Group's business, operating results and financial condition.

There is no assurance that other web applications, database software or computer hardware of the Group's customers which interface with the Group's products (and which may be necessary in order to use the Group's products) are year 2000 compliant. Therefore, there can also be no assurance that implementations of the Group's products on its customers' systems are year 2000 compliant.

Reliance on Internet infrastructure

The business of the Group will rely to a certain extent on the Internet infrastructure. If Internet usage continues to grow rapidly, the infrastructure of the Internet may be unable to support the demands of the ASP Business and the Group's Internet-enabled enterprise software and e-commerce initiatives. If the existing or potential customers of the Group's services experience frequent outages or delays on the Internet, the adoption or use of the ASP Business and the Group's Internet-enabled enterprise software and e-commerce initiatives may grow more slowly than it expects or even decline. The Group's ability to increase the reliability of the ASP Business and its Internet-enabled enterprise software and e-commerce initiatives is limited by and depends upon the reliability of both the Internet and the internal networks of its existing and potential customers. As a result, if improvements in the infrastructure supporting both the Internet and the internal networks of customers are not made in a timely fashion, the Group may have difficulty in obtaining new customers, or maintaining its existing customers, either of which could reduce its potential revenues and have a negative impact on its business.

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Exposure to security risks associated with transacting business over the Internet

The secure transmission of confidential information over the Internet is essential to maintaining customer confidence in the ASP Business and the Group's Internet-enabled enterprise software and e-commerce initiatives. Customers generally are concerned with security and privacy on the Internet and any publicised security problems could inhibit the growth of the Internet, and therefore the growth of the ASP Business, the Group's Internet-enabled enterprise software business and e-commerce initiatives. A party that is able to circumvent the security systems of the Group or the ASP Business could misappropriate proprietary information or cause interruptions or disruptions to the services provided. The Group will continue to implement measures to protect itself against the threat of, and to remedy, security breaches and its consequences. Despite the implementation of security measures, the ASP Business and the Group's Internet-enabled software and e-commerce initiatives may be vulnerable to unauthorised or illegal access, computer viruses and other disruptive problems. Eliminating these problems may require interruptions, delays or cessation of service to customers. Security breaches may also damage the Group's reputation and expose it to a risk of loss or litigation and possible liability. If any such compromise of the Group's security were to occur, it could negatively affect the Group's business.

Dependence on the Internet as viable mass commercial marketplace

The financial prospects of the Group's Internet-enabled enterprise software, the ASP Business and the Group's e-commerce initiatives are, in part, dependent on the anticipated expansion of e-commerce. The ability to generate and maintain significant revenues from such operations and initiatives not only depends on the Group's ability to attract businesses to such products and services, but also on the Internet gaining public acceptance as a medium through which to transact.

The Internet may not prove to be a viable mass commercial marketplace for a number of reasons, including public distrust due to concerns over the reliability of the Internet as a communication and transaction medium, concerns over privacy, legal, regulatory and taxation issues, and inconsistent quality of service. There can be no assurance that the Group will be able to successfully establish an e-commerce model that will be accepted as a medium through which business is conducted. Failure to establish such a model could have a material adverse effect on the Group's e-commerce business.

Uncertain government regulations over conduct of business on the Internet

The application of existing laws to the Internet and Internet-related applications is uncertain and as a result is being clarified and refined around the world. The vast majority of relevant laws were adopted prior to the advent of the Internet and related technologies and, as a result, do not contemplate or address the unique issues presented by the Internet and related technologies. Such laws relate to issues such as freedom of expression, content and quality of products and services, property ownership, copyright and other intellectual property issues, taxation, security and personal privacy. In addition, in many jurisdictions, new legislative and regulatory proposals applicable to the Internet are under consideration.

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The adoption of laws or regulations in relation to any such issues could decrease the rate of growth of Internet use, which in turn could decrease the demand for the Group's products and services or increase the cost of doing business. There can be no assurance that any state or country will not introduce legislation or regulations in the future in relation to these or other issues, in such a way that would not have a material adverse effect on the Group's Internet related businesses.

RISKS RELATING TO POLITICAL AND ECONOMIC CONSIDERATIONS

Risks related to geographical expansion of operations

The Group plans to expand its operations into the PRC and countries in Southeast Asia with the objective of enhancing the Group's revenue growth, operations and profitability. The planned expansion of the operations of the Group into other countries including the PRC could expose the business of the Group to a number of risks including unexpected changes in regulatory requirements, potentially adverse tax and regulatory consequences, export and import restrictions and controls, tariffs and other trade barriers and political instability and fluctuations in currency exchange rates. In addition, the planned expansion may result in significant capital expenditures by the Group which may or may not be recoverable, and may divert management's attention from other business concerns.

The development of the Internet and related technologies is at an even earlier stage in the PRC than in many other jurisdictions. In addition, the PRC government has issued and is considering imposing further restrictions on the flow of information over the Internet.

There can be no assurance that the PRC government will not seek to control or regulate the proposed business activities which the Group expects to seek to carry on in the PRC. In addition, there can be no assurance that one or more of the factors discussed above will not have a material adverse effect on the Group's future PRC operations and, consequently, on the Group's business.

Potential currency exchange rate risk

Historically, apart from the Convertible Notes which have already been converted into Shares, substantially all revenues, expenses and liabilities of the Group have been denominated in HK dollars. The Directors therefore do not consider that the Group was significantly exposed to any foreign currency exchange risk. In the future, the Group may conduct business in additional jurisdictions which could generate revenues, expenses and liabilities in other currencies. As a result, the Group will be subject to the effects of exchange rate fluctuations with respect to any of these currencies. Future exchange rate fluctuations could have a material adverse effect on the business and financial condition of the Group. The Group does not have immediate plans to enter into agreements or purchase instruments to hedge its potential exchange rate risks.

Political and economic risks of doing business in Hong Kong

Substantially all of the operations of the Group are currently in Hong Kong. Hong Kong is a special administrative region of the PRC with its own government and legislature. Under

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the Basic Law, Hong Kong is entitled to a high degree of autonomy from the PRC under the principle of “one country, two systems”. However, there can be no assurance that Hong Kong will continue to enjoy its current level of autonomy from the PRC, and if it does not, this could have a material adverse effect on the Group’s business.

As a result of the Asian crisis in mid-1997, interest rates in Hong Kong rose significantly, real estate values and retail sales declined and the Hong Kong economy went into recession until the second quarter of 1999. The Hong Kong dollar was subject to currency speculation in 1998 and the Hong Kong government supported the market for the Hong Kong dollar, both directly and indirectly through the purchase of securities listed on the Stock Exchange in 1998. There can be no assurance that such economic factors will not recur. Recurrence of recession in Hong Kong and deflation could materially and adversely affect the business, financial condition and results of operations of the Group.

RISKS RELATING TO THE SHARE OFFER AND INFORMATION CONTAINED IN THIS PROSPECTUS

Possible differing interests of the Initial Management Shareholders and other shareholders

Upon completion of the Share Offer and the Capitalisation Issue and on the assumption that the Over-allotment Option is not exercised, the Initial Management Shareholders will control approximately 65.15 per cent. of the enlarged issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue (based on the offer of initially 150,000,000 Shares). Accordingly, the Initial Management Shareholders will have significant influence in determining the outcome of any corporate transaction or other matter submitted to shareholders for approval, including mergers, consolidations and sale of all or substantially all of its assets, and will have the power to prevent or cause a change in control. The interests of the Initial Management Shareholders may differ from the interests of the other shareholders.

Certain statistics derived from unofficial publications

Certain statistics in this prospectus relating to the IT industry, such as statistics relating to spending on software and services to support e-commerce and e-commerce revenues, are derived from various unofficial publications, in particular, those produced by IDC. Such information has not been independently verified by the Group and may be not accurate, complete or up-to-date. The Group makes no representation as to the correctness or accuracy of such statements and, accordingly, such information should not be unduly relied upon.

Potential future dilution of shareholders’ interests

As the Group is engaged in information technology and Internet-related businesses which are experiencing rapid growth, it is anticipated that funding may be required from time to time to finance the expansion of the business and operations of the Group. As opportunities arise, the Directors will consider the funding options available to them at the time, which may include

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the issue of Shares by the Company. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing shareholders, the percentage ownership of the shareholders of the Company may be reduced, shareholders may experience subsequent dilution and/or such securities may have rights, preferences and privileges senior to those of the Shares. Furthermore, subject to relevant legal and regulatory obligations, the Company may consider listing the Shares with or without a follow-on offering, or spin-off its subsidiaries or assets for the purpose of obtaining a listing on another stock exchange if an appropriate opportunity arises and the Directors consider such listing and/or spin-off to be in the best interest of the Group. Any such action may also potentially dilute the interests of shareholders of the Company in the Group.

Potential Share price volatility

Prior to the Share Offer, there has been no public market for any of the Shares. An active public market for the Shares may not develop or be sustained after the Share Offer. Although the Offer Price was determined based on several considerations, the market price after the Share Offer may fluctuate significantly in response to a number of factors, some of which are beyond the Group's control, including:

- changes in estimates of the Group's financial performance by securities analysts, newspaper and other media reports;
- changes in market valuation of IT business application solution providers in general and investor perceptions of the Group and its products and services in particular;
- stock market price and volume fluctuations;
- announcements of technological innovations or new services by the Group or its competitors;
- announcements by the Group or its competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments and loss of a major strategic partner by the Group or its competitors;
- additions or departures of key personnel;
- changes in pricing made by the Group, its competitors or providers of alternative services;
- release of lock-up or other transfer restrictions on the Group's outstanding Shares or issuance of additional Shares;
- potential litigation; and
- general economic and other factors.

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Possible deviation in use of proceeds from the Share Offer from the intended use

The intended use of the proceeds from the Share Offer is set out under “Statement of business objectives and strategies — Use of proceeds of the Share Offer”. It is the Directors’ current intention to apply the net proceeds from the Share Offer in the manner as described in the aforesaid section. However, as new business opportunities arise or as unforeseen events occur, the Directors may (if they consider it to be in the best interests of the Group) reallocate all or part of the net proceeds to other business plans or new projects or to other uses or hold such funds in bank accounts or short term securities, so that the actual application of the proceeds from the Share Offer may deviate from the intended use as described in this prospectus. In addition, the business plan of the Group as described under “Statement of business objectives and strategies” is 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. The Company will issue an announcement in the event there is a material deviation in the use of the Share Offer proceeds from the intended use as described in this prospectus.

WAIVERS IN RESPECT OF THE GEM LISTING RULES

GEM LISTING RULES WAIVERS

For the purpose of the listing of the Shares on the GEM, the Company has sought a number of waivers from the Stock Exchange in relation to certain requirements under the GEM Listing Rules. Details of such waivers are described below.

Waiver on Share disposal restriction

The GEM Listing Rules require every initial management shareholder of a listing applicant to undertake to the listing applicant and the Stock Exchange not, for a period of 2 years from the listing date, save as provided in Rule 13.17 of the GEM Listing Rules, 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.

For the purpose of the listing of the Shares on GEM, the Company has sought certain waivers from the Stock Exchange in relation to certain requirements under the GEM Listing Rules.

Pursuant to Rule 13.16(2) of the GEM Listing Rules, the Company shall procure, inter alia, that each of the Initial Management Shareholders undertakes to the Company and the Stock Exchange that, for a period of 2 years from the Listing Date, he/she/it will not, save as provided in Rule 13.17, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her/its direct or indirect interest in relevant securities. The Company has applied to, and has obtained from, the Stock Exchange for a waiver from strict compliance with Rule 13.16(2) of the GEM Listing Rules to reduce the 2-year lock-up period imposed on each of the Initial Management Shareholders to a 6-month lock-up period subject to the conditions that neither Ms. Peggy Chan nor Passion is allowed to dispose of any relevant securities in the second 6-month period after listing if such disposal would result in she and it together ceasing to have control over 35 per cent. of the voting rights at general meetings of the Company.

An Over-allotment Option has been granted by the Company to the Underwriters exercisable by HSBC Investment Bank Asia on their behalf. Details of the Over-allotment Option are set out under “Structure of the Share Offer — Over-allotment Option”. On 19th June, 2000, Passion and HSBC Investment Bank Asia entered into the Stock Borrowing Agreement, pursuant to which Passion shall upon request by HSBC Investment Bank Asia lend up to 22,500,000 Shares, representing 15 per cent. of the Offer Shares, to HSBC Investment Bank Asia for the purpose of settling over-allocations under the Placing and/or over-subscriptions in the Public Offer, which Shares shall be returned to Passion and deposited with the escrow agent not later than three business days following the last day of the exercise of the Over-allotment Option or the date on which the Over-allotment Option is exercised in full, whichever is the earlier. Further particulars of such stock borrowing arrangement are set out under “Structure of the Share Offer — Over-allotment Option”.

WAIVERS IN RESPECT OF THE GEM LISTING RULES

The Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 13.16(2) of the GEM Listing Rules to allow Ms. Peggy Chan and Passion to dispose of their interest in the Company during the lock-up period as may be prescribed by the GEM Listing Rules at the time of listing of the Shares where such disposal is made pursuant to the Stock Borrowing Agreement and the Stock Exchange has granted such waiver on condition that:

- (i) such stock borrowing pursuant to the Stock Borrowing Agreement with Passion will only be effected by HSBC Investment Bank Asia for settlement of over-allocations in connection with the Placing and/or over-subscriptions in connection with the Public Offer;
- (ii) the maximum number of Shares borrowed from Passion will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option; and
- (iii) the same number of Shares will be returned to Passion no later than three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised and (ii) the day on which the Over-allotment Option is exercised in full.

Waiver on Share Option Scheme

Under Rule 23.03(2) of the GEM Listing Rules, the total number of securities subject to a share option scheme and any other schemes must not, in aggregate, exceed 10 per cent. of the relevant class of securities of the listed issuer (or the subsidiary) in issue from time to time (excluding (i) securities issued upon the exercise of options granted pursuant to the scheme and any other schemes; and (ii) any pro rata entitlements to further securities issued in respect of those securities mentioned in (i)) during a specified period of 10 consecutive years. The Company has applied to, and obtained from, the Stock Exchange for a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules to increase the limit relating to the granting of options imposed by Rule 23.03(2) to 30 per cent. subject to the conditions stated under "Share Option Scheme" in Appendix VI to this prospectus.

Waiver on stating property assets at revalued amounts

Under Rule 18.35 of the GEM Listing Rules, where a listed issuer has caused any property assets to be valued (in accordance with Rule 8.01 of the GEM Listing Rules), and included such a valuation in the prospectus relating to the initial public offer of shares in the listed issuer, the property assets shall be stated in the issuer's financial statements at such valuation (or subsequent valuation) less the aggregate amount provided or written off for depreciation and diminution in value unless:

- (i) such property assets fall to be treated as investment properties; and
- (ii) the ordinary course of business of the listed issuer and the group includes property development and the properties which have been valued are in the course of development or are held for future development and have been classified as such in the accounts of the listed issuer or the group.

WAIVERS IN RESPECT OF THE GEM LISTING RULES

In addition, listed issuers are required to state, by way of a note in the financial statements, the additional depreciation charged against the profit and loss account as a consequence of complying with Rule 18.35 of the GEM Listing Rules.

In order to comply with Rule 8.01 of the GEM Listing Rules, the property assets of the Group were revalued as at 30th April, 2000, by the Company's property valuer, Chesterton Petty Limited, for the purpose of inclusion in this prospectus. According to the valuation report as at 30th April, 2000 from Chesterton Petty Limited, the valuation of the property assets of the Group was stated at approximately HK\$14 million. On that basis, if the Group were to reflect such surplus in its financial statements, the Group would carry a revaluation surplus of approximately HK\$6.9 million, which represents approximately 2.37 per cent. of the adjusted net tangible assets value of the Group (based on an Offer Price of HK\$1.35) and approximately 2.31 per cent. of the adjusted net tangible assets value of the Group (based on an Offer Price of HK\$1.40) as set out under "Financial information — Adjusted net tangible assets".

The holding of land and buildings is not a core business activity of the Group, and the revaluation surplus arises from the revaluation of the two residential properties of the Group which are used by it as staff quarters. As neither the Group's property assets are classified by the Group as investment properties nor is the Group engaged in property development, the Directors are of the view that the cost and effort associated with complying strictly with Rule 18.35 of the GEM Listing Rules, which primarily relate to costs of retaining the services of a professional property valuer to carry out property revaluations regularly, will outweigh the benefits that can be derived and will therefore not be in the best interests of the Company's shareholders.

Given that the holding of land and buildings is not a core business activity of the Group, the Directors believe that the Group's financial condition would be better presented to investors by excluding properties valuation fluctuations, which occur independently of the results generated by the Group's principal lines of business. The Group intends to hold the properties for long term purposes and consequently any valuation surpluses are not expected to be realised in the foreseeable future.

The Company has applied to, and obtained from, the Stock Exchange a waiver from strict compliance with Rule 18.35 of the GEM Listing Rules so that the Company can, following the Listing, continue to state the value of land and buildings in its accounts at cost less provision for accumulated depreciation and impairment in value of such land and buildings. As a result, the revaluation surplus will not be reflected in the Group's financial statements.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance and the GEM Listing Rules for the purposes of giving information with regard to the Group. 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.

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. For applicants under the Public Offer, this prospectus and the application forms set out the terms and conditions of the Share Offer.

The Share Offer comprises the Public Offer of initially 22,500,000 Public Offer Shares and the Placing of initially 127,500,000 Placing Shares, both at the Offer Price.

The Public Offer is sponsored by HSBC Investment Bank Asia, and is fully underwritten by the Public Offer Underwriters. The Placing is managed by HSBC Investment Bank Asia and fully underwritten by the Placing Underwriters.

If, for any reason, the Offer Price is not agreed on or before 27th June, 2000 between the Company and HSBC Investment Bank Asia (on behalf of the Underwriters), the Share Offer will not proceed.

CONSENT OF BERMUDA MONETARY AUTHORITY AND FILING WITH BERMUDA REGISTRAR OF COMPANIES

The Bermuda Monetary Authority has given its consent to the issue of the Offer Shares pursuant to the Share Offer as mentioned herein, the issue of Shares to existing shareholders of the Company pursuant to the Capitalisation Issue, the issue of Shares upon the conversion of the Additional Convertible Note, the issue of Shares upon the exercise of the Over-allotment Option and of options granted under the Share Option Scheme, the issue of options, warrants, depository receipts, rights, loan notes, bonds and other securities of the Company to persons regarded as non-residents of Bermuda for exchange control purposes and the issue of further Shares up to the amount of the authorised share capital from time to time of the Company to persons regarded as non-residents of Bermuda for exchange control purposes. A copy of this prospectus, together with copies of the white and yellow application forms, has also been filed with the Registrar of Companies in Bermuda. In giving such consent and in accepting this prospectus and the application forms for filing, neither the Bermuda Monetary Authority nor the

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this prospectus or in the application forms. None of the Offer Shares may be offered or sold in Bermuda, by means of any document, or to any person, firm or company regarded as a resident of Bermuda for exchange control purposes.

PUBLIC OFFER SHARES TO BE OFFERED TO HONG KONG PUBLIC ONLY

No action has been taken in any jurisdiction other than Hong Kong and Bermuda to permit an offering of the Offer Shares or the distribution of this prospectus to the public 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 Offer 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 Share Offer 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 Share Offer.

The Shares have not been and will not be registered under the US Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the US Securities Act.

Each Underwriter has agreed that, except as permitted by the Underwriting Agreement, it will not offer or sell the Offer Shares (i) as part of its distribution at any time or (ii) otherwise until 40 days after the latest of the commencement of the Share Offer, the closing date of the Share Offer, and the closing date for any exercise of the Over-allotment Option (the "Distribution Compliance Period"), within the United States or to, or for the account or benefit of, US persons, and it will have sent to each dealer to which it sells Offer Shares (other than on a sale pursuant to Rule 144A) during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Offer Shares within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Offer Shares are being offered and sold outside the United States to non-US persons in reliance on Regulation S. The Underwriting Agreement provides that only HSBC Investment Bank Asia and those Placing Underwriters approved by HSBC Investment Bank Asia may through their US broker-dealer affiliates arrange for the offer and the sale of Share Offer within the United States only to Qualified Institutional Buyers in reliance on an exemption from the registration requirements of the US Securities Act.

In addition, until 40 days after the commencement of the Share Offer, an offer or sale by any dealer of Shares within the United States (whether or not as a part of the Share Offer) may violate the registration requirements of the US Securities Act if such offer or sale is made other than in accordance with Rule 144A or another exemption from the registration requirements of the US Securities Act.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

The Offer Shares may not be offered or sold, directly or indirectly, in Canada in contravention of the securities laws of Canada or any province or territory thereof. Any offer or sale of Shares in Canada may be made only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer or sale is made.

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom and this prospectus or any other announcement or document in connection with the Share Offer may not be published or distributed in the United Kingdom, except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, shares or bonds (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not constituted and will not constitute an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended. In addition, no person may issue or pass on to any person in the United Kingdom this prospectus and any document received by it in connection with the Share Offer unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

This prospectus has not been registered with the Registrar of Companies and Businesses in Singapore and the Offer 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 Offer Shares may not be offered or sold, nor may this prospectus or any other offering document or material relating to the Offer 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.

The Share Offer has not been, and will not be, registered under the Securities and Exchange Law of Japan. The Offer Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an applicable exemption from the registration requirements of the Securities and Exchange Law of Japan and in compliance with any other applicable Japanese law.

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

The Company and/or HSBC Investment Bank Asia shall have full discretion to reject any application for the Offer Shares in full or in part.

APPLICATION FOR LISTING ON GEM

Application has been made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, Shares to be issued to the Company's

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

existing shareholders pursuant to the Capitalisation Issue, the Offer Shares which are to be issued pursuant to the Share Offer, Shares to be issued upon the conversion of the Additional Convertible Note and Shares which may fall to be issued upon exercise of the Over-allotment Option and of options granted under the Share Option Scheme.

No part of the share or loan capital of the Company is listed or dealt in on any other stock exchange and at present no such listing or permission to deal is being proposed to be sought.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Share Offer will be registered on the Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained in Bermuda. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on GEM.

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

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to the Offer Shares, you should consult an expert.

The Company, the Directors, the Underwriters, any of their respective directors and any other person involved in the Share Offer do not accept responsibility for any tax effects on or liabilities resulting from the subscription for, or purchase, holding or disposal of, or dealing in or the exercise of any rights in relation to, the Offer Shares.

STAMP DUTY

The sale, purchase, transfer of and dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate of which is \$2.25 for every \$1,000 (or part thereof) of the consideration or, if higher, the fair value of the Shares being sold or transferred.

A Bermuda exempted company is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially to real and personal property physically situated in Bermuda, including shares in local (as opposed to exempted) companies. Neither the Company nor the shareholders (other than shareholders ordinarily resident in Bermuda) are subject to stamp duty or other similar duty on the issue or transfer of the Shares.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for the Public Offer Shares is set out under "How to apply for Public Offer Shares" and on the relevant application forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer are set out under "Structure of the Share Offer".

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Executive Directors

Name	Address	Nationality
ZEE CHAN, Mei Chu Peggy (徐陳美珠)	Flat B, 21st Floor Braemar Hill Mansions Hong Kong	British
FUNG Din Chung, Rickie (馮典聰)	13A, Tower 2 Parc Regal 19 Homantin Hill Road Ho Man Tin, Kowloon Hong Kong	British
LEUNG Lucy, Michele (梁樂瑤)	9-D 22 Robinson Road Mid-levels Hong Kong	Canadian
NG Wai King, Steve (吳偉經)	Flat 4B, 5 Caperidge Drive Discovery Bay Hong Kong	Chinese
IP Kim Kuen (葉劍權)	19A, Tower 2 Lyttelton Garden 29 Lyttelton Road Hong Kong	Canadian
<i>Non-Executive Directors</i>		
IP Tak Chuen, Edmond (葉德銓)	Apt. B, 3/F., Block 1 Southside Villas 9 Shouson Hill Road Hong Kong	Chinese
LAU Law Siu Hung, Monique (劉羅少紅)	Flat C, 13/F Butler Towers 1-5 Boyce Road Jardine's Lookout Hong Kong	British
QUEK Cher Teck (郭子德)	No. 5 Stratton Drive Singapore 806705	Singaporean

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Address	Nationality
<i>Independent Non-Executive Directors</i>		
CHEONG Ying-Chew, Henry (張英潮)	Flat C2, 5/F. Park Place 7 Tai Tam Reservoir Road Hong Kong	British
CHANG Ka Mun (張家敏)	5/F., 21 Hing Hon Road Hong Kong	Chinese
PETRO A. Frank	2111 Hyde Street #602 San Francisco CA 94109 United States of America	American

PARTIES INVOLVED

Global Co-ordinator, Sponsor and Lead Manager

HSBC Investment Bank Asia Limited
Level 15
1 Queen's Road Central
Hong Kong

Public Offer Underwriters

HSBC Investment Bank Asia Limited
Level 15
1 Queen's Road Central
Hong Kong

Bear Stearns Asia Limited
26/F Citibank Tower
3 Garden Road
Hong Kong

CEF Capital Limited
Suite 2001, 20/F Cheung Kong Center
No.2 Queen's Road Central
Hong Kong

Advanced Partners Brokerage Limited
6501-06 The Center
99 Queen's Road
Central
Hong Kong

Cazenove Asia Limited
3601 Two Exchange Square
8 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

CLSA Limited
33rd Floor, Tower Two
Lippo Centre
89 Queensway
Hong Kong

Vickers Ballas Capital Limited
19th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Placing Underwriters

HSBC Investment Bank Asia Limited
Level 15
1 Queen's Road Central
Hong Kong

Bear Stearns Asia Limited
26/F Citibank Tower
3 Garden Road
Hong Kong

CEF Capital Limited
Suite 2001, 20/F Cheung Kong Center
No.2 Queen's Road Central
Hong Kong

Advanced Partners Brokerage Limited
6501-06 The Center
99 Queen's Road
Central
Hong Kong

Cazenove Asia Limited
3601 Two Exchange Square
8 Connaught Place
Central
Hong Kong

CLSA Limited
33rd Floor, Tower Two
Lippo Centre
89 Queensway
Hong Kong

Vickers Ballas Capital Limited
19th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to the Company	<i>as to Hong Kong law</i> Baker & McKenzie 14th Floor Hutchison House 10 Harcourt Road Central Hong Kong
	<i>as to Bermuda law</i> Conyers Dill & Pearman 3408 Two Exchange Square 8 Connaught Place Central Hong Kong
Legal advisers to the Underwriters	<i>as to Hong Kong and US law</i> Linklaters 10th Floor Alexandra House Chater Road Hong Kong
Auditors and reporting accountants	KPMG 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Property valuers	Chesterton Petty Limited 16/F CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Receiving banker	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	Suites 3306-3307 China Resources Building 26 Harbour Road Wanchai Hong Kong
Company secretaries	Chan Po Cheung, David (陳保翔) <i>FCCA, AHKSA</i> Ira Stuart Outerbridge III*
Qualified accountant	Chan Po Cheung, David (陳保翔) <i>FCCA, AHKSA</i>
Compliance officer	Ip Kim Kuen (葉劍權)
Members of the Audit Committee	Cheong Ying-Chew, Henry (張英潮) Chang Ka Mun (張家敏)
Authorised representatives	Fung Din Chung, Rickie (馮典聰) Ip Kim Kuen (葉劍權)
Bermuda resident representatives	John Charles Ross Collis Anthony Devon Whaley (<i>Deputy</i>)
Principal share registrar and transfer office	Butterfield Corporate Services Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Hong Kong branch share registrar and transfer office	Central Registration Hong Kong Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong

* Mr. Ira Stuart Outerbridge III will resign following the listing of the Shares on GEM.

INDUSTRY OVERVIEW

The information provided in this section is derived from various private and/or government publications such as the IDC. This information has not been prepared or independently verified by the Company, HSBC Investment Bank Asia, the Underwriters or their respective advisers.

THE IT SERVICES INDUSTRY

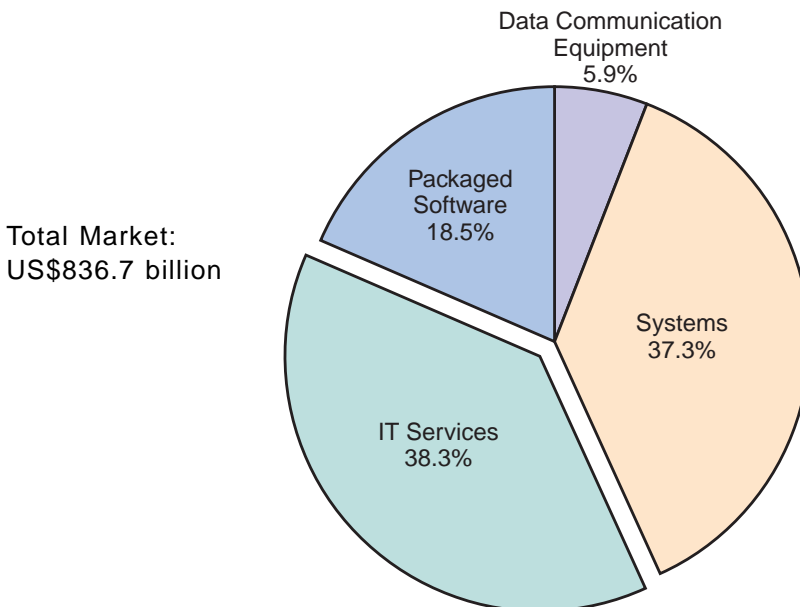
Global IT services market

Globalisation of the marketplace has forced companies to become more competitive by focusing on their main business and outsourcing non-core functions. With the growth of the number of, among others, client/server, Internets, Intranets, ERP, LAN and WAN systems, technology is becoming increasingly complicated hence multiplying the time and money involved in maintaining and developing in-house systems. The increasing importance of accessing and effectively utilising data has forced companies to re-evaluate their inflexible in-house systems. Also, the desire to transform large infrastructure investments into quantifiable expenses has led to the increasing demand for outsourcing.

Demand drivers for IT services globally are expected to continue into the future. Technology is becoming even more complicated, the marketplace more competitive, and tasks more specialised. The shortage of qualified IT professionals is adding additional strain to already overburdened in-house IT staff, further driving companies to look to third-party vendors for help.

According to IDC, the total worldwide IT services (including outsourcing, systems integration and consulting) market in 1999 was approximately US\$320.5 billion, and the market is expected to grow at a compound annual growth rate of 10 per cent. by 2003 to reach US\$473.6 billion.

1999 Estimated Worldwide IT Market by Segment



Source: IDC

INDUSTRY OVERVIEW

Key projections

In the first quarter of 2000, IDC made the following projections for the global IT services market:

- worldwide outsourcing spending will grow from approximately US\$125 billion in 1998 to more than US\$214 billion in 2003;
- worldwide systems integration services revenue will grow from approximately US\$51.1 billion in 1998 (of which the Asia Pacific constituted approximately US\$2.7 billion) to more than US\$97.9 billion in 2003;
- the worldwide information system consulting services market is expected to reach almost US\$28 billion by 2003; and
- worldwide packaged software support revenues will increase from approximately US\$30.8 billion in 1998 to more than US\$61.5 billion in 2003.

IT services market in Asia

The Asian IT market differs from the US or European market in the following ways:

- considerably fewer Asian companies are automated than their US and European counterparts (including branches and subsidiaries of international companies);
- Asian companies generally possess less internal IT capability and thus will be more prepared to outsource and also expect a fuller spectrum of services from consultancy, development, implementation, to providing continuous support; and
- Asian companies are far more skeptical on relying on IT consultants and bespoke development and expect to see ready-made software packages that are localised to meet their needs.

As a result, the Asian IT market has the following characteristics:

- tendency to buy ready-made products and services instead of building the infrastructure;
- companies generally require integrated systems support;
- customers prefer regional products with country localisation;
- customers emphasise trusted partnerships and usually opt for local one-stop support;
- smaller transaction volumes than the US or European market but the needs are far more diverse; and
- Asian companies are more trading oriented and thus are more prepared to take on supply chain management through e-commerce solutions.

THE INTERNET

The development of the Internet

The Internet is a global network of interconnected, separately administered public and private computer networks that enables commercial organisations, educational institutions, government agencies and 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 1990s. IDC forecasts that the number of Internet users in the Asia-Pacific region (excluding Japan) will increase from 12.9 million at the end of 1998 to 77.2 million by the end of 2003, reflecting a compound annual growth rate of 43.0 per cent.

Growth in client/server computing, multimedia personal computers and on-line computing services and the proliferation of networking technologies have resulted in a large and growing number of people who are accustomed to using networked computers for a variety of purposes, including e-mail, electronic file transfers, on-line computing and electronic financial transactions. These trends have led businesses increasingly to explore opportunities of providing Internet-based applications and services within their organisations and externally to customers and business partners. An important factor in the widespread adoption of the Internet has been the emergence of a network of servers and information available called the world wide web. The web is a network medium which offers content, activities and services.

The Internet as a business medium

The emergence and acceptance of the Internet has fundamentally changed the way that consumers and businesses communicate, obtain information, purchase goods and services and transact business.

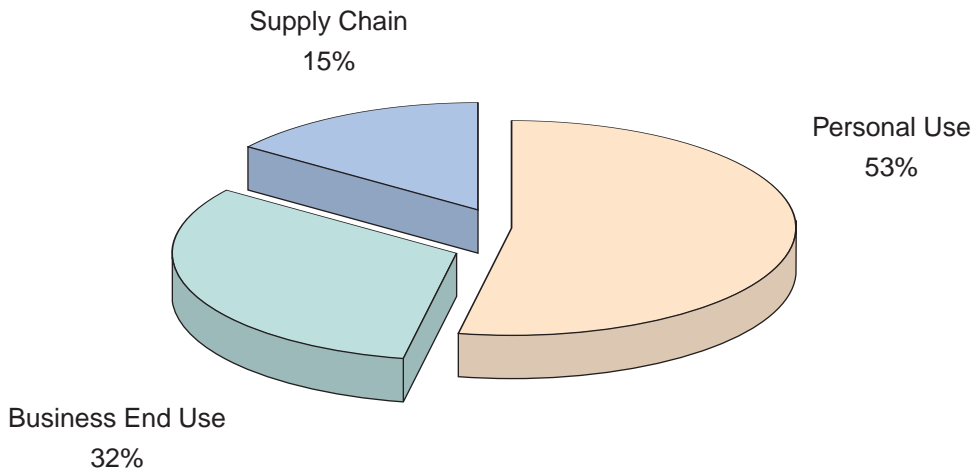
The growth of the Internet is attributable to its value as a low-cost, open and accessible platform for communications and commerce. As a result of these attributes, organisations are increasingly embracing the Internet as a critical platform for communicating with partners, customers and employees, and conducting business. Many organisations are implementing web-based business initiatives to automate business processes, transact sales and manage customer service, commonly referred to as conducting e-business. The growing adoption of the web represents a significant opportunity for the growth of e-commerce.

IDC expects that e-commerce revenue in the Asia Pacific region (excluding Japan) will increase from approximately US\$722.7 million in 1998 to approximately US\$51,264.6 million in 2003.

INDUSTRY OVERVIEW

IDC breaks this revenue into three components, namely personal use, business use and supply chain spending. The following diagram illustrates the breakdown of e-commerce revenues in the Asia Pacific region (excluding Japan) into these three components.

1999 Internet spending



Source: IDC

IDC estimates that the market for Internet infrastructure software in the Asia Pacific region (excluding Japan) will grow from approximately US\$19.2 million in 1999 to more than US\$610.0 million by 2003. In order to capitalise on the opportunities offered by the Internet, organisations must support their e-business initiatives by investing heavily in Internet technology, content and infrastructure software.

According to IDC, vendors with heritages in the systems integration, interactive design, IT product, telecommunication and management consulting markets will have the potential to capitalise on the growth in the Internet services industry. Additionally, the large demand is spawning more growth opportunities for an Internet service firm which will offer creative, technical and strategic skills.

Application service providers

The ASP business model provides for high-end applications and related services to be delivered over networks in order to speed up implementation and minimise the expense and risk associated with the entire application development life cycle.

ASPs are companies which provide enterprises use of outsourced or proprietary application functionality and data which are managed centrally. Primarily, ASPs will provide a contractual service offering to deploy, host, manage and rent access to an application from a centrally managed facility. ASPs are responsible for either directly or indirectly providing all the specific activities and expertise aimed at managing, maintaining and supporting a software application or set of applications. Generally these applications are customised to an industry's specific operating practices or a set of general practices common to many industries.

INDUSTRY OVERVIEW

IDC forecasts that worldwide spending on ASP services for enterprise applications will reach US\$2 billion by 2003. Based on preliminary estimates, IDC believes that the full range of collaborative and productivity applications will bring the entire ASP market opportunity to approximately US\$4.5 billion by 2003.

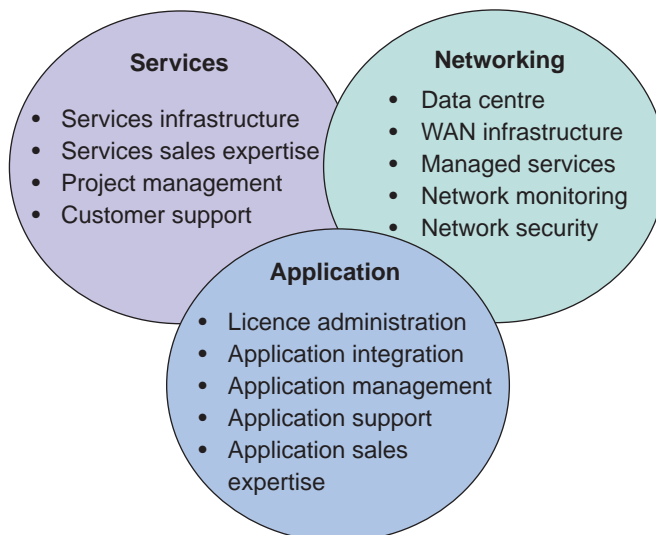
The following are the key characteristics of the ASP model:

- application centric - ASPs provide access to, and management of, an application that is commercially available;
- one-to-many service - ASP services are designed to be one-to-many offerings in that packaged standardised offerings may be offered to many companies for subscription over a specific contract period;
- centrally-managed - ASP services are managed from a central location rather than at each customer's site;
- "selling" application access - ASP services will offer customers access to a new application environment without making up-front investments in the application licenses, servers, IT personnel and other resources; and
- delivering on the contract - ASPs will offer their services on a contractual basis.

The ASP business model

ASPs require a broad range of competencies, including skills and expertise from the services, networking and application worlds. The following diagram illustrates the skill sets that are required by ASPs.

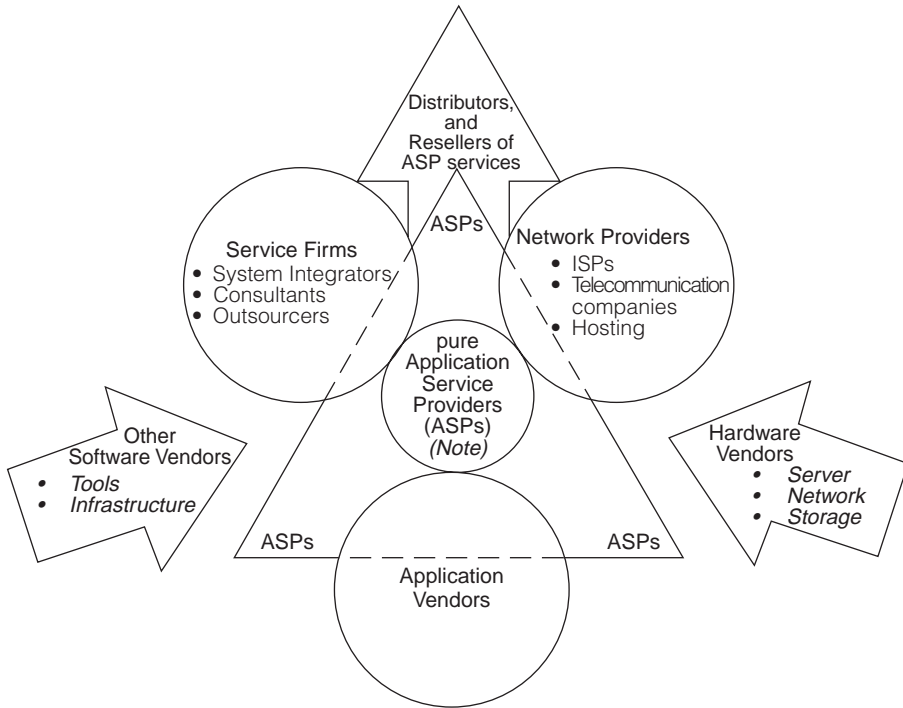
ASP required skill sets



Source: IDC

INDUSTRY OVERVIEW

Because of the broad range of skill sets and products that an ASP needs in order to deliver its services, a variety of IT vendors will have roles to play within the ASP market. The following diagram illustrates the players that are expected to constitute the ASP market.



Roles of IT vendors in ASP market

Note: Pure ASPs are application service providers who bring together IT business and technology partners (such as network providers, service firms, application vendors and other software and hardware vendors) for the provision of an ASP service, but who do not themselves provide the required software and hardware infrastructure. i21 Limited is not a pure ASP as it uses and will continue to use the enterprise software developed by the Company, one of its shareholders, to launch additional services for the ASP Business.

Source: IDC

The benefits of the ASP model from a customer's perspective are:

- it alleviates the shortage of IT personnel for the customer in that the ASP will provide all the necessary technical and maintenance support and therefore the customer itself does not need to hire IT personnel to fulfill these functions;
- it provides the customer access to high-end applications for reduced initial capital outlay as costs are spread out in the form of subscription fees as opposed to large lump-sum payments for software licences and hardware; and
- it provides increased flexibility and promotes efficiency for customers as they are given access to a wide range of software applications from one point of delivery.

THE BANKING AND FINANCE SECTOR

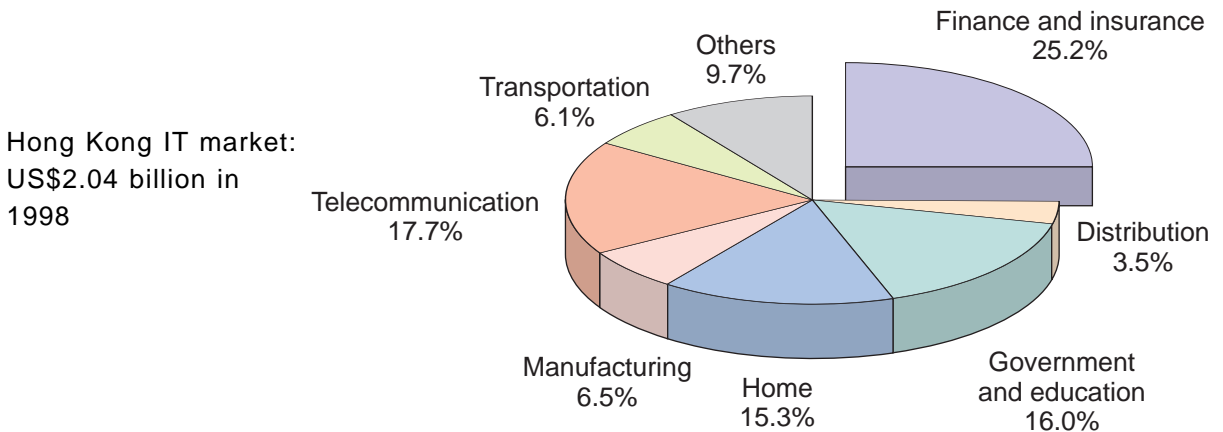
The banking and finance sector comprises the integration of the banking, financial, securities, fund management, insurance, real estate and business markets. Hong Kong's banking and finance sector is one of the main players in the international field. According to information published and updated by the Hong Kong Trade Development Council in July, 1999 and February, 2000, Hong Kong:

- has one of the largest representation of international banks in the world - 76 of the world's 100 largest banks have a presence in the territory;
- is the world's ninth largest international banking centre in terms of the volume of external transactions;
- is the world's seventh largest foreign exchange centre;
- has a banking industry which operates in more than 70 countries;
- has the world's tenth largest securities market;
- is one of the leading insurance centres in Asia, with the largest number of authorised insurance companies and the highest number of qualified actuaries in Asia;
- is the premier fund management centre in Asia with the largest concentration of fund managers; and
- is anticipated to take the main role in fostering the development of China's fund management industry and China's state-owned enterprises reform and infrastructure development program.

Source: Hong Kong Trade Development Council web-site, February, 2000

INDUSTRY OVERVIEW

Hong Kong's banking and finance sector is the biggest customer in the Hong Kong IT market. The chart below shows the proportion of spending on IT in 1998 by the various sectors.



Source: IDC

In 1999, Hong Kong's IT market was one of the most developed in the region and the spending per capita on IT was third only to Japan and Singapore in Asia.

The banking and finance sector has one of the greatest demands and needs for, and the most resources to invest, in IT and consequently is the most sophisticated and biggest user of IT in Hong Kong. To maintain and advance its domestic and international status, the banking and finance sector relies heavily on the IT market. Hong Kong's banking and finance sector possesses one of the world's biggest and most sophisticated computer installations including, amongst other examples, the electronic off-platform trading system of the Stock Exchange and the inter-bank Real Time Gross Settlement system. According to the newsletter issued by the Stock Exchange in March, 2000, the Automatic Order Matching & Execution System (AMS/3), which will provide a trading platform for the implementation of straight through trading for the securities industry, is expected to be launched in the third quarter of year 2000 if the results of the market rehearsals beginning mid-2000 are satisfactory.

In addition, IT innovations have brought about new types of electronic money, Internet banking and on-line investment services. To meet the growing demand by the banking and finance sector, world class brokerage and investment banking software packages have also been developed and are constantly being updated.

BUSINESS STRATEGY

The Group is a leading business application solutions provider in the banking and finance sector in Hong Kong. It has a heritage in the development of enterprise software, IT consultancy and custom application development and systems integration. The Group's enterprise software are capable of providing integration and interface with the legacy and operation systems of its customers, and have been sold to major banks and financial institutions in Hong Kong. The Group's enterprise software are multi-lingual and a majority of the enterprise software are already Internet-enabled. The Directors believe that the Group's management team has extensive experience in the IT industry and an in-depth understanding and knowledge of the banking and finance sector. As such, the Directors believe that the Group is well-positioned to become a leading solutions provider to facilitate the growth and expansion of e-business in the Asia Pacific region.

The Group has devised the following strategies to capitalise on growth opportunities and the increasing use of the Internet as a business medium:

- continue its commitment to research and development in order to expand its range of software applications and products for the banking and finance sector and other sectors;
- continue to form alliances with leading strategic and technology partners to aggressively implement the ASP Business and the Group's e-business solutions initiatives;
- expand geographically by establishing regional operations, and in particular, set up software development centres and distribution channels and networks for its products and services in the PRC and in Southeast Asia; and
- strengthen its sales and marketing capabilities and organise and conduct joint marketing with branded IT product suppliers.

Business model

The Group has a focused business model comprising three inter-related and synergistic components, namely, enterprise software, the ASP Business (through i21 Limited, the joint venture in which the Group owns a 37.5 per cent. interest and a wholly-owned subsidiary of iBusiness Corporation owns the remaining 62.5 per cent.) and the provision of IT consultancy services and e-business solutions. In addition, the Group will continue to provide systems integration services and engage in the resale of IT products as part of its solutions offering. Through this model, the Group aims to become the leading business application solutions provider in the Asia Pacific region.

Enterprise software

The enterprise software business of the Group involves the development of business software applications that can be licensed to and (with minor customisation) implemented for different enterprises. The Group has developed a suite of nine software applications that distinguishes the Group as a provider of enterprise software primarily servicing the banking and finance sector in Hong Kong. The Group will seek to maintain and build upon this position

through product development and enhancement, aggressive marketing and geographical expansion into the PRC and other countries in Southeast Asia. Following its Integrated Securities Trading System (InterTrade) and its Internet Banking System (iBank), the Group will continue to focus on developing new software applications which facilitate B2B and B2C transactions and provide e-commerce solutions over the Internet, in particular, for the banking and finance sector. The Group also intends to continue to harness its proprietary enterprise software to develop the ASP Business and other e-business initiatives. In addition to up-front licence fees, the Group also intends to explore a new revenue model based on an initial fee coupled with on-going periodic subscription payments — see “Revenue model” below.

The ASP Business

An application service provider (or ASP) is a service firm that hosts, manages and rents access to software applications from a centrally managed facility. The ASP market is a growing industry in the United States. Among the ASPs are large multi-national companies and specialist ASP companies. The Directors believe that this industry presents immense potential for growth in Asia.

In March, 2000, the Group and iBusiness Corporation formed a joint venture, i21 Limited, to operate the ASP Business under the brandname “i21”. i21 Limited is owned as to 37.5 per cent. by the Group, and a wholly-owned subsidiary of iBusiness Corporation holds the remaining interest in i21 Limited. i21 Limited is one of the early entrants in the ASP market in Hong Kong. The ASP Business provides enterprises with use of application functionality and data which are managed centrally and are delivered through the Internet and other means including leased lines and mobile phones. The Group possesses proprietary technology in the form of its enterprise software and a track record of providing ancillary services to its customers, which the Directors believe will benefit the ASP Business. i21 Limited has formed strategic alliance with hardware vendors (Sun Microsystems and Cisco) and networking products and facilities management provider (Hutchison Global Crossing), all of whom are leading players in their respective fields, and the Directors expect that i21 Limited will continue to form other strategic partnerships.

The ASP Business is targeted at enterprises which do not wish to incur the expenses of maintaining full-scale IT infrastructure and personnel and yet would like to have access to high-end software applications necessary for their business and operations to remain competitive. iStock 21, a stock trading software based on InterTrade and the first application implemented through the ASP Business, was first deployed for customer use in June, 2000. The ASP Business will seek to offer an increasing number of software applications with the aim of capturing the Hong Kong and Southeast Asian ASP market for:

- specific sectors within the banking and finance industry, such as insurance; and
- specific functions within businesses such as human resource management and accounting.

The Directors expect that the bulk of the initial customers of the ASP Business will be small and medium-sized enterprises, and therefore the ASP Business is not expected to compete with the Group’s enterprise software business which generally has larger and more

established corporates as its customers. In addition, the Directors expect that as these small and medium sized enterprises continue to grow, they may license their own copies of enterprise software directly from the Group or engage the Group to provide IT consultancy services.

IT consulting and e-business solutions

The Group provides IT strategic consulting and planning services and develops customised IT solutions for customers.

The emergence and acceptance of the Internet has fundamentally changed the way consumers and businesses communicate, obtain information and transact business. Since early 1999, the Group has expanded its consulting and planning services to cover e-business strategy and solutions (including maintenance and support services) for customers who are seeking to develop e-businesses. The Group's services are designed to improve and sustain a customer's competitive position through the development of innovative business strategies enabled by the integration of emerging and existing technologies. As an extension of its IT consultancy business, the Group is also continuing looking into taking on a more active role in helping its customers implement their e-business plans. The services offered by the Group will be expanded to include the provision of consulting services, software solutions, business connections and day-to-day operational support to the customers' e-business on an on-going basis.

The Directors believe that the quality of the Group's services will be enhanced by the synergistic value of the Group's enterprise software and the ASP Business, and the Group will be able to provide a "one-stop" service for customers implementing e-business strategies. The Group may take equity interests in e-business initiatives in which it participates. It may also form strategic partnerships with its customers and other parties in relation to such initiatives. An example of such an initiative is the iTreasury project (which is a vertical portal for corporations, banks, financial institutions and individuals to conduct treasury transactions over the Internet) — see "Statement of business objectives and strategies".

Revenue model

The Directors believe that the IT consulting and systems integration businesses will continue to be a significant contributor to the Group's revenue. The Directors also expect that an increasing portion of its revenue will come from its enterprise software, the ASP Business and the provision of e-business solutions. Set out below is a summary of the expected development of the revenue profile of the Group. In line with the market trend in the IT sector, the Group will explore new revenue models such as charging periodic subscription fees and participating in risk and revenue sharing arrangements.

(i) Enterprise software

The Group's enterprise software business has relied on up-front "one-off" licence fees as a principal revenue source. While the Directors expect that this will continue to be the case, the Directors also expect that the Group may charge some of its future customers on the basis of an initial licence fee coupled with on-going periodic subscription payments.

(ii) ASP

It is expected that different revenue models will be implemented for the different i21 applications offered by the ASP Business depending on the nature of the software and services provided. The Directors expect that the ASP Business will use a combination of one or more of the following charging schemes: initial joining fee, periodic subscription fees, access charges and transaction fees calculated based on volume of usage.

i21 Limited has entered into revenue sharing arrangements with two business partners in connection with iStock21, and the Directors anticipate that it may enter into additional revenue sharing arrangements with other business and technology partners of the i21 applications.

(iii) IT consulting and e-business solutions

The Group charges its customers for services provided either on a per project basis or on a time and material basis. In relation to the provision of IT consulting services and e-business solutions, the Group may also participate in revenue and commission sharing arrangements, and may also be paid in the form of equity interests in the relevant projects.

Target customers and geographical expansion

Currently, a large proportion of the Group's products and services are targeted at the banking and finance sector, which the Directors believe are and will continue to be the most sophisticated and resourceful users of IT products and services.

The Group intends to position itself as a leading business application solutions provider in the banking and finance sector in the Asia Pacific region. At present, the Group's customer base comprises some of the leading financial institutions in the Asia Pacific region. The Group intends to expand aggressively to target the banking and finance sector in the PRC and Southeast Asia.

Although the focus of the Group will continue to be on the banking and finance sector, the Group has developed and will continue to develop products and services for users in other industries.

DEVELOPMENT AND ACTIVE BUSINESS PURSUITS

History and development

The Group was founded by Ms. Peggy Chan and commenced its operations in Hong Kong in 1988 as an IT strategic consultancy firm in order to meet the need for increasingly sophisticated IT services in the territory. When the Group first started operations, it was principally engaged in providing consulting, management and strategic planning services to assist customers in the banking and finance sector in Hong Kong to develop and enhance information technology systems. The Group has since then expanded the scope of its product and service offerings to include customised software development, enterprise software development and licensing, systems integration, resales of IT products and maintenance.

BUSINESS

In response to the growing demand for ready-made localised software applications by Asian customers, the Group established a new department, the Software Centre, in 1996 to build and develop enterprise software targeting the needs of its customers. The result of these efforts is the development of a suite of enterprise software that distinguishes the Group as one of Hong Kong's leading enterprise software providers servicing the banking and finance sector.

Leveraging on its suite of enterprise software, the Group and iBusiness Corporation formed a joint venture and announced in March, 2000 the proposed launch of the ASP Business. The ASP Business is operated by the joint venture under the brandname "i21". The first ASP application, iStock21, was first deployed for customer use in June, 2000 and offers the Group's InterTrade on-line trading applications on a shared basis to small and medium-sized stockbrokers in Hong Kong. This ASP application provides the stockbrokers with advanced stockbroking functions, including stock trading through the Internet, mobile phone and stockbrokers' offices.

The Group established a presence in the Internet services market in 1998 through a strategic investment in Net Fun Limited which owns and operates a multi-lingual portal offering on-line interactive games.

Active business pursuits

The table below summarises the progress and achievements of the Group in the past two years.

	Year ended 31st December, 1998	Year ended 31st December, 1999	Period from 1st January, 2000 to Latest Practicable Date
Business strategies			
	To focus on developing InterTrade, HRMS and iBank	To focus on completing the development of InterTrade, HRMS and iBank	To continue to market the suite of nine enterprise software
	To start the marketing campaign for systems integration and IT product resale	To strengthen the marketing team to increase sales on the Group's enterprise software	To commence (together with iBusiness Corporation) the operation of the ASP Business
	To gain presence in projects for governmental authorities in respect of IT consulting work		To participate in e-business initiatives

BUSINESS

	Year ended 31st December, 1998	Year ended 31st December, 1999	Period from 1st January, 2000 to Latest Practicable Date
Enterprise software			
<i>HRMS</i>	Completed development work on HRMS using the reusable framework of Microsoft technology and deployed the enterprise software for customer use	Completed enhancement work for HRMS	Enhanced HRMS to run in an ASP environment
<i>InterTrade</i>	Submitted application to the Applied Research Council of the Industry Department, and obtained sponsorship from the Applied Research Council under the Applied Research and Development Scheme to develop InterTrade Started development work on InterTrade using the reusable framework of Java and CORBA technology	Completed development work on InterTrade and launched the enterprise software in a large brokerage house	Started development work on the Settlement Module of InterTrade
<i>Insurance21</i>		Started development work on Insurance21 using Microsoft technology based reusable framework with Java and VisualBasic	Continued to develop Insurance21
<i>LOS and LOANS</i>		Completed the integration between LOS and LOANS to provide a complete loan management solution	Started development work on Liability Control Module and Collection Module of LOANS system Deployed first overseas LOS installation for a banking customer in Kuala Lumpur, Malaysia

BUSINESS

	Year ended 31st December, 1998	Year ended 31st December, 1999	Period from 1st January, 2000 to Latest Practicable Date
<i>iBank</i>	Started development work on iBank using the reusable framework of Java and CORBA technology	First launch of iBank as an Internet banking solution	Launched enhancement features to iBank including on-line mortgage and cross bank money transfer

ASP Business

Formed the joint venture i21 Limited with iBusiness Corporation

Launched the iStock21 service

IT consulting and customised software development

Started to provide consultancy service to certain Hong Kong government departments or divisions through the IT Service Arrangement (ITSA) as a subcontractor to EDS

Provided IT consultancy service to implement mandatory provident fund administration solution for 3 major mandatory provident fund administrators

Started to provide consultancy and development services to customers on the development of e-commerce solutions

Developed eSAM, an electronic supply chain management system, for a major retailer in United Kingdom.

Signed contract to develop iTreasury - a vertical portal to enable corporations, banks, financial institutions and individuals to conduct treasury transactions over the Internet.

Sales and marketing

Set up the sales team for systems integration and IT product resale

Participated in various vendor's seminars and exhibitions

Added additional enterprise software sales staff to sales team

Assigned marketing assistants to focus on increasing enterprise software sales

Developed a sales tracking system to monitor business pipelines

BUSINESS

Year ended 31st December, 1998	Year ended 31st December, 1999	Period from 1st January, 2000 to Latest Practicable Date
	Participated in the following conferences, seminars, trade fairs and other events:	Participated in the following conferences, seminars, trade fairs and other events:
	<ul style="list-style-type: none">— Sun's Enabling Technologies for finance.com and banking.com (organiser: Sun Microsystems)— E-Commerce in Financial Services Conference (organiser: Microsoft)— Effective Management of Loan Business Seminar (organiser: the Group)— China Hi-Tech Fair (Shenzhen) (organiser: a PRC authority)— Innovation 2000 - The Millennium Frontier (organiser: Hong Kong Trade Development Council)— Beyond 2000 - Banking in the New Millennium (organiser: Cisco)	<ul style="list-style-type: none">— Oracle Partner Solutions Forum (organiser: Oracle)— Windows 2000 Solution Fair (organiser: Microsoft)— Hong Kong Information Infrastructure Expo & Conference (organiser: Hong Kong Trade Development Council)

BUSINESS

	Year ended 31st December, 1998	Year ended 31st December, 1999	Period from 1st January, 2000 to Latest Practicable Date
Research and infrastructure development			
<i>Microsoft based development infrastructure</i>	Started and completed research and development work on reusable framework using 2-tier system architecture on Microsoft technology	Revamped the Microsoft technology based reusable framework with 3-tier system architecture on Java and VisualBasic Started research and development work on reusable framework using Microsoft Internet and e-commerce technology	
<i>Java & CORBA based development infrastructure</i>	Started and completed research and development work on reusable framework using 3-tier system architecture on Java and CORBA technology	Java and CORBA based reusable framework used in InterTrade and iBank development	
<i>Internet security</i>	Started research work on Internet security related products including digital certificate	Completed "end-to-end" Internet security infrastructure and deployed for use in InterTrade and iBank	Continued to refine the Internet security infrastructure

Principal strengths

The Directors attribute the Group's successful growth and development to the following principal factors:

- **Market focus on the banking and finance sector**

Since its establishment in 1988, the Group has targeted customers in the banking and finance sector, which the Directors believe is one of the sectors which make substantial investments in sophisticated and state-of-the-art IT applications and services. With this focus, the Group was able to build up a substantial knowledge base in this sector which the Directors believe translates into a strong entry barrier and a competitive advantage over its competitors. The Directors believe that the Group's focus on building up its image as a leader in the banking and finance sector will help the Group increase its market share in the future.

- **Strong and dedicated management team**

All of the executive Directors, with the exception of one, have more than 15 years of IT experience and have been working together since 1996. In addition, the Group's management have accumulated in-depth knowledge through their previous project engagements with major multinational banks and financial institutions in Hong Kong and overseas. In addition, the Directors believe that the Group's management share the vision of growing the Group to become a leading enterprise software provider, and to achieve success in the ASP Business.

- **Reputable customer base**

Having served the banking and finance sector in Hong Kong for more than 10 years, the Group has built up a customer base which includes many large multinational and financial institutions in Hong Kong such as The Bank of East Asia, Limited, The Chase Manhattan Bank, Citibank, N.A., Dao Heng Bank Limited and Wing Lung Bank Ltd. Among the Group's other customers are the Airport Authority of Hong Kong, Marks and Spencer, Mass Transit Railway Corporation, the monetary authority in Hong Kong and the corporation established by the Hong Kong government to develop Hong Kong's secondary mortgage market. This customer base has generated repeated business, and has become a source of new business for the Group through referrals and references by such customers.

- **Established reputation and product recognition**

The Group has been established for over 10 years and has built a reputation in Hong Kong for delivering high quality enterprise software. This is evidenced by the wide reception of the Group's enterprise software in the banking and finance sector, and the fact that some customers have adopted more than one of the Group's enterprise software. The sponsorship for the development of the Integrated Securities Trading System (InterTrade), received in 1998 under the Applied Research and Development Scheme from the Applied Research Council of the Industry Department, also illustrates the recognition of the Group's ability to deliver commercially viable products with technical merits.

- **Technical expertise on the Internet**

The Group has developed technical expertise in a number of Internet-related technologies in the areas of software development, on-line security and e-commerce. Such skills and knowledge have enabled the Group to benefit from the growth of e-businesses in the Asia Pacific region.

The Group began to develop Internet-enabled enterprise software which facilitate both B2B and B2C e-commerce over the Internet in 1998. The Group has successfully completed, amongst others, the development of the Internet Banking System (iBank), a Java-based Internet banking software that allows individuals to perform banking functions through the Internet at their desktops 24 hours a day. The Integrated Securities Trading System (InterTrade), another Java-based software product developed by the Group for securities brokers, automates manual operations and enables trading functions through multiple channels including the Internet, mobile phones and, in future, WAP devices. The Directors believe that such technical expertise and readily available enterprise software help to position the Group to participate in business opportunities arising from the increasing use of the Internet as a business medium.

- **A portfolio of valuable software assets**

Through research and development, the Group has developed a set of software frameworks which can be re-used from one software development project to another. This set of reusable frameworks will effectively shorten the development time of future enterprise software, and improve the quality of products developed.

The nine enterprise software currently in the Group's enterprise software portfolio represent 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 areas. With many countries in Asia striving to become a financial centre of the region, the Directors believe the enterprise software developed for the banking and finance sector by the Group will increasingly gain acceptance by customers in other parts of Asia.

The enterprise software developed by the Group are multi-lingual and a number of the enterprise software are also multi-channel (accessible through the Internet and mobile phones). The enterprise software developed by the Group can also be scaled up to handle high volumes of transactions in a multi-company environment, therefore rendering them suitable to be offered in an ASP setup.

- **Strategic alliance and partnership with reputable organisations**

The Group's Strategic Investors comprise the UOB Investors and wholly-owned subsidiaries of Cheung Kong and ChinaVest. The Group has entered into a joint venture with iBusiness Corporation to set up the ASP Business under the brandname "i21", and expects to enter into additional partnerships and alliances with reputable infrastructure providers and hardware and software vendors in connection with the implementation of its e-business initiatives. The Company has also granted Cheung Kong a first right to participate in joint ventures or other agreement or arrangement that may be entered into by the Group for the provision of application software, IT services and e-commerce related services. The Directors believe that this, together with the shareholding interest of Cheung Kong in the Company and the subscription by Cheung Kong of the Additional Convertible Note, illustrate the strong commitment of Cheung Kong to the Company. See "Business — Strategic alliances" for further details.

The Group has also fostered close business relationships with many reputable corporations in the IT industry, including Sun Microsystems, Microsoft, Oracle, Sybase, Lotus, EDS, Cisco, Eastman Software Inc. and IBM, through joint projects or other business arrangements.

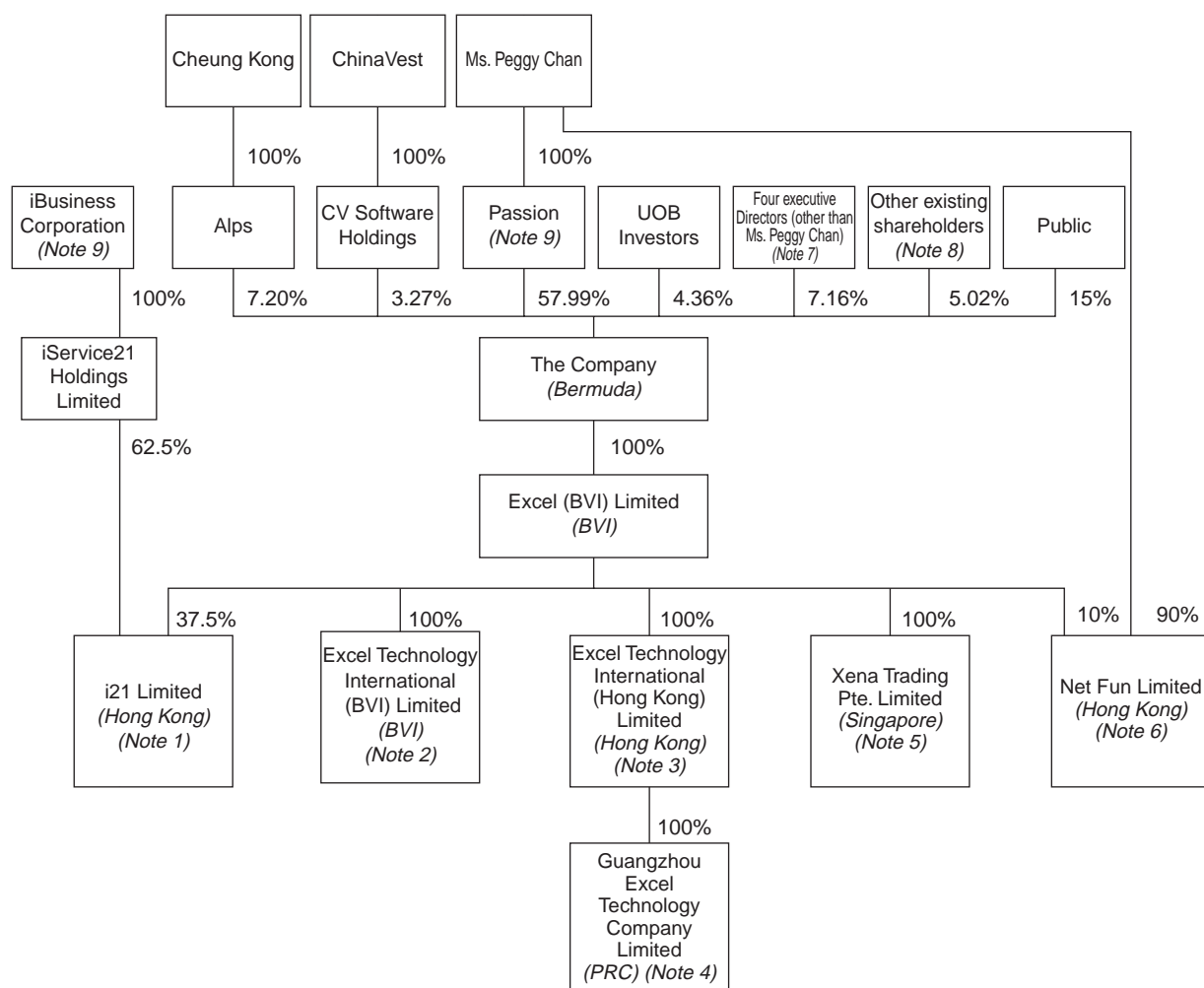
The Directors believe that the Group will benefit from such close on-going relationships with shareholders and business partners since the Group can leverage off their industry expertise, market coverage and brand recognition in implementing its future business strategies.

GROUP STRUCTURE

The Company was established as an exempted company on 21st January, 2000 under the laws of Bermuda. Pursuant to a reorganisation carried out in preparation for the listing and the Share Offer, the Company became the holding company of its subsidiaries.

Group structure chart

The structure of the Company and its operating subsidiaries and joint ventures immediately following completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option) is set forth below.



Notes:

1. This company is the joint venture between the Group and iBusiness Corporation. It is engaged in the operation of the ASP Business.
2. This company holds the intellectual property rights belonging to the Group's enterprise software products.
3. This company is engaged in IT consultancy, the operation of the Software Centre, the development, marketing and implementation of the Group's enterprise software, systems integration and resale of IT products.
4. This company is established in Guangzhou, the PRC for carrying on the Group's PRC operations.

BUSINESS

5. This company is established for carrying on the Group's operations in Singapore and in other countries in Southeast Asia.
6. This is a strategic investment of the Company. Ms. Peggy Chan's 90 per cent. interest in Net Fun Limited is held partly through Rich-Pines Investments Company Limited, a company incorporated in the BVI which is wholly-owned by Ms. Peggy Chan.
7. The four executive Directors are Mr. Fung Din Chung, Rickie, Mr. Ng Wai King, Steve, Ms. Leung Lucy, Michele and Mr. Ip Kim Kuen. The interest of Ms. Leung Lucy, Michele is held through Mossell, which is a company wholly-owned by Ms. Leung Lucy, Michele.
8. The identities of the other existing shareholders and the shareholding interest to be held by each of them immediately following completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option) are set out below:

Shareholder	Approximate percentage of holding (%)
Mr. Ting Kit Chung	0.70
Farrow Star Limited	0.70
Giant Wizard Corporation	0.70
DLS International Investment Limited	0.11
Supreme Star Holdings Limited	0.70
Suit Strong Investments Limited	1.40
Mr. So Kai Sing	0.71

Apart from their shareholding interest in the Company, each of the above-named shareholders is independent of the Company and its connected persons (as defined in the GEM Listing Rules).

9. According to the press release dated 23rd January, 2000 issued by Cheung Kong, Cheung Kong and Hutchison Whampoa Limited together hold approximately 75 per cent. of iBusiness Corporation while HSBC and Hang Seng Bank together hold approximately 25 per cent. of iBusiness Corporation, and minority shares of iBusiness Corporation have been reserved for senior executives.

Convertible Notes

On 2nd March, 2000, the Company issued the Convertible Notes with a principal amount of US\$13.6 million at par to the Strategic Investors. On 15th June, 2000, the Convertible Notes were converted into Shares which were issued to the Strategic Investors. These Shares, together with Shares that the Strategic Investors will receive pursuant to the Capitalisation Issue, will represent approximately 14.83 per cent. of the Company's enlarged share capital immediately following completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option). A breakdown of the number of Shares and the percentage of shareholding that will be owned by each of the Strategic Investors upon completion of the Share Offer and the Capitalisation Issue is set out under "Business — Strategic Investors in the Company". Each of the Strategic Investors has undertaken that it will not sell any of its Shares obtained through the conversion of the Convertible Notes during the 6 months following the Listing Date.

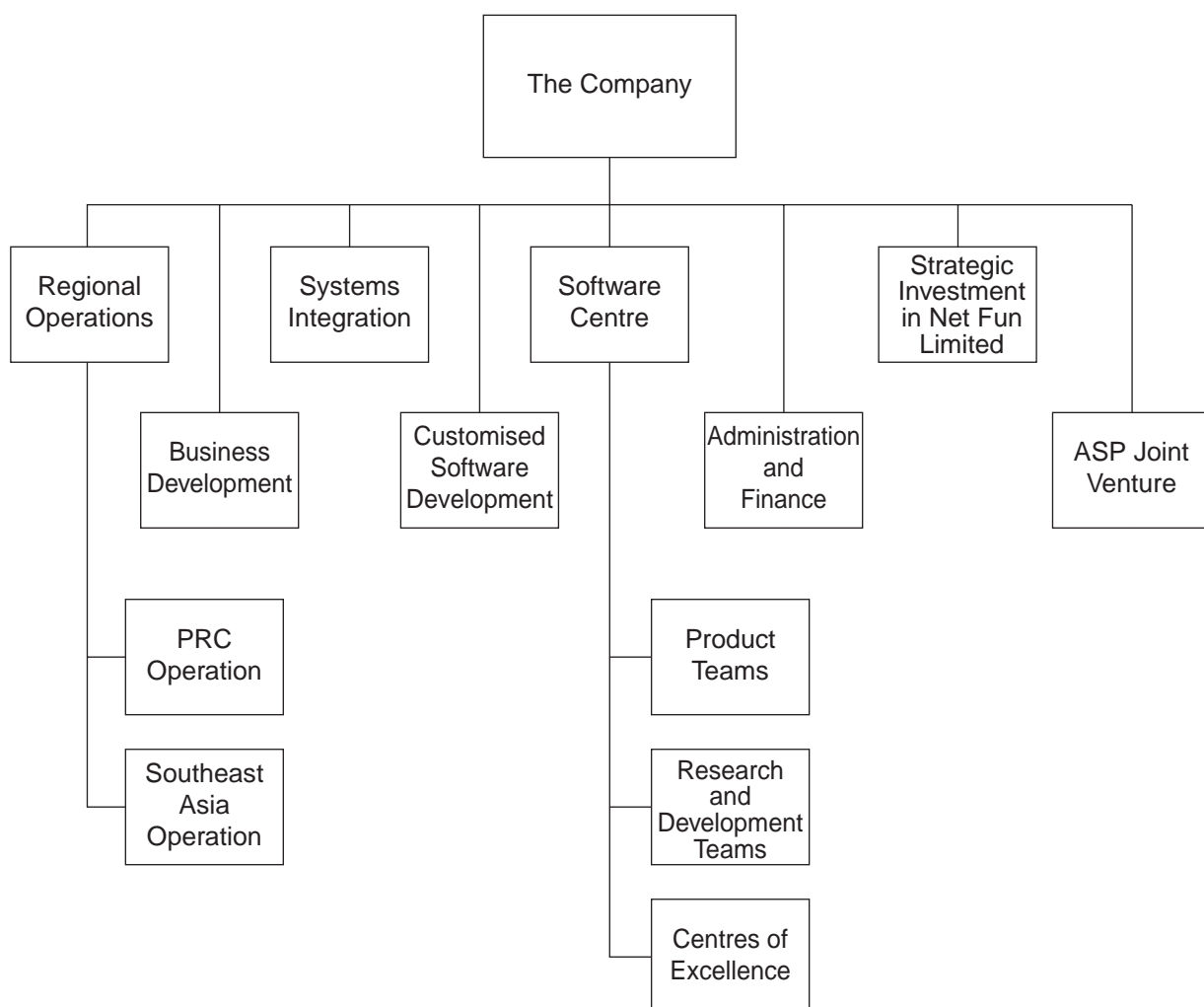
Additional Convertible Note

On 15th June, 2000, the Company entered into an agreement to issue the Additional Convertible Note with a principal amount of HK\$47,220,278 at par to Alps. The principal terms of the Additional Convertible Note are set out in Appendix V to this prospectus. Alps is a wholly-owned subsidiary of Cheung Kong, and further details of Cheung Kong are set out under “Business — Strategic alliances”.

Assuming the Over-allotment Option is not exercised and no adjustment to the conversion price will be required other than an adjustment to take into account the Capitalisation Issue, the Additional Convertible Note will be convertible into Shares which will represent approximately 4.56 per cent. of the enlarged issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue and approximately 4.36 per cent. as enlarged by the Shares issued pursuant to the full conversion of the Additional Convertible Note.

ORGANISATION STRUCTURE

The following diagram sets out the organisation structure of the Group:



BUSINESS

The Group is a leading business application solutions provider in the banking and finance sector in Hong Kong, and is principally engaged in (i) the development, sale and implementation of enterprise software, (ii) the operation of the ASP Business through a joint venture in which the Group owns a 37.5 per cent. interest and a wholly-owned subsidiary of iBusiness Corporation owns the remaining 62.5 per cent., (iii) IT consultancy (including the provision of e-business solutions) and customised application system development, and (iv) systems integration and resale and maintenance of IT products, all with a principal focus on providing solutions to the banking and finance sector. The Group also has a strategic investment in Net Fun Limited, a company which owns and operates a multi-lingual portal offering interactive games and on-line Internet services.

Enterprise software

The enterprise software business of the Group involves the development of business software applications that can be licensed to and (with minor customisation) implemented for different enterprises. The Group also provides maintenance, software upgrade and enhancement and support services for its enterprise software through annual maintenance contracts entered into with customers who require these services. In 1996, the Group's management identified the potential market demand for software applications that were able to meet Asian requirements, and the Group established the Software Centre to tap this market potential. The Software Centre aims to develop software products that, with minor customisation, can be implemented for different customers and can be adopted to run in a multi-company environment as an ASP service through the Internet or leased line as a delivery medium.

As at the date of this prospectus, the Company has completed the development of six enterprise software that are specifically designed for the banking and finance sector and three enterprise software that are for other or more general applications.

The Software Centre

The Software Centre is responsible for the development, implementation and continuous upgrade of existing enterprise software as well as the development of new applications. The Software Centre had a total of 128 staff members as at 30th April, 2000, and is organised into various product teams, each of which is led by a product manager, for developing, implementing and maintaining specific products.

The Software Centre is equipped with UNIX and Windows NT servers from suppliers including Sun Microsystems and IBM, and with different database management systems and development and testing tools from, amongst others, Oracle, Sybase, Lotus and Microsoft. These development platforms enable the Group to port its software products across different platforms to meet customers' different technical environments. The Group keeps its software developers up-to-date by providing them with opportunities to work on new software development tools from various suppliers as well as arranging for the software developers to attend and participate in seminars and training programmes on the latest technological development. The Software Centre employs computing languages and platforms such as VisualBasic, Java, XML, CORBA, applet and servlet in its software development.

The Software Centre's key approach to software product development is the use of reusable frameworks, being the foundation software technology infrastructure which can be used as building blocks to speed up and improve the quality of future software development. As an increasing number of enterprise software are being developed, more and more reusable frameworks are being created. This set of software technology infrastructure can also facilitate the implementation of customisation projects for specific customers.

Enterprise software development

In the development of a new enterprise software, the Group often co-operates with a sponsor who is a potential user of the enterprise software which is being developed. The Group designs and develops the enterprise software according to its conceptual product design while at the same time catering for the sponsor's specifications, and in return the sponsor would provide project funding and its relevant industry expertise to assist in the specific enterprise software development. Intellectual property rights of any enterprise software successfully developed under such sponsorship belong to the Group. Business analysts within the Group may also be involved to provide industry expertise and knowledge of user requirements to facilitate product development.

The enterprise software normally require certain customisation when they are rolled-out and implemented for different customers. Such customisation usually forms part of the paid service the Group provides to supplement the enterprise software as a turnkey solution.

Enterprise software applications

The Company has developed and implemented the following six enterprise software for the banking and finance sector.

Application Processing System ("APS")	This is a general application approval (including credit card and loan application approval) workflow and imaging software system designed to assist banks and financial institutions to process applications, credit score the applicants, and manage the application and supporting documentation using workflow and imaging technology. This enterprise software was first deployed for customer use in December 1997.
Integrated Securities Trading System ("InterTrade")	This is a software product system for securities companies to automate their manual operations, Internet trading being one of its key delivery channels. Other delivery channels being or to be developed include mobile phones and WAP devices. InterTrade will also enable stock brokers to conduct straight through on-line securities trading when the AMS/3 system is launched. This enterprise software was first deployed for customer use in September 1999.
Loans Processing and Management System ("LOANS")	This is a comprehensive loans management system for banks and finance companies, offering a wide range of functions including loan proposal preparation, schedule generation, payment processing and collection. This enterprise software was first deployed for customer use in December 1996.

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Loans Origination System ("LOS")	This is a workflow and imaging software system designed to assist banks and financial institutions to manage their loan application, credit scoring and approval process. The loan application forms and related supporting documents can also be captured as digital image to facilitate retrieval, routing, review and approval of loan applications. This enterprise software was first deployed for customer use in September 1997.
Unit Trust System ("UTS")	This is a client/server Windows based system especially designed to support banks and financial institutions acting for their clients to trade in unit trusts. It supports different operational needs with a single database of information, and also includes client information maintenance and system security control functions. This enterprise software was first deployed for customer use in 1996.
Internet Banking System ("iBank")	This is a web-based Internet banking system for banks and financial institutions, developed using Java, which provides a comprehensive set of retail banking functions. It allows users, through the use of the Internet, to perform banking transactions at their desktops any time of the day. It also allows real-time interface to the banks' and financial institutions' product systems. This enterprise software was first deployed for customer use in September 1999.

In addition to the enterprise software described above which are designed specifically for the banking and finance sector, the Group has also developed the following enterprise software.

Electronic Document Management System ("EZ-File")	This is an imaging and document management system for small companies or departments of large corporations. Users can manage, scan, view, store and share paper-based information as electronic images and machine-readable text using a PC. These images can be indexed into electronic file folders and be annotated for easy filing. Users can also define the screen format of the image profile so as to customise the document imaging system. This enterprise software was first deployed for customer use in December 1998.
Human Resources Management System ("HRMS")	This is a comprehensive personnel management system suitable for companies of various sizes. This system can be purchased by the modules required. It offers a wide range of human resource management functions such as staffing, training, recruitment, succession planning, payroll, benefits and tax processing. Some of the functions such as over-time, leave, deductions, allowances and training are also Intranet- or Internet-enabled. This enterprise software was first deployed for customer use in October 1998.

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Property Leasing Management System ("LMS")

This is a property lease management system, and is designed to automate the rental operations of a property owner. This system provides functionality to manage tenancy agreement, including tenancy creation, tenancy renewal and tenancy termination. It offers flexible tenancy agreement structure and caters for basic rent, formula-based additional rental, rent free period, cash deposit and bank guarantee, and property-related charges such as management fee, rates and government rent. This enterprise software was first deployed for customer use in December 1997.

Customers of the Group's enterprise software include The Bank of East Asia, Limited, Core Pacific Yamaichi International (HK) Limited, Mass Transit Railway Corporation, the Hong Kong Housing Society, Dao Heng Bank Limited, First Pacific Bank Limited, Inchroy Credit Corporation Limited and a major Swiss bank.

The Group also intends to develop or upgrade the following enterprise software during the year 2000:

Modular Banking System ("MBS")

This will be a treasury and capital markets system targeting financial institutions in the region which engage in the borrowing and lending business. It will come in a modular structure to support a wide variety of financial instruments including loans, deposits, foreign exchange, swaps, equities, options and futures. This enterprise software will be developed in stages, and is expected to be fully developed by April, 2002.

Insurance Policy System ("Insurance21")

This will be an insurance policy management system developed using the latest technology and the software infrastructure of the Group. It will cover both general insurance and life insurance. The first phase of development of the system will focus on quotation set-up, policy administration and claims processing for medical insurance companies. Development of the different phases of this enterprise software is expected to be completed by July, 2001.

Settlement Module for InterTrade

This will be a new component of InterTrade, and is designed to facilitate the settlement function of a stock brokerage firm. Different modules will be available to handle the settlement of different types of instruments such as shares, futures and options, and bonds. First phase development covering the Hong Kong market is expected to be released in July, 2000.

Collection and Liability Control Modules for LOANS

These will be additional modules of LOANS which can be sold as separate systems. These additional modules are expected to be released in September, 2000.

The enterprise software of the Group are licensed to customers upon the payment of an up-front licence fee. The licence agreement provides that all intellectual property rights attached to the enterprise software belong to the Group, and that the enterprise software cannot be assigned or otherwise sub-licensed to third parties. The Group normally provides a 30- to 60-day warranty period for its enterprise software.

In early 2000, Excel Technology International (Hong Kong) Limited, a member of the Group, entered into a contract whereby Excel Technology International (Hong Kong) Limited agreed to develop and set up for the customer a securities trading web portal based on InterTrade, to be implemented in seven different stock markets catering for a total of 14 stockbrokers. The software application can be further enhanced to enable operation in 60 stock markets.

The ASP Business

ASPs provide a contractual service offering to deploy, host, manage and rent access to one or more software applications from a centrally managed facility. ASPs are responsible for either directly or indirectly providing all specific activities and expertise aimed at managing, maintaining and supporting a software application or set of applications.

Joint venture with iBusiness Corporation

On 14th March, 2000, the Company entered into a joint venture agreement with iBusiness Corporation (the "iBusiness Corporation JV Agreement") pursuant to which the Company and iBusiness Corporation have agreed to set up a joint venture to establish the ASP Business. The shareholders of iBusiness Corporation include Cheung Kong, Hutchison Whampoa Limited, Hang Seng Bank and HSBC.

Under the iBusiness Corporation JV Agreement, iBusiness Corporation has agreed to contribute 62.5 per cent. of the initial funding requirement of the joint venture company of approximately HK\$100 million. The Company has agreed to contribute the remaining 37.5 per cent. Each of the Company and iBusiness Corporation has agreed to contribute such funding to the joint venture company or to arrange borrowings in the form of loans or overdraft facilities for the joint venture company as required by the board of the joint venture company from time to time, and the provision of funding or guarantee to lenders shall be made by the Company and iBusiness Corporation in proportion to their respective shareholding interests in the joint venture company. Pursuant to a side letter executed on the same date as the iBusiness Corporation JV Agreement, the Company and iBusiness Corporation agreed that each of them could nominate a wholly-owned subsidiary to subscribe for and hold the shares in the joint venture company. i21 Limited, a joint venture company owned as to 37.5 per cent. by Excel (BVI) Limited and 62.5 per cent. by iService21 Holdings Limited (a wholly-owned subsidiary of iBusiness Corporation), is the vehicle through which the Group and iBusiness Corporation jointly develop and operate the ASP Business. The ASP Business is developed and marketed under the brandname "i21".

Pursuant to the terms of the iBusiness Corporation JV Agreement, the Group will make available to the ASP Business its suite of application products at nil consideration. The Group will also allow the ASP Business to use its infrastructure of technology development platform

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and technology knowhow. The Directors believe that Group possesses the knowledge and skill to operate and support the infrastructure to deliver its enterprise software through the ASP Business. iBusiness Corporation will contribute by way of brandname, marketing, support and network and advisory services.

Pursuant to the iBusiness Corporation JV Agreement, the Company can only conduct or engage in the application software provider business or any related activities through i21 Limited. In addition, during the subsistence of the iBusiness Corporation JV Agreement and within 12 months after the Company ceasing to be a shareholder of i21 Limited, the Company is not permitted, in any country or place, to carry on or be engaged, concerned or interested in carrying on any business carried on by i21 Limited then or within one year prior to the date of such cessation.

The ASP Business provides customers with the ability to access the business applications developed by the Group through the Internet and leased lines without the cost and burden of owning, managing or maintaining the underlying technology. It represents one of the newest methods of delivering software capabilities. Revenue will be generated through a combination of on-going periodic subscription payments and fees charged on the basis of usage and completed transactions, but will not be based on a model where only an upfront "one-off" licence fee is imposed.

The ASP Business will provide the Group with an additional sales and marketing channel for the Group's enterprise software. The Directors intend to cross sell its other enterprise software to customers of the ASP Business, and believe that this method of sales and marketing will be cost-effective to the Group.

Pursuant to an addendum dated 15th June, 2000 between the Company and iBusiness Corporation relating to the iBusiness Corporation JV Agreement, in the event the application for listing of i21 Limited is approved by a recognised stock exchange on or before 31st December, 2000, the Company and iBusiness Corporation shall procure i21 Limited to issue to the Company or its wholly-owned subsidiary new shares in i21 Limited representing 5 per cent. of the issued share capital of i21 Limited immediately before the time of such allotment at a consideration calculated according to the following formula:—

$$\text{Consideration} = A \times (B - C)$$

where:

A = total investment of iBusiness Corporation

B = the difference in percentage shareholding interests of iBusiness Corporation in i21 Limited immediately before and after the issue of the new shares

C = the difference in percentage shareholding interests of the Company or its wholly-owned subsidiary in i21 Limited immediately before and after the issue of the new shares

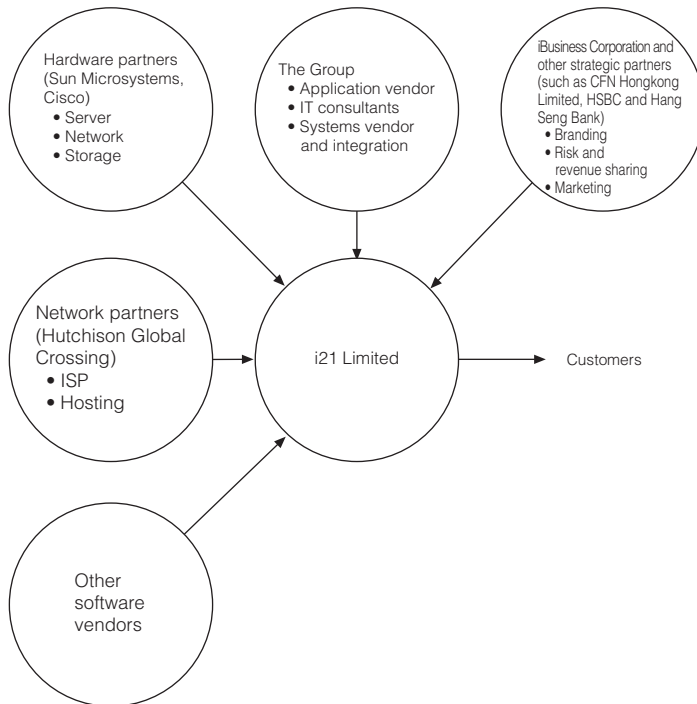
The Company will comply with any relevant provisions in Chapters 19 and 20 of the GEM Listing Rules if it acquires such additional shares in i21 Limited.

Strategic alliances

The Directors believe that i21 Limited has the resources and capabilities to become a leading player in facilitating the growth and expansion of B2B and B2C e-commerce on the Internet by utilising the ASP business model to deliver software applications over the Internet. i21 Limited has entered into a memorandum of understanding (the “Memorandum of Understanding”) to form a strategic alliance with technology partners to promote the use of ASP service in Hong Kong and the Asia Pacific region:

- Sun Microsystems for the provision of server products and systems software;
- Cisco for networking products;
- Oracle for relational database and technical support; and
- Hutchison Global Crossing for facility management and disaster recovery back-up.

In April, 2000, i21 Limited signed a memorandum of understanding with HSBC and Hang Seng Bank to offer iHR21 (being an ASP service based on HRMS which is expected to be launched in August, 2000) to the small and medium-sized corporate customers of the two banks to perform functions such as human resource management, payroll processing and mandatory provident fund processing through the Internet.



ASP business partners

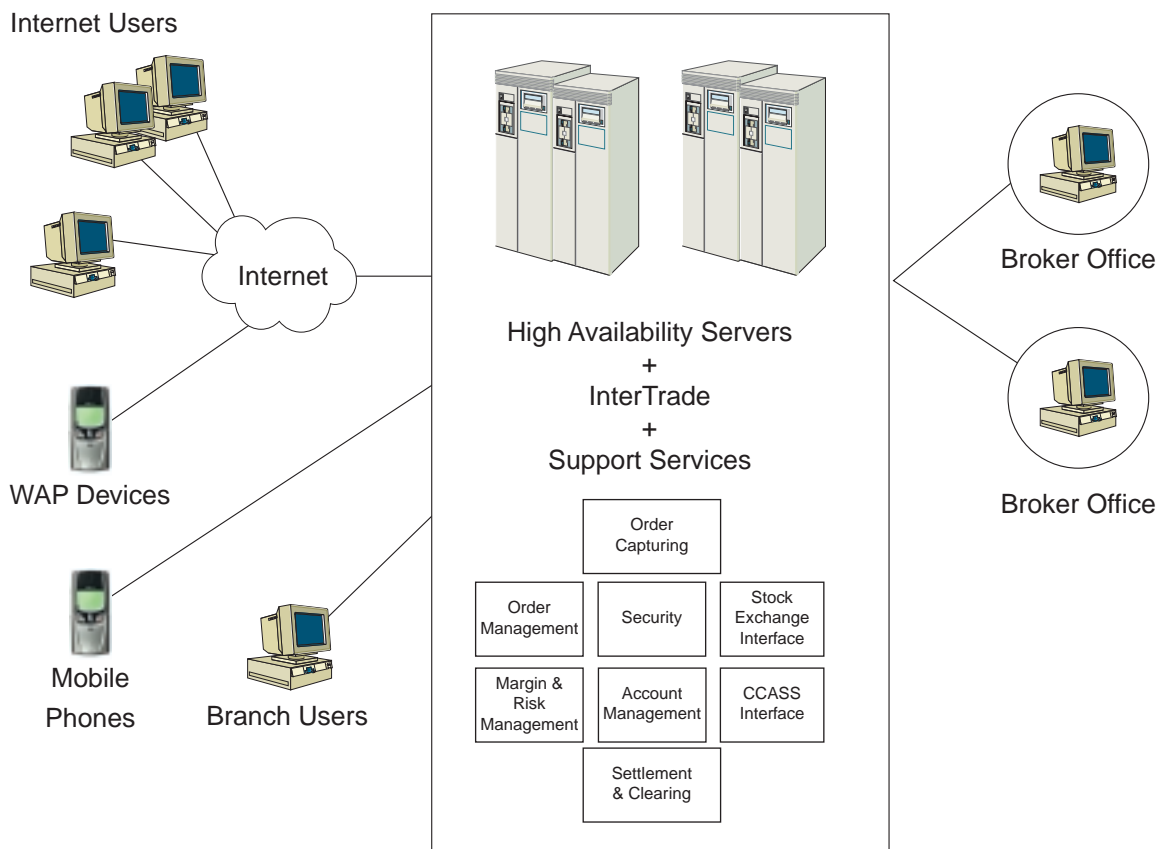
i21

The ASP Business will offer a portfolio of software application offerings over the Internet and leased lines. Each of these offerings will have its target market with the goal of capturing a leading position in the respective markets. The Memorandum of Understanding contemplates that Hutchison Global Crossing will provide facilities management and on-going maintenance services in respect of the computer server systems for the ASP Business. Data received or generated in connection with the ASP Business will be stored in a database at a data centre managed by Hutchison Global Crossing. Data exchange is effected through downloading from the ASP Business database to a flat file, and the Group uses data encryption mechanism together with database access control mechanism to protect data privacy. The Memorandum of Understanding also contemplates that the back-up for the ASP Business will also be provided by Hutchison Global Crossing as the facilities management provider.

The first application implemented through the ASP Business is iStock21, which is a software application based on the Group's enterprise software InterTrade. The Directors believe iStock21 will be able to capitalise on the growth and expansion of the on-line trading of securities and the opportunities offered by the AMS/3 system, which according to the newsletter issued by the Stock Exchange in March, 2000, is expected to be launched by the Stock Exchange in the third quarter of year 2000 if the results of the market rehearsals beginning mid-2000 are satisfactory. The Directors believe that iStock21 will be able to connect to and interact with the AMS/3 system to enable straight through on-line securities trading.

The target market of iStock21 currently comprises of approximately 500 small and medium-sized stock brokerages in Hong Kong. The Directors anticipate that, in the future, this market will grow to include overseas and other newly established local stock brokerages.

i21 Limited has entered into a memorandum of understanding with each of CFN Hongkong Limited (a company which provides electronic tools for financial and brokerage institutions to conduct global on-line security trading activities) and Cyberbrokers Limited (a company which provides financial and brokerage services to its customers who are stockbrokers in Hong Kong), both of which are independent third parties of the Group. Pursuant to the respective memoranda of understanding, it is proposed that i21 Limited will enter into a strategic relationship with CFN Hongkong Limited and Cyberbrokers Limited whereby i21 Limited will be the ASP for CFN Hongkong Limited and Cyberbrokers Limited, and will provide iStock21 together with related computer hardware, equipment and services necessary for the operation of on-line stock trading services by customers of CFN Hongkong Limited and Cyberbrokers Limited. As at the Latest Practicable Date, two stock brokerages have become customers of and are using the services offered by iStock21 under a small scale pilot scheme. i21 Limited is also currently in negotiation with various consortia of brokers to join the iStock21 service.

The iStock21 ASP setup

In addition to on-line trading of securities over the Internet and mobile phones, iStock21 will also offer the possibility of securities trading through WAP devices.

Following iStock21, the Directors expect that the Group and iBusiness Corporation will add other software applications to the ASP Business, the next being iHR21 and iClaims21 (which will be based on the Group's enterprise software HRMS and Insurance21, respectively), and that the ASP Business will strive to capture market share by pricing its services competitively. The Directors also intend to develop other new software applications to add to the portfolio offered by the ASP Business as and when demand for such new applications are identified. Future details on the addition of other applications to the ASP Business are set out under "Statement of business objectives and strategies".

IT consultancy and custom development services

The Group provides IT strategic consulting and planning services, and develops customised IT solutions for customers in meeting their specific needs. The Group first started as an IT consulting company in 1988 and has over 10 years of experience in this business. Depending on the size of the relevant projects, a project team comprising 6 to 20 members, including project managers, business analysts and systems consultants, is formed to provide IT consulting and planning and other related services and to develop IT applications according to user requirements.

The Group principally provides its IT consulting services either as turnkey projects whereby a fixed cost is charged for the entire project or as consulting services whereby the services rendered are charged based on the time and material spent. For turnkey projects, the Group normally receives payment for part of the contract sum upon completion of certain pre-agreed milestones. The rates the Group is able to charge for its turnkey projects depend on factors such as the complexity of the project, the technology and other materials required, the expected number of man-hours required to complete the project and the level of competition the Group faces for such projects. For consulting services, the Group bills the customer at regular intervals. The rates the Group is able to charge for its consulting services depend on factors such as the expertise and experience of the Group's staff making up the project team and the level of competition the Group faces for such services. The Group normally provides a 30- to 60-day warranty period for its custom application development projects. To date, the Group has not received any monetary claim from its customers in relation to such warranty.

The ownership of the intellectual property rights attached to the developed products is normally the subject of agreement between the Group and the customer. In some cases the Group owns all the intellectual property rights attached to the developed products whilst in other cases the Group and the customer jointly own newly created intellectual property rights. There are also a number of cases in which the customer owns newly created intellectual property rights. In those latter cases, the Group reserves its rights to use the skills and techniques acquired by the Group in order to assist future projects and product development.

Since its establishment, the Group has developed and built up an extensive library of proprietary reusable frameworks developed during the course of IT consulting and customisation projects implemented for its customers. The Directors believe that access to this library helps to reduce the future costs of designing and implementing software solutions and improves the efficiency and quality of customer service. This library of proprietary reusable frameworks is also of significant value in developing new and enhancing existing enterprise software.

Examples of the Group's IT consultancy and custom application development projects include:

- (a) Various IT strategy planning, feasibility studies, requirements studies, and systems architecture design for corporations in Hong Kong. Examples of these IT consultancy projects include: the review of a major US bank's corporate banking systems, development of an IT human resources model for the Asia Pacific information technology group for another major US bank, and IT strategy planning for several Indonesian state banks.

- (b) Developing and implementing the following customised IT systems:
- various customised banking systems for deposits, general ledger, customer information, risk management, securities custodian, and margin trading for The Chase Manhattan Bank and other international and local banks;
 - private banking system for a major Swiss bank;
 - case tracking system, risk management system and secondary loans processing system for a number of Hong Kong governmental authorities; and
 - various systems for land reclamation, management information system, project cost tracking, and engineering systems for the Airport Authority of Hong Kong.
- (c) Provision of development and maintenance support for various corporate banking systems for Citibank, N.A.

As an extension of the Group's IT consultancy and custom development services, and in order to capitalise on opportunities presented by the increasing volume of business being transacted on the Internet or via other electronic media, the Group intends to take on a more active role to help its customers implement their e-business plans. In addition to providing IT solutions, software and IT related support services, the Group will also be engaged in the provision of consulting services, business connections, e-business solutions and day-to-day operational support. In return, the Directors expect that in an increasing number of instances, the Group will be rewarded through risk and revenue sharing arrangements and joint ownership of business initiatives. An example of such an extension of the Group's IT consultancy business is the iTreasury project — see "Statement of business objectives and strategies".

Systems integration and IT product resales

The Group is an authorised reseller of a number of brandname IT products. The sales of these products often come as part of a systems integration project in which the Group is the designated project manager or as part of an integrated solution that bundles the Group's software applications and third party IT products. There are also transactions entered into by the Group which involve only the resale and installation of IT products for the Group's customers.

IT products resold by the Group include the following:

- Sun Microsystems — UNIX servers, workstations and peripherals, operating system software, firewalls, and high availability software;
- Microsoft — Microsoft Windows software, database and other web-based products;
- Compaq — NT servers and workstations;
- Oracle — database management system; and
- Eastman Software Inc. — workflow and imaging software.

The Group enters into non-exclusive agreements with third party vendors which are normally renewable on an annual basis. Under these agreements, product liability remains with the vendors. The Group does not rely on any single vendor for the sourcing of IT products for its IT product resale and systems integration business.

Resales of IT products are normally conducted on a back-to-back basis in that the Group normally does not itself hold any inventory.

Suppliers

The largest supplier to the Group accounted for approximately 50 per cent. and 58 per cent., respectively, of the Group's total purchases in each of the years ended 31st December, 1998 and 1999, and the five largest suppliers to the Group accounted for approximately 76 per cent. and 83 per cent., respectively, of the Group's total purchases for each of the two periods mentioned above. These suppliers usually allow the Group a 30-day open account credit to settle the purchase costs for IT products supplied. The Group has been sourcing from most of these suppliers for in excess of four years. Substantially all of these purchases are attributable to the sourcing of IT products for resale backed by customer orders. Approximately 79 per cent. and 96 per cent., respectively, of the Group's purchases were settled in Hong Kong dollars for each of years ended 31st December, 1998 and 1999, and the balance was settled in US dollars.

As at the Latest Practicable Date, none of the Directors, their associates or any shareholder of the Company (who or which to the knowledge of the Directors owns more than five per cent. of the issued share capital of the Company) had any interest in any of the Group's five largest suppliers for each of the years ended 31st December, 1998 and 1999.

Strategic Investment

Net Fun Limited was founded in 1993. It offers a range of Internet services through the *netfun.com* web-site. Currently the Group has a 10 per cent. interest in Net Fun Limited. The remaining 90 per cent. is held by Ms. Peggy Chan and Rich-Pines Investments Company Limited, a company wholly-owned by Ms. Peggy Chan. The Directors consider this strategic investment in Net Fun Limited to be beneficial to the Group because it provides the Group with an additional presence in the Internet services market.

Net Fun Limited presently offers the following services:

- *CyberCity* — a virtual on-line community targetting Chinese Internet users around the world and providing narrowband and broadband on-line interactive games (such as Chinese Chess, Apple Chess, Chinese Scrabble, Memory Pairs, Reversi, Bridge, Mahjong, Big 2, Tetris, Polar Bomb, Smart IQ, Chocolate/Chocolate, Magic Stone, Speed Bomb and Viper CC), interactive quizzes and educational contents, chat facilities and on-line auction;
- *CyberSquare* — an on-line shopping mall which currently features “gogoalsoccer”, a service providing information, commentary and outcome prediction on soccer matches; and
- web-site design and development.

As at 31st March, 2000, *CyberCity* had over 28,000 registered members. Net Fun Limited seeks to deliver interactive content in order to develop a loyal user base. In addition, it seeks to build a leading entertainment virtual community for Chinese Internet users around the world as well as allowing them to conduct e-commerce.

QUALITY CONTROL

The Group initiates quality control procedures from the start of a project, through to the successful implementation of software applications developed by the Group into the customer's system.

Upon the commencement of every project, a Project Steering Committee ("PSC") is set up to monitor the status of the project and provide resolutions to any project issues which may arise. The size of a PSC varies according to the project size, and the core members comprise of representatives from the Group, the user and the IT department within the customer's organisation.

A project manager is responsible for the creation, development and regular review of the project plan. In addition to the review at every milestone, the project manager will also check for any slippage due to, amongst other factors, scope or strategy change and will notify any such changes to the PSC for resolution.

Depending on the size of the project, the Group may appoint a staff member who is not involved in project execution as a quality assurance person (the "QA") to oversee the overall quality of the project and to ensure that all appropriate procedures are adhered to, all deliverables conform to standards, and that the product system is stringently tested.

In relation to the development of the Group's enterprise software, the Software Centre has established a set of development standards and guidelines to ensure high quality output. Quality assurance procedures are in place to provide checkpoints and review throughout the product development cycle. The Group places great emphasis on quality assurance in its enterprise software development process and intends to apply for SQA certification issued by the Productivity Council in Hong Kong.

MAINTENANCE AND SUPPORT

In relation to its IT consultancy business, the Group provides customer support services during project implementation and the warranty period. The Group also enters into maintenance contracts with customers who require on-going maintenance and support services from the Group. The services provided include a telephone hot-line support to provide access to the Group's technical resources for operational and technical assistance and guidance as well as on-site maintenance.

In relation to the Group's enterprise software business, the Group provides maintenance, software upgrade and enhancement and support services for its enterprise software through annual maintenance contracts entered into with customers who require these services.

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In relation to the sale of IT products, the Group also enters into maintenance sub-contracting arrangements with some of the IT products vendors pursuant to which the Group is engaged to provide first line maintenance and trouble shooting support service to customers with back-to-back engineering support from the vendors.

SALES AND MARKETING

The Group has a dedicated team of six sales and marketing staff. This marketing team, in co-operation with the Directors and project and product managers, is responsible for the marketing and promotion of the Group's enterprise software as well as the IT services offered by the Group.

The marketing team is responsible for making the initial contact with potential users of the applications and then for collaborating with the project and product managers who negotiate and finalise the deal. The marketing team is remunerated on a commissions basis.

From time to time, the Group also organises joint marketing efforts with software vendors which in the past have included Sun Microsystems, Sybase, Microsoft, Oracle and Cisco. Such joint marketing efforts include jointly hosting product seminars, conferences and exhibitions.

Customers

The largest customer of the Group accounted for approximately 13 per cent. and 21 per cent. of its turnover for each of the years ended 31st December, 1998 and 1999, respectively, and the five largest customers of the Group accounted for approximately 40 per cent. of its turnover for each of the two periods mentioned above. For each of the two years ended 31st December, 1999, approximately 99 per cent. of the Group's turnover was settled in Hong Kong dollars, and the balance was settled in US dollars. Customers are usually offered a credit period of 30 days. As at the Latest Practicable Date, none of the Directors, their respective associates (as defined in the GEM Listing Rules) and shareholders who own more than five per cent. of the issued share capital of the Company had any interest in any of the five largest customers of the Group for each of the years ended 31st December 1998 and 1999.

INTELLECTUAL PROPERTY RIGHTS

The Directors believe that the Group has exclusive intellectual property rights in its suite of enterprise software which the Group licenses on a non-exclusive basis to different enterprises. For IT consultancy services such as the development of customised IT solutions, the contracts entered into by the Group usually provide that the Group would share the ownership of such rights with customers in order to assist future projects and product development.

The Group has been using the "Excel" mark in Hong Kong since 1988 on and in relation to IT consultancy services. The Group has applied for registration of the trade marks "志鴻" and "Excel" with the Trade Marks Registry, Intellectual Property Department of Hong Kong under classes 9, 35 and 42 and "Excel 志鴻" under classes 37 and 41, and the trade marks "志鴻" and "Excel" with the Intellectual Property Office of Singapore under classes 9, 35 and 42. The Group does not know whether, and if so, when such applications will be approved or whether any conditions will be attached to such approvals. In addition, the Directors are aware that two companies in the United States have a name or product bearing reference to "Excel" which

may be confused with the Company: Excel Technology Inc., a Nasdaq listed company incorporated under Delaware law, designs, develops, manufactures and markets laser systems and electro-optical components for industry, science and medicine; Microsoft Inc. has been producing a spreadsheet software under the mark “Excel”. The search of the Trade Mark Registry in Hong Kong conducted in January, 2000 did not disclose any trade mark applications or registrations for the word “Excel” in Hong Kong in the name of Microsoft Inc. or Excel Technology Inc. The Company is not in any way related to the above-mentioned companies or product, is not aware of any instances of confusion arising due to the use by the Group of the “Excel” mark, and has not received any complaint from either of the said companies or any other parties about the use of the word “Excel” as the name and trade mark of the Company. However, to the extent the Group is unable to use one or more of those marks or to use “Excel” as part of its name, the Group may be forced to adopt alternative marks or to re-name and re-brand itself entirely.

The Group has registered the domain names “excel.com.hk” and “itjob.com.hk”.

Please refer to “Further information about the business — Intellectual property” in Appendix VI to this prospectus for further details of the intellectual property rights of the Group.

RESEARCH AND DEVELOPMENT

The Group places great emphasis on research and development. As the Directors believe that the future of the IT industry lies with the Internet, the Group’s research has focused and will continue to focus on technologies applicable to the Internet and the market opportunities arising out of the increasing popularity of the Internet. The Group will, in addition, explore other technologies that can be applied to the development of the Group’s business and operations. In 1998, the Group applied for and successfully obtained funding facilities of up to HK\$4 million under the Applied Research and Development Scheme from the Applied Research Council of the Industry Department for the development of InterTrade, of which approximately HK\$2.54 million was drawdown as at 31st December, 1999. This amount has subsequently been repaid by the Group.

Research and development teams

From time to time, the Group would establish one or more research and development teams within the Software Centre to conduct research on new technologies. The objective of the research and development teams is to support both the Group’s technology development and its customers’ specific requirements. Research and development activities include technology platform and tools evaluation, impact analysis, prototyping, and technology trend forecast and analysis. In addition, the research and development teams develop applications to pilot use these tools and platforms and test out the efficiency, reliability, and susceptibility to high volume prior to large scale deployment. The Group also invites customers to attend technology forums organised by the Group, in which the customers will either be presented with technology briefings or discuss with the research and development teams and among each other on particular technology issues. The research teams usually consist of two to five professional technical staff drawn from the Software Centre to serve particular research needs.

Certain technical staff who have participated in research and development teams and who have therefore accumulated experience on particular technologies are organised into Centres of Excellence to give expert support to the Group's customers and product teams. Currently, these Centres of Excellence include a Java team and a Microsoft technology team. The Directors expect other Centres of Excellence will be formed in the future to cover new technologies as such technologies emerge.

Product teams

The Software Centre is organised into different product teams, each of which usually consists of a product manager, a business analyst and a number of technical personnel. Each product team is responsible for the development or enhancement of one or more enterprise software assigned to them.

In respect of enterprise software that has not yet been developed, the responsible product team will be required to form the conceptual design and to develop the new product through user requirement study, design analysis, programming and testing. Product teams responsible for existing enterprise software are required to continuously review, enhance and upgrade the relevant software.

COMPETITION

The Group operates in a highly competitive market which is subject to rapid technological change.

For each of the Group's enterprise software, the Directors are aware of competition from similar products available in the market. Some of the enterprise software, such as InterTrade, HRMS and EZ-File, face more acute competition than the other products. The Group faces and may face the following competition in respect of its enterprise software, IT consultancy and systems integration businesses:

- competitors of the Group who have adopted a low-price strategy in order to attract customers;
- long established IT companies with substantially greater resources than the Group with products which compete with the Group (or for those who do not yet have competing products, they may be able to develop new software applications which will compete with those of the Group); and
- large overseas IT companies whose products have a following in overseas markets who seek to sell their products in the Asia Pacific region.

The ASP Business may face the following competition:

- lower end (and hence less expensive) software products which provide only basic functionalities;

BUSINESS

- other ASPs providing similar services; and
- other entrants into the market such as business ISPs, data centres and hardware and software vendors who enter into strategic partnerships to offer similar services.

However, the Directors believe that the Group has extensive skill and knowledge of the banking and finance sector, and it is intended that the Group will continue to focus on this sector. The Group's portfolio of enterprise software is continually being expanded and enhanced through research and development efforts. The Directors believe that one of the most important competitive strengths of the Group lies in the ability of its staff to master new technology and to put the technology into practical use to improve and enhance the Group's products and services offered to customers. As such, the Directors believe that the Group is well-equipped to compete in the markets in which it operates.

YEAR 2000 COMPLIANCE

The Directors believe that the Group's internal software and hardware systems will function properly with respect to dates in the year 2000 and thereafter. Up to the Latest Practicable Date, the Group has not experienced any systems failure related to year 2000 compliance. However, certain problems could arise during this year and future periods which have yet to become apparent.

As a part of its ongoing internal maintenance programme, the Group in early 1999 conducted a complete inventory of the hardware and software in use by the Group in order to verify the state of year 2000 compliance.

The Group has also examined year 2000 issues as they relate to third parties with which it has a material relationship. The Directors believe that third party tools used by the Group, such as operating systems, databases and other design and development applications, are year 2000 compliant. The Directors believe that any failures of these systems would have negligible impact on the Group's operations.

The Group has verified that its enterprise software are year 2000 compliant. Although the Group does not warrant the compliance of third party software and hardware, the Group has given year 2000 warranties in respect of the software applications that it developed. There is therefore a risk that customers for whom the Group has created, implemented or reviewed software or systems will attempt to hold the Group liable for any damages that may result in connection with year 2000 problems with such software or systems. There can be no assurances that such actions against the Group would not materially adversely affect the Group's business, operating results and financial condition.

There is no assurance that other web applications, database software or computer hardware of the Group's customers which interface with the Group's products (and which may be necessary in order to use the Group's products) are year 2000 compliant. Therefore, there can also be no assurance that implementations of the Group's products on its customers' systems are year 2000 compliant.

STRATEGIC ALLIANCES**Strategic Investors in the Company*****Cheung Kong***

Cheung Kong and its subsidiaries are principally engaged in property development and investment, real estate agency and management, and investment in securities. Cheung Kong is the single largest shareholder of Hutchison Whampoa Limited which operates five core businesses in 25 countries. The five core businesses are: ports and related services, telecommunications and the Internet, property and hotel development and investments, retail, manufacturing and other services, and energy and infrastructure. Cheung Kong and Hutchison Whampoa Limited and their respective subsidiaries have interests in Internet infrastructure and other Internet and e-commerce related projects, including interests in tom.com limited and iBusiness Corporation. According to the press release dated 23rd January, 2000 issued by Cheung Kong, Cheung Kong and Hutchison Whampoa Limited together hold approximately a 75 per cent. interest in iBusiness Corporation, which in turn owns a 62.5 per cent. interest in i21 Limited. Immediately following completion of the Share Offer and the Capitalisation Issue, Cheung Kong will through Alps own 71,969,151 Shares, representing approximately 7.20 per cent. of the enlarged issued share capital of the Company (assuming the Over-allotment Option is not exercised) as a result of (i) the conversion of the Convertible Note in the principal amount of US\$6,600,000 acquired at par by Alps on 15th June, 2000 at a conversion price of HK\$250 per Share and (ii) the completion of the Share Offer and the Capitalisation Issue. Cheung Kong, through Alps, has also agreed to acquire the Additional Convertible Note. If the Additional Convertible Note is exercised in full and assuming that (i) the Over-allotment Option is not exercised, (ii) the existing share capital of the Company is not altered otherwise than pursuant to the Share Offer, the Capitalisation Issue and the issue of Shares pursuant to the conversion of the Additional Convertible Note, (iii) Cheung Kong does not directly or indirectly take up additional Shares except pursuant to the Capitalisation Issue and the conversion of the Additional Convertible Note, and (iv) no adjustment to the conversion price of the Additional Convertible Note is necessary except for the adjustment to take into account the Capitalisation Issue, Cheung Kong will through Alps own 117,580,012 Shares, representing approximately 11.25 per cent. of the issued share capital of the Company as enlarged by the Share Offer, the Capitalisation Issue and the issue of Shares pursuant to the conversion of the Additional Convertible Note.

Pursuant to an agreement between the Company and Cheung Kong dated 21st February, 2000, the parties agreed to form a strategic alliance to provide application software, IT and e-commerce related services (the “**Services**”) by way of the granting of a first right of participation to Cheung Kong by the Company. Pursuant to the terms of the first right of participation, if the Group enters into discussions with a third party with a view to establishing a joint venture or other agreement or arrangement as regards the provision of the Services under which the third party is expected to supply funding, brandname support, distribution outlet and/or marketing network, Cheung Kong shall have a first right to participate or to nominate a subsidiary to participate in the proposed joint venture or other agreement or arrangement on no less favourable terms to the Group than those offered by the relevant third party.

UOB Investors

With a network of 305 offices around the world comprising 71 domestic bank branches in Singapore and 234 overseas offices, UOB and its two bank subsidiaries, Far Eastern Bank and Industrial and Commercial Bank, offer a range of services including commercial banking, private banking, merchant banking, trust services, venture capital investment, stockbroking, fund management, capital markets activities, precious metals trading, factoring, hire purchase, general insurance and life assurance.

UOB has also diversified into travel, leasing, property development, hotel management, healthcare, manufacturing and general trading through its subsidiaries and associated companies. In 1999, UOB was ranked by Asiamoney as the third among Asia's top 15 banks and the top bank in Singapore. UOB's venture capital management arm, UOB Venture Management Pte Ltd (UOBVM), presently manages three funds out of Singapore. These are UOB Venture Investments Limited, UOB Investments II Limited and UOB Venture Technology Investments Limited. These three funds together with UOB collectively form the UOB Investors into the Company.

Immediately following completion of the Share Offer and the Capitalisation Issue, UOB, UOB Venture Investments Limited, UOB Venture Investments II Limited and UOB Venture Technology Investments Limited will together own 43,617,668 Shares, representing approximately 4.36 per cent. of the enlarged issued share capital of the Company (assuming the Over-allotment Option is not exercised) as a result of (i) the conversion of the Convertible Notes in the principal amount of US\$4,000,000 in aggregate acquired at par by UOB, UOB Venture Investments Limited, UOB Venture Investments II Limited and UOB Venture Technology Investments Limited on 15th June, 2000 at a conversion price of HK\$250 per Share and (ii) the completion of the Share Offer and the Capitalisation Issue.

ChinaVest

ChinaVest is a private equity investment company providing investment capital to promising entrepreneurial companies in Greater China. Established in 1980, the ChinaVest Group is one of the oldest and largest investment firms in Asia with offices in San Francisco, Hong Kong, Beijing, Shanghai and Taipei. The ChinaVest Group consists of a series of investment funds with an aggregate fund size of approximately US\$300 million, and has a track record in helping technology companies to list on Nasdaq in the US. A majority of the investors in the investment funds are institutional investors in the US.

Immediately following the completion of the Share Offer and the Capitalisation Issue, ChinaVest will through CV Software Holdings own 32,713,251 Shares, representing approximately 3.27 per cent. of the enlarged issued share capital of the Company (assuming the Over-allotment Option is not exercised) as a result of (i) the conversion of the Convertible Note in the principal amount of US\$3,000,000 acquired at par by CV Software Holdings on 15th June, 2000 at a conversion price of HK\$250 per Share and (ii) the completion of the Share Offer and the Capitalisation Issue.

Strategic partner

iBusiness Corporation

iBusiness Corporation is a business partner of the Group and has formed a joint venture with the Group to launch and develop the ASP Business under the brandname “i21”.

iBusiness Corporation is itself a joint venture between Cheung Kong, Hutchison Whampoa Limited, HSBC and Hang Seng Bank, and was established to be a service provider and business facilitator for the development of e-commerce business on the Internet. According to the press release dated 23rd January, 2000 issued by Cheung Kong, Cheung Kong and Hutchison Whampoa Limited together hold approximately 75 per cent. of iBusiness Corporation while HSBC and Hang Seng Bank together hold approximately 25 per cent. of iBusiness Corporation, and minority shares of iBusiness Corporation have been reserved for senior executives. HSBC and its subsidiaries are one of the world’s leading international banking and financial services organisations, with major personal, commercial, corporate and investment banking and insurance business operating in the Asia Pacific region, Europe, the Americas, the Middle East and Africa. HSBC has an approximate 62 per cent. interest in Hang Seng Bank. Hang Seng Bank has a focus on Hong Kong and the PRC, and specialises in a wide range of retail banking, corporate banking and treasury services. Hutchison Whampoa Limited is owned as to approximately 49.9 per cent. by Cheung Kong. Details of Cheung Kong and Hutchison Whampoa Limited are described under “Cheung Kong” above.

The Directors expect the Group to continue to maintain a close on-going relationship with its investors and business partners. The Directors also believe such relationship is beneficial to the Group as it allows the Group to leverage off the industry expertise, reputation, global network and IT related know-how of its investors and partners and is likely to lead to various forms of future co-operations and joint business development.

CONTINUING CONNECTED TRANSACTIONS

A subsidiary of the Company has entered into the following transactions which will continue in the future and are considered as continuing connected transactions of the Company under the GEM Listing Rules following the listing of the Shares on GEM.

Administrative Services Agreement

Net Fun Limited is an associate of Ms. Peggy Chan for the purpose of the GEM Listing Rules. Excel Technology International (Hong Kong) Limited (the “**Service Provider**”), a wholly-owned subsidiary of the Company, has provided and will continue to provide accounting, general office administrative and company secretarial services as may be requested by Net Fun Limited from time to time pursuant to an administrative services agreement dated 1st June, 2000 entered into between Net Fun Limited and the Service Provider (the “**Administrative Services Agreement**”). The Administrative Services Agreement will be for an initial term of one year from 1st June, 2000 which may be extended as the parties may agree and may be terminated by either party giving one month’s notice of termination to the other party. Under the Administrative Services Agreement, Net Fun Limited shall pay the

Service Provider a fee on a cost basis which is determined to be HK\$45,000 per month (being HK\$25,000 for accounting and company secretarial services and HK\$20,000 for personnel and administrative services) together with a dollar for dollar reimbursement of the out-of-pocket expenses incurred for the provision of the services to Net Fun Limited.

The continuing connected transaction contemplated under the Administrative Services Agreement constitutes an exempt continuing connected transaction under Rule 20.25(3) of the GEM Listing Rules because the annual fee payable under the Administrative Services Agreement will be HK\$540,000, which together with the annual disbursement will be less than the higher of the amounts specified in the said Rule 20.25(3).

Sub-tenancy Agreement

Excel Technology International (Hong Kong) Limited (the “**Head-tenant**”), has taken up a lease from an independent third party in respect of the office premises located at Suite 1405, 14th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong with a saleable area of approximately 1,704 sq.ft. (the “**Premises**”). Net Fun Limited is an associate of Ms. Peggy Chan for the purpose of the GEM Listing Rules.

Pursuant to a sub-tenancy agreement dated 3rd May, 2000 entered into between the Head-tenant and Net Fun Limited (the “**Sub-tenancy Agreement**”) after obtaining the consent of the landlord of the Premises, Net Fun Limited sub-leased the Premises from the Head-tenant for a fixed term of 23 months and 24 days from 1st June, 2000 to 24th May, 2002 at a monthly rental of HK\$39,960 (exclusive of rates, management fees and utilities charges), which is based on the actual rental payment of the Head-tenant to its landlord.

The continuing connected transaction contemplated under the Sub-tenancy Agreement constitutes an exempt continuing connected transaction under Rule 20.25(3) of the GEM Listing Rules because the annual rental payable under the Sub-tenancy Agreement will be HK\$479,520, which is less than the higher of the amounts specified in the said Rule 20.25(3).

DIRECTORS

Executive Directors

ZEE CHAN Mei Chu, Peggy (徐陳美珠), aged 45, the founder and Managing Director of the Group, is responsible for setting the strategic directions of the Company. She has over 16 years of experience in business re-engineering, strategy studies, technology planning and systems development, particularly in the finance and banking area. Starting her career as a manager in Arthur Young & Company in Washington D.C, United States, Ms. Chan returned to Hong Kong in 1988 to establish the local office of an Australian software house, and later the Group. She received the DHL/SCMP Hong Kong Young Entrepreneur Business Award in 1990 for outstanding entrepreneurship. Ms. Chan is also a founding member of the Cyber Youth Services, a non-profit organisation dedicated to provide local community services to the young people through innovative usage of information technology, and a founding member of Information and Software Industry Association, a trade organisation dedicated to promote the software industry in Hong Kong.

FUNG Din Chung, Rickie (馮典聰), aged 44, is the Director responsible for business development and sales and marketing of the Group. Mr. Fung was responsible for developing the Group's networking and systems integration business. Prior to joining the Group in 1996, Mr. Fung worked for IBM Hong Kong for 17 years, going through various positions in different business areas, including technical support, training, marketing, and management. Mr. Fung was the manager in the Imaging Solution Centre, a unit dedicated to the application of workflow and imaging technology in business usages. Mr. Fung is a frequent speaker on various information technology subjects.

LEUNG Lucy, Michele (梁樂瑤), aged 47, is the Director of the Software Centre responsible for the sales, implementation and continuous improvement of the various software applications developed by the Group. Ms. Leung has over 17 years of experience in the development, conversion and migration of various computer systems in the credit card, retail banking, and insurance industries. Prior to joining the Group in 1989, Ms. Leung has worked for Mervyn's, United Grocers, Tymshare Transaction Services, Visa and the Bank of Montreal in the United States and Canada.

NG Wai King, Steve (吳偉經), aged 41, is the Director of research and development of the Company responsible for research on software technology and implementation methodology, as well as the development of the Company's software infrastructure and building blocks. Beside his strong technical capabilities, Dr. Ng also has extensive knowledge in private banking, stock brokerage, portfolio management and treasury business. Prior to joining the Group in 1996, Dr. Ng was the technology head for Citibank's Hong Kong Private Banking Group, in which he managed the client/server development projects of the region for both local and global implementation.

IP Kim Kuen (葉劍權), aged 37, is the Director and chief investment officer of the Company responsible for strategic acquisition and investment. Mr. Ip has over 10 years of experience in the investment field and was the vice president of ChinaVest Limited, a leading US venture capital firm, director and general manager of Kleinwort Benson's China direct investment fund,

the head of investment of a public company in Hong Kong. He had also worked for Spectrum Mutual Fund and Richarson Greenshields in Canada, and Jardine Fleming in Hong Kong. Mr. Ip has extensive experience in investing in technology companies in Greater China and was heavily involved in cross-pacific venture deals between US and China. Mr. Ip joined the Group in March 2000.

Non-executive Directors

IP Tak Chuen, Edmond (葉德銓), aged 47, is a non-executive Director of the Company. He has been an executive director of Cheung Kong since 1993. Mr. Ip is also an executive director of Cheung Kong Infrastructure Holdings Limited and a non-executive director of tom.com Limited. He was appointed as non-executive Director of the Company on 21st February, 2000.

LAU Law Siu Hung, Monique (劉羅少紅), aged 43, is a non-executive Director of the Company. Ms. Lau is the Chief Operating Officer of ChinaVest Limited, and is responsible for development and implementation of investment strategies and corporate marketing activities in Greater China. In 1997, Ms. Lau joined ChinaVest from Citibank Hong Kong where she was the head of the Corporate Banking Group. Her 18-year banking career includes four years at Bankers Trust Company as the head of the Hong Kong Credit Function. She was appointed as non-executive Director of the Company on 21st February, 2000.

QUEK Cher Teck (郭子德), aged 45, is a non-executive Director of the Company. Mr. Quek has more than 20 years of experience in commercial banking, trade banking, investment banking and corporate finance with the United Overseas Bank (UOB) Group. Mr. Quek is presently the Managing Director of UOB Venture Management Pte Ltd (UOBVM), the venture capital management arm of the UOB Group, and Head of the UOB Group's Direct Investment team charged with the responsibility of making direct investments on behalf of UOB. Mr. Quek was the head of international branches division and the chief representative of the UOB Group in Taiwan. He was appointed as non-executive Director of the Company on 21st February, 2000.

Independent non-executive Directors

CHEONG Ying Chew, Henry (張英潮), aged 52, is an independent non-executive Director of the Company. Mr. Cheong is a member of the Corporate Advisory Council of the Hong Kong Securities Institute. From 1993 to 1999, Mr Cheong was a member of the advisory Committee to the Securities and Futures Commission and, from 1994 to 2000, a member of the board of the Hong Kong Futures Exchange Limited. He is also a non-executive director of various other listed companies in Hong Kong. Mr Cheong is currently the Chairman and chief executive officer of Worldsec International Limited. He was appointed as an independent non-executive Director of the Company on 30th May, 2000.

CHANG Ka Mun (張家敏), aged 40, is an independent non-executive Director of the Company. Mr. Chang is the President of Corporate Niche Limited, Director of Global Chinese CyberCapital Group and Polyspring Enterprises Company Limited. He is also a member of the Chinese People's Political Consultative Committee. He was a member of the Preparatory Committee as well as the Basic Law Consultative Committee of the National People's Congress, PRC. He was appointed as an independent non-executive Director of the Company on 30th May, 2000.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

PETRO A. Frank, aged 57, is an independent non-executive Director of the Company. Mr. Petro is the chairman and chief executive officer of InnoVentry, which is an e-commerce company specialising in financial services applications with its headquarter in San Francisco, California, the United States of America. Prior to his present appointment to Innoventry, Mr. Petro was an executive vice president at Wells Fargo Bank and was also President, Asia Pacific for CSC Index, responsible for the firm's activity in Hong Kong, Japan and Korea. Mr. Petro is a certified practicing accountant, licensed in New York and California. He was appointed as an independent non-executive Director of the Company on 30th May, 2000.

SENIOR MANAGEMENT

WEN Pei-Sung, Dennis (文北崧), aged 52, is the business director of the Company. Mr. Wen has over twenty-nine years of IT marketing and services experience. Mr. Wen previously worked for Oracle Greater China Region and IBM Greater China Region in various senior management positions. Mr. Wen has completed the Management Development Program at ASIA Institute of Management. He joined the Group in 2000.

SENIOR TECHNICAL MANAGERS

MOK Wing Wah, Andy (莫永華), aged 38, is a senior manager of the Company. Mr. Mok has over fifteen years of experience in the IT industry, most of which were on project management, feasibility studies, and application systems development. Mr. Mok joined the Group in 1988.

LEUNG Chee Woo, David (梁志和), age 40, is a senior manager of the Company. Mr. Leung has over fifteen years of professional experience in the IT industry, and in client-server technology, relational databases, object oriented techniques and artificial intelligence techniques in particular. Mr. Leung joined the Group in 1997.

YUEN Cheuk Kuen, Jackson (袁焯權), aged 39, is a manager of the Company. Mr. Yuen has over fourteen years of system development experience in the IT industry and in designing banking and loan system packages and 4GL tool, and data modelling methodology in particular. Mr. Yuen joined the Group in 1996.

YIM Kwong Yiu, Ivan (嚴光耀), aged 36, is the technical manager of the Company. Mr. Yim has over twelve years of experience in the IT industry and in the NT, Windows, and UNIX areas, Internet/Intranet system integration and data warehousing in particular. Mr. Yim joined the Group in 1997.

Yu Wai Yin, Lasanda (庾衛賢), aged 34, is a manager of the Company. Ms. Yu has over twelve years of experience in the IT industry with focus on database application development and project management. Ms. Yu joined the Group in 1998.

WOO Wing Kong, John (胡永光), aged 31, is a project manager of the Company in charge of electronic banking. Mr. Woo has eight years of experience in the IT industry with focus on internet and Web applications. Mr. Woo joined the Group in 1998 and was a manager with Net Fun Limited, a subsidiary of the Group since 1993.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

CHAN Po Cheung, David (陳保翔), aged 43, is the financial controller, qualified accountant and company secretary of the Company. Mr. Chan is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. Prior to joining the Group in 1999, Mr. Chan was the group financial controller and company secretary of a Hong Kong listed company. Mr. Chan has over 15 years of experience in auditing, accounting and financial management.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises two independent non-executive Directors, namely, Cheong Ying-Chew, Henry and Chang Ka Mun.

OTHER DIRECTORSHIP OF MR. QUEK CHER TECK

Mr. Quek Cher Teck is the Managing Director of UOB Venture Management Pte Ltd, which presently manages three funds out of Singapore. These are UOB Venture Investments Limited, UOB Investments II Limited and UOB Venture Technology Investments Limited, any or all of which may invest in businesses which compete or may compete with that of the Group.

STAFF

Overview of staff numbers

As at the Latest Practicable Date, the Group had 193 full-time employees, who were all based in Hong Kong and who according to their responsibilities are detailed as follows:

Job category	No. of staff
Senior management/Directors	6
Administration and office support	15
Sales & marketing	7
Product development and implementation (Software Centre)	131
System integration	12
Custom development and consulting	<u>22</u>
Total	<u>193</u>

The Group also engages consultants who are individuals to provide customised solutions development and systems integration services and maintenance support to the Group's customers.

Benefits

The Group provides various benefits to its staff. In addition to the Share Option Scheme, technical and administrative staff may be paid discretionary project-based performance bonuses. Managers may also be eligible for discretionary bonus payments which are tied to meeting individual business objectives.

In terms of training, the Group has a training programme aimed for graduates from an IT re-training course of the Hong Kong Vocational Training Council. Such employees are provided with three months of intensive basic training in software development methodology, standards, programming, documentation and professional ethics in exchange for a commitment that they will remain with the Group for two or three years with a gratuity payment at the end of the term. After the basic training, such employees are provided with a further three months of specialised training with a focus on a specific industry as well as specific product knowledge and technical skills.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme for the benefit of the employees and executive Directors of the Group. Details of the Share Option Scheme are set out under "Share Option Scheme" in Appendix VI to this prospectus. The Directors believe that the Share Option Scheme will assist in the recruitment and retention of high calibre executives and employees.

Employees' options over existing Shares

At nil consideration, Ms. Peggy Chan through Passion granted the Employees' Options to the Designated Employees under the Share Option Deeds pursuant to which the Designated Employees can, at their option and subject to the terms set out in the paragraph below, acquire from Ms. Peggy Chan a total of 16,139,098 Shares representing approximately 1.61 per cent. of the Company's issued share capital immediately following completion of the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option). None of the Designated Employees are Directors or their connected persons (within the meaning of the GEM Listing Rules).

The Employees' Options will vest in the Designated Employees on the first anniversary of the date of the relevant Share Option Deed, and may thereafter be exercised from time to time at an exercise price of 1.0 per cent. of the Offer Price per Share in the following manner:

- (a) during the one-year period starting from 16th June, 2001, up to one half of the Shares comprised in the relevant Employees' Option may be exercised; and
- (b) during the one-year period starting from 16th June, 2002, the Shares comprised in the relevant Employees' Option (to the extent not exercised in accordance with (a) above) may be exercised in full.

The Employees' Options will expire on 15th June, 2003 if they are not exercised before that date.

The granting of the Employees' Options is conditional upon the listing of the Shares on GEM.

If a Designated Employee ceases to be an employee of the relevant member of the Group for any reason (including death) during the 12 month period following the date of the relevant Share Option Deed, the relevant option shall lapse automatically on the date of such cessation of employment.

If after the 12-month period following the date of the relevant Share Option Deed, a Designated Employee ceases to be an employee of a member of the Group for reasons other than (i) death; (ii) termination of employment by the relevant member of the Group for reason of misconduct or certain other grounds (including bankruptcy, insolvency or a conviction for a criminal offence); or (iii) the Designated Employee's resignation, the Designated Employee may exercise its option (to the extent already vested but not already exercised at the date of cessation of the Designated Employee's employment) in accordance with the terms of the relevant Share Option Deed within the period of one month following the Designated Employee's last day of employment, failing which the relevant option shall lapse.

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS AND STRATEGIC INVESTORS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, after the completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and taking no account of the Shares which may be taken up under the Share Offer), the only persons directly or indirectly holding interests in 10 per cent. or more of the Shares will be:

Name	Number of Shares	Approximate percentage of holding
Ms. Peggy Chan	579,956,044	57.99% (Note 2)
Passion (Note 1)	579,956,044	57.99% (Note 2)

Notes:

1. As Passion is a company wholly-owned by Ms. Peggy Chan, Ms. Peggy Chan will have deemed interest in the 579,956,044 Shares held by Passion under the SDI Ordinance.
2. On 15th June, 2000, Ms. Peggy Chan through Passion granted the Employees' Options to the Designated Employees. If the Employees' Options are exercised in full, the shareholdings of Ms. Peggy Chan and Passion in the Company will be reduced to approximately 56.38 per cent. (assuming the Over-allotment Option is not exercised, the Additional Convertible Note is not converted, and the shareholding structure of the Company upon completion of the Share Offer and the Capitalisation Issue will not otherwise be altered).

INITIAL MANAGEMENT SHAREHOLDERS

Immediately after the completion of the Share Offer and the Capitalisation Issue, Mr. Fung Din Chung, Rickie, Mr. Ng Wai King, Steve, Ms. Leung Lucy, Michele (through Mossell) and Mr. Ip Kim Kuen will be interested in 24,559,498, 21,050,998, 24,559,498 and 1,403,400 Shares respectively, representing in aggregate approximately 7.16 per cent. of the enlarged issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised). As such, together with Ms. Peggy Chan and Passion, Mr. Fung Din Chung, Rickie, Mr. Ng Wai King, Steve, Ms. Leung Lucy, Michele, Mossell and Mr. Ip Kim Kuen are considered to be the initial management shareholders (as defined in the GEM Listing Rules) of the Company.

Each of Ms. Peggy Chan and Passion has undertaken to the Company and the Stock Exchange, save as provided under waivers granted by the Stock Exchange as described under "Waivers in respect of the GEM Listing Rules", that:

- (i) she or it will place with an escrow agent acceptable to the Stock Exchange her or its Relevant Securities during the Relevant Lock-up Period and all the Relevant Securities not yet disposed of by her or it during the period of six months from the expiry of the Relevant Lock-up Period;
- (ii) during the Relevant Lock-up Period, she or it will not, save as provided in the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of her or its direct or indirect interest in the Relevant Securities;

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS AND STRATEGIC INVESTORS

- (iii) within the Relevant Lock-up Period and during the period of six months from the expiry of the Relevant Lock-up Period, she or it shall (a) when she or it pledges or charges any interest in the Relevant Securities, immediately inform the Company and HSBC Investment Bank Asia in writing of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details; and (b) when she or it received indications, either verbal or written, from any pledgee or chargee that the Relevant Securities pledged or charged by her or it will be or has been disposed of, immediately inform the Company and HSBC Investment Bank Asia in writing of such indications or disposal. Upon receiving such information in writing, the Company will, as soon as practicable, make a public disclosure by way of a press announcement; and
- (iv) during the period of six months from the expiry of the Relevant Lock-up Period, she or it will not, save as provided in the GEM Listing Rules, dispose of (nor enter into any arrangement to dispose of) nor permit the registered holder to dispose of (nor enter into any agreement to dispose of) any of her or its direct or indirect interest in the Relevant Securities so that she and it would together control less than 35 per cent. of the issued Shares.

Each of the other Initial Management Shareholders has undertaken to the Company and the Stock Exchange, save as provided under waivers granted by the Stock Exchange as described under “Waivers in respect of the GEM Listing Rules”, that:

- (i) he or she or it will place with an escrow agent acceptable to the Stock Exchange his or her or its Relevant Securities during the Relevant Lock-up Period;
- (ii) during the Relevant Lock-up Period, he, she or it will not, save as provided in the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his, her or its direct or indirect interest in the Relevant Securities; and
- (iii) within the Relevant Lock-up Period he or she or it shall (a) when he or she or it pledges or charges any interest in the Relevant Securities, immediately inform the Company and HSBC Investment Bank Asia in writing of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details; and (b) when he or she or it received indications, either verbal or written, from any pledgee or chargee that the Relevant Securities pledged or charged by him, her or it will be or has been disposed of, immediately inform the Company and HSBC Investment Bank Asia in writing of such indications or disposal. Upon receiving such information in writing, the Company will, as soon as practicable, make a public disclosure by way of a press announcement.

As set out under “Waivers in respect of the GEM Listing Rules”, a waiver from strict compliance with the above restriction imposed on Ms. Peggy Chan and Passion has been granted in connection with the Stock Borrowing Agreement between HSBC Investment Bank Asia and Passion.

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS AND STRATEGIC INVESTORS

SIGNIFICANT SHAREHOLDERS

Cheung Kong and Alps are considered to be the significant shareholders (as defined in the GEM Listing Rules) of the Company as a result of the holding of 71,969,151 Shares by Alps, a wholly-owned subsidiary of Cheung Kong, immediately following the completion of the Share Offer and the Capitalisation Issue, representing approximately 7.20 per cent. of the enlarged issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised). Each of the Significant Shareholders has undertaken to the Company and the Stock Exchange to comply with the requirements of Rules 13.18 and 13.20 of the GEM Listing Rules. Those rules require that from the Listing Date up to and including the date falling six months thereafter:

- (a) the Significant Shareholders place in escrow, with an escrow agent acceptable to the Stock Exchange, its Relevant Securities on terms acceptable to the Stock Exchange;
- (b) the Significant Shareholders do not, save as provided in Rule 13.19 of the GEM Listing Rules, 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 of its direct or indirect interest in the Relevant Securities;
- (c) in the event that the Significant Shareholders pledge or charge any direct or indirect interest in the Relevant Securities under Rule 13.19(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.19(4) of the GEM Listing Rules, they must inform the Company immediately thereafter, disclosing certain prescribed details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (d) having pledged or charged any of their interest in the Relevant Securities under sub-paragraph (c) above, the Significant Shareholders must inform the Company immediately in the event that they become aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected.

STRATEGIC INVESTORS

The UOB Investors will together hold 43,617,668 Shares, representing approximately 4.36 per cent. of the enlarged issued share capital of the Company following completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised). ChinaVest will through CV Software Holdings hold 32,713,251 Shares, representing approximately 3.27 per cent. of the enlarged issued share capital of the Company following completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised). Each of the UOB Investors, ChinaVest and CV Software Holdings has undertaken to the Company and the Stock Exchange that from the Listing Date up to and including the date falling six months thereafter, it shall comply with the requirements set out under paragraphs (a) and (b) under “Substantial, initial management and significant shareholders — Significant Shareholders” above as if it were a Significant Shareholder.

SHARE CAPITAL

HK\$

Authorised share capital:

5,000,000,000 Shares 500,000,000.00

Issued shares:

2,422,688 Shares in issue as at the date of this prospectus 242,268.80

Shares to be issued:

150,000,000 Shares to be issued under the Share Offer 15,000,000.00

847,577,312 Shares to be issued to existing shareholders of the Company upon the Capitalisation Issue 84,757,731.20

Total:

1,000,000,000 Shares 100,000,000.00

Under the GEM Listing Rules, the minimum level of public float to be maintained by the Company at all times after listing is 15 per cent. of the share capital in issue from time to time.

Notes:

Assumption

This table assumes that the Share Offer becomes unconditional.

It takes no account of any Shares which may be issued under the general mandate to issue Shares (see below) or Shares which may be repurchased by the Company (see below) or Shares which may be issued upon exercise of the Over-allotment Option or of options granted under the Share Option Scheme or upon conversion of the Additional Convertible Note.

Ranking

The Offer Shares will rank equally with all Shares now in issue or to be issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus, except that the registered holders of the Offer Shares will not be entitled to any Shares to be issued pursuant to the Capitalisation Issue.

Share Option Scheme

The Company has conditionally adopted a Share Option Scheme. A summary of the principal terms of the scheme is set out under "Share Option Scheme" in Appendix VI to this prospectus.

Under the scheme, 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 per cent. in nominal value of the issued share capital of the Company from time to time (excluding Shares allotted and issued pursuant to exercise of options granted under the Share Option Scheme).

Save as mentioned above and apart from the Additional Convertible Note, the Company does not have any options or securities in issue which are convertible or exchangeable into Shares.

SHARE CAPITAL

General mandate to issue Shares

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with (otherwise than by way of rights issues or scrip dividend schemes or other similar arrangements in accordance with the bye-laws of the Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme) Shares with an aggregate nominal value of not more than:

- (a) 20 per cent. of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue (such share capital shall include the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any).

The mandate will remain in effect 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 any applicable law or the bye-laws of the Company to be held; or
- it is varied or revoked by an ordinary resolution of shareholders of the Company in general meeting,

whichever is the earliest.

For further details of this general mandate, see “Shareholders’ resolutions of the Company passed on 16th June, 2000” in Appendix VI to this prospectus.

General mandate to repurchase Shares

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal amount of not more than 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately following the completion of the Share Offer and the Capitalisation Issue; and the aggregate nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is 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 under “Repurchase by the Company of its own Shares” in Appendix VI to this prospectus.

The mandate will remain in effect until:

- the conclusion of the next annual general meeting of the Company;
- the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held; or
- it is varied or revoked by an ordinary resolution of shareholders of the Company in general meeting;

whichever is the earliest.

INDEBTEDNESS

Borrowings

As at the close of business on 30th April, 2000, being the latest practicable date for the purpose of this indebtedness statement, the Group had aggregate outstanding secured bank loans of approximately HK\$46,000.

As at 30th April, 2000, the Group had in issue Convertible Notes of nominal value US\$13.6 million. The Convertible Notes were subsequently converted on 15th June, 2000, and 422,688 Shares representing approximately 21.13 per cent. of the then existing issued share capital of the Company were issued to the holders of the Convertible Notes.

On 15th June, 2000, the Company agreed to issue the Additional Convertible Note with a principal amount of HK\$47,220,278 to Alps, a wholly-owned subsidiary of Cheung Kong, for cash at par.

Securities and guarantees

As at 30th April, 2000, the Group's total banking facilities of HK\$5,550,000 were secured by the following:—

- (i) a charge over certain of the Group's land and buildings which had an aggregate carrying value of approximately HK\$3.1 million as at 30th April, 2000; and
- (ii) personal guarantee provided by a Director of the Group. On 16th April, 2000, a member of the Group executed a corporate guarantee in respect of the banking facilities, and on 9th May, 2000, the personal guarantee provided by the Director was released.

The Group also pledged a time deposit to a bank to obtain a bank guarantee of HK\$100,000 in favour of a customer to whom the Group provides IT consulting services. The bank guarantee expired on 15th May, 2000, and the Group is arranging for the pledge to be released.

Contingent liabilities

A member of the Group (the "member") entered into an agreement on 1st May, 1993 to acquire from a third party vendor, inter alia, a software programme at a consideration of HK\$2 million, and paid an initial deposit of HK\$200,000. A dispute arose between the Group and the third party vendor in respect of the completeness of the software programme that was delivered and the representations made at the time of sale, and the Group rejected delivery of the software programme. On 9th January, 1995, the third party vendor filed a claim against the member for payment of HK\$1.8 million plus damages and the costs of the legal action. However, the third party vendor did not place a security deposit for the litigation, and no further actions or proceedings had taken place in respect of the dispute since April, 1995. The Directors have been advised that as many years have elapsed since the commencement of the action, the member may apply to the court to strike out the claim of the third party vendor for want of prosecution. The court will take into account all circumstances of the case before exercising its discretion as to whether the striking out application would be granted.

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It is the intention of the Directors to defend the claim vigorously in the event the third party vendor continues legal action. Accordingly, no provision for the claim and legal costs in respect thereof has been made in the financial statements of the Group. Ms. Peggy Chan has agreed to indemnify the member for any losses up to HK\$2 million arising from the claim for the period up to and including 30th June, 2001.

Two members of the Group are in dispute with a firm of lawyers (the "Previous Lawyers") handling the Group's pre-listing restructuring, Convertible Notes issue and intellectual property registration in respect of several invoices for an aggregate amount of around HK\$2.3 million rendered by the Previous Lawyers and are currently seeking a taxation of such invoices. The Group has already paid HK\$2.5 million into court which covers the full amount of the bills and the costs of taxation. An amount of HK\$1 million (plus taxation fees) has been paid out from the HK\$2.5 million to the Previous Lawyers as interim payment without prejudice to demand for refund to the relevant members of the Group such amounts overpaid after taxation. The Previous Lawyers are required to lodge detailed bills of costs for the purpose of taxation within 45 days from 10th April, 2000. The members of the Group will raise objection to the detailed bills. The court will then decide and certify the ultimate amount to be paid by the relevant members of the Group. It is likely that the taxation process will take several months from the date the detailed bills are lodged with the court to a final assessment. As the dispute was in respect of work carried out subsequent to 31st December, 1999, no provision for the claim and legal costs in respect thereof has been made in the Group's financial statements included in the Accountants' Report set out in Appendix I to this prospectus. Ms. Peggy Chan has agreed to indemnify such two members of the Group for any loss in excess of the amount already paid by the two members of HK\$1 million, up to a limit of HK\$1.5 million arising from the dispute for the period up to and including 31st December, 2000. The Directors expect that the dispute with the Previous Lawyers is likely to have been resolved prior to such date.

Disclaimer

Save as aforesaid and apart from other intra-Group liabilities, as at the close of business on 30th April, 2000, neither the Company nor any of its subsidiaries had any outstanding mortgages or charges or debentures or other loan capital or bank overdrafts, loans or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptance or credits or any guarantees or material contingent liabilities.

No material change

The Directors have confirmed that, save as disclosed in this "Financial information" section, there has not been any material change in the indebtedness and contingent liabilities of the Company and its subsidiaries since 30th April, 2000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30th April, 2000, the Group had net current assets of approximately HK\$100.3 million. Current assets comprised cash and bank balances of approximately HK\$76.3 million, work in progress of approximately HK\$13.7 million, trade receivables of approximately

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HK\$16.2 million and other receivables and prepayments of approximately HK\$9.4 million. Current liabilities comprised bank loans due within one year of approximately HK\$46,000, trade payables of approximately HK\$6.7 million, and deferred income and other creditors and accrued expenses of approximately HK\$8.5 million.

Dividends of HK\$5,000,000 were paid to Ms. Peggy Chan on 8th March, 2000 in her capacity as a former shareholder of a subsidiary of the Company.

Borrowings and banking facilities

The Group generally finances its operations with internally generated cashflows and banking facilities provided by its principal bankers in Hong Kong.

As at 30th April, 2000, the Group had banking facilities of HK\$5,550,000. Such banking facilities were utilised to the extent of approximately HK\$46,000 as at 30th April, 2000 which are repayable within one year.

Capital commitments

As at 30th April, 2000, the Group authorised contracts for an amount of approximately HK\$2,900,000 in relation to the renovation of buildings.

Dividends

No dividends have been declared or paid by any member of the Group since 31st December, 1999, apart from HK\$5,000,000 paid to Ms. Peggy Chan in cash on 8th March, 2000 as noted under "Net current assets" above.

Disclosure under Chapter 17 of the GEM Listing Rules

The Group has not advanced any money to any entity which exceed 25 per cent. of the Group's combined net tangible assets as at the Latest Practicable Date, has not provided any financial assistance and guarantees to affiliated companies which exceed 25 per cent. of the Group's combined net tangible assets as at the Latest Practicable Date, did not have any pledge over the Shares by the controlling shareholder to secure debts, guarantees or support of other obligations of the Group, and has not entered into any loan agreements importing specific performance obligations on the controlling shareholder. The Directors have confirmed that as at the Latest Practicable Date, they were 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.

Working capital

The Directors are of the opinion that, taking into account the present available banking facilities and internal financial resources of the Group and the estimated net proceeds of the Share Offer, the Group has sufficient working capital for its present requirements.

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TRADING RECORD

Summary of combined results of the Group

The table below sets out a summary of the combined results of the Company and its subsidiaries for each of the three years ended 31st December, 1999 ("fiscal 1997", "fiscal 1998" and "fiscal 1999") as if the current Group structure had been in existence throughout such periods, based on the information included in the Accountants' Report as set out in Appendix I to this prospectus.

	Year ended 31st December,		
	1997 HK\$'000	1998 HK\$'000	1999 HK\$'000
	<i>(except per Share data)</i>		
Turnover (<i>Note 1</i>)			
Fixed price projects	25,477	26,438	39,097
Hardware and software resale	22,982	15,506	35,699
Time and material projects	27,723	30,988	20,575
Maintenance services	944	2,052	2,700
	<u>77,126</u>	<u>74,984</u>	<u>98,071</u>
Total Turnover			
Cost of computer hardware and software	<u>(18,373)</u>	<u>(17,773)</u>	<u>(43,623)</u>
	58,753	57,211	54,448
Other revenue	1,282	1,007	847
Other net income	11	—	108
Staff costs	(42,673)	(43,093)	(52,359)
Depreciation	(1,560)	(1,582)	(2,614)
Other operating expenses	<u>(13,722)</u>	<u>(10,485)</u>	<u>(10,749)</u>
Profit/(Loss) from operations	2,091	3,058	(10,319)
Finance costs	<u>(529)</u>	<u>(569)</u>	<u>(566)</u>
Profit/(Loss) from ordinary activities before taxation	1,562	2,489	(10,885)
Taxation	<u>(382)</u>	<u>(764)</u>	<u>227</u>
Profit/(Loss) for the year	<u>1,180</u>	<u>1,725</u>	<u>(10,658)</u>
Dividends	<u>—</u>	<u>—</u>	<u>(5,000)</u>
Basic and diluted earnings/ (loss) per Share (<i>Note 2</i>)	<u>HK\$0.59</u>	<u>HK\$0.86</u>	<u>HK\$(5.33)</u>

Notes:

- Turnover represents income from computer software sales, hardware and software resales and computer services rendered to customers during the year, net of returns and discounts allowed, after eliminating intra-Group transactions.
- Based on 2,000,000 Shares (being the number of Shares in issue and outstanding prior to the conversion of the Convertible Notes), as if those Shares had been outstanding for each year presented.

Management's discussion and analysis of financial condition and results of operation

The following is a discussion of the combined results of operations of the Group for the three years ended 31st December, 1999. It should be read in conjunction with the combined financial statements and related notes and other financial data set out in the Accountants' Report in Appendix I to this prospectus.

Overview of combined results of operations

The Group is presently engaged in (i) the development, sale and implementation of enterprise software, (ii) the operation of the ASP Business through a joint venture with iBusiness Corporation, (iii) IT consultancy and customised application system development, and (iv) systems integration and resale and maintenance of IT products.

Turnover

The Group enters into fixed price turnkey contracts with its customers where a number of different products and services are bundled together and offered in one contract. Products and services that may be included in a fixed price turnkey contract include licensing and implementation of enterprise software, customised development work, resale of IT products and training and warranty services. The contract price is fixed prior to the commencement of the project. Revenue from fixed price contracts are recorded as "turnover from fixed price projects", and are not further broken down into the individual product and service components.

There are other contracts entered into by the Group with its customers which relate solely to the resale and installation of IT products. The turnover from these contracts is separately accounted for under "turnover from hardware and software resale". The Group also generates revenue for providing consulting services where the services rendered are billed to customers based on the time spent and materials consumed. Such revenue is recorded as "turnover from time and material projects". The Group generates its remaining turnover from the provision of maintenance services.

Cost of computer hardware and software and staff costs

Resales of IT products are normally conducted on a back-to-back basis and the Group does not hold any inventory. The costs of sourcing IT products are recorded as "cost of computer hardware and software", and the revenue is recorded either as part of the "turnover from fixed price projects" (if the IT products are sold as a package together with other services and products) or as "turnover from hardware and software resale". Costs of staff engaged in research and development and in implementing IT projects (such as the provision of IT consultancy services, customised application development projects and systems integration projects) are recorded as "staff costs" and are expensed in the period incurred.

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Operating results

The Group generated profits of HK\$1.2 million in fiscal 1997 and HK\$1.7 million in fiscal 1998 and sustained losses of HK\$10.7 million in fiscal 1999. The Directors expect the results of operations of the Group to improve in the year 2000 for the following reasons:

- (i) *More enterprise software business.* The enterprise software business generally has a higher profit margin compared to the resale of IT products. At the beginning of fiscal 1998, the Group only offered five enterprise software, and during fiscal 1998, an additional two enterprise software were added to the portfolio of products offered. It was not until December, 1999 that all of the Group's nine enterprise software were launched. With the full suite of nine enterprise software contributing for a full year towards the enterprise software business of the Group in year 2000, the Directors expect the results of operations for the year 2000 to improve as compared to fiscal 1999.
- (ii) *Increased sales of new enterprise software.* Related to (i) above, there is usually a time lag between the incurrence of research and development expenses and the time when the Group can realise the benefits of the research efforts. Since the establishment of the Software Centre in 1996, the Group has focused on the research and development of new software products. The members of staff in the Software Centre increased from 40 when the Software Centre was first established in 1996 to 70 at the end of 1997, to 80 at the end of fiscal 1998 and to 120 at the end of fiscal 1999. This has resulted in a significant increase in staff costs which represented the largest component of operating expenses for the Group in fiscal 1997, fiscal 1998 and fiscal 1999. Staff costs in fiscal 1999 were HK\$52.4 million and represented an increase of 21.6 per cent. from HK\$43.1 million in fiscal 1998.
- (iii) *Year 2000 issue.* The Directors believe that in fiscal 1999, many of the Group's customers reduced investments in new IT-related projects (including investments in new software applications) and instead focused their resources and efforts on testing and rectifying their existing systems for year 2000 compliance. The Directors believe that this has had a negative impact on the Group's operations in fiscal 1999, but is not expected to continue to adversely affect the Group's operations in the year 2000.
- (iv) *Low margins in projects for governmental authorities.* Due to the reduction in non-year 2000 related IT spending in the private sector in fiscal 1999, the Group undertook an increased number of projects for governmental authorities which the Directors believe generated lower than expected margins for the Group. The Directors, however, expect that this factor is unlikely to have a material adverse effect on the performance of the Group in the year 2000 because (a) the Group has accumulated additional experience in undertaking projects for governmental authorities, and (b) the Directors expect IT spending in the private sector to increase, and the Group is therefore likely to engage itself in fewer projects for governmental or semi-governmental authorities.

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- (v) *Additional marketing efforts.* Armed with the full suite of nine enterprise software, the Group believes it is well-positioned to realise the benefits of its past investments in research and development, and plans to engage in additional marketing efforts to increase product sales and market recognition in the year 2000. The Directors believe that the increase of revenues resulted from the additional marketing efforts will more than offset the costs of these marketing efforts.

General

The Directors expect that repair and maintenance costs incurred to service warranty obligations will continue to remain insignificant as compared to the turnover and assets of the Group. Consequently, the Directors believe that it is not necessary to make provisions for warranty related expenses in the Group's financial statements. In addition, the Directors believe, on the basis of the Group's previous experience in transacting with its customers and the profile of those customers, that it is not necessary to make provisions for general or specific bad or doubtful debts in the Group's financial statements.

All figures appearing in this "Trading record — Management's discussion and analysis of financial condition and results of operation" section are approximate figures and are rounded to one decimal place.

Combined results of operations

Financial year ended 31st December, 1999 compared to financial year ended 31st December, 1998

Turnover

On a combined basis, the Group recorded turnover of HK\$98.1 million in fiscal 1999, an increase of 30.8 per cent. from turnover of HK\$75.0 million in fiscal 1998.

Turnover from fixed price projects increased by 48.1 per cent. from HK\$26.4 million in fiscal 1998 to HK\$39.1 million in fiscal 1999 partly as a result of the launch of new enterprise software InterTrade and iBank. The number of licences of enterprise software sold increased in fiscal 1999 as compared to fiscal 1998, and such increase in turn resulted in additional customisation work for the Group. Turnover from fixed price projects conducted for the Hong Kong governmental authorities increased in fiscal 1999, and a number of fixed price projects entered into in fiscal 1999 related to the proposed introduction in Hong Kong of the mandatory provident fund regime whereas there were no such contracts in fiscal 1998. Turnover from fixed price projects represented 39.9 per cent. of the Group's turnover in fiscal 1999 as compared to 35.2 per cent. of the Group's turnover in fiscal 1998.

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Turnover from hardware and software resale relates to turnover generated from transactions involving only the resale and installation of IT products. Turnover from hardware and software resale increased by 130.3 per cent. from HK\$15.5 million in fiscal 1998 to HK\$35.7 million in fiscal 1999. Turnover from hardware and software resale in fiscal 1999 includes contracts entered into by the Group with an aggregate contract value of HK\$19.2 million to resell products of Sun Microsystems and other IT products to the Hong Kong operations of a US bank. The Directors believe that the launch of InterTrade and iBank also led to an increase in the resale by the Group of IT products to customers who demanded more advanced computer systems to run the Group's enterprise software. Turnover from hardware and software resale represented 36.4 per cent. of the Group's turnover in fiscal 1999 as compared to 20.7 per cent. of the Group's turnover in fiscal 1998.

Turnover from time and material contracts decreased by 33.5 per cent. from HK\$31.0 million in fiscal 1998 to HK\$20.6 million in fiscal 1999. The Directors believe this decrease was due to the reduction by customers in their expenditure on technical support and consultancy services in fiscal 1999 as a result of the year 2000 problem, as well as to the Asian financial crisis. A number of customers did not renew their time and material contracts upon their expiration, and some other customers re-negotiated a lower price with the Group. Turnover from time and material projects represented 21.0 per cent. of the Group's turnover in fiscal 1999 as compared to 41.3 per cent. of the Group's turnover in fiscal 1998.

Turnover from maintenance services increased by 28.6 per cent. from HK\$2.1 million in fiscal 1998 to HK\$2.7 million in fiscal 1999 which the Directors believe was mainly a result of new fixed price projects completed in fiscal 1999 for customers who elected to retain the Group to provide on-going maintenance services, and renewals of maintenance contracts by existing customers to whom the Group provided maintenance services. Turnover from maintenance services represented 2.8 per cent. of the Group's turnover in each of fiscal 1999 and fiscal 1998.

Cost of computer hardware and software

This represents the cost of sourcing IT products by the Group for resale. Cost of computer hardware and software increased by 144.9 per cent. from HK\$17.8 million in fiscal 1998 to HK\$43.6 million in fiscal 1999. Cost of computer hardware and software includes the cost (which is estimated to be HK\$11.1 million in fiscal 1999 and HK\$4.3 million in fiscal 1998) of sourcing hardware and software products for resale as part of fixed price contracts.

Other revenue and other net income

Other revenue in fiscal 1999 included interest income, rental and management fee income from Net Fun Limited amounting to HK\$0.4 million in aggregate for sharing the office space at China Resources Building and the provision of administrative services to Net Fun Limited, and other income derived from providing IT recruitment services to other companies. Other revenue decreased by 20 per cent. from HK\$1.0 million in fiscal 1998 to HK\$0.8 million in fiscal 1999. In addition, in fiscal 1999, the Group generated other net income of HK\$0.1 million, representing profits on disposal of property, plant and equipment.

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Staff costs

Staff costs increased by 21.6 per cent. from HK\$43.1 million in fiscal 1998 to HK\$52.4 million in fiscal 1999, primarily due to the increase in the number of staff employed by the Group. Staff costs represented 79.7 per cent. of operating expenses in fiscal 1999 as compared to 78.1 per cent. of operating expenses in fiscal 1998. The number of full-time employees of the Group increased from 142 as at the end of fiscal 1998 (of which 80 were members of the Group's development and implementation teams in the Software Centre) to 170 as at the end of fiscal 1999 (of which 120 were members of the Group's development and implementation teams in the Software Centre). Costs of staff engaging in research and development activities represented 18.6 per cent. of total staff costs in fiscal 1999 as compared to 21.4 per cent. of total staff costs in fiscal 1998 as the Group stated to re-deploy product development staff to engage in project implementation.

Depreciation and other operating expenses

Depreciation increased by 62.5 per cent. from HK\$1.6 million in fiscal 1998 to HK\$2.6 million in fiscal 1999. Following a re-appraisal, the estimated useful lives of the Group's computer and office equipment were reduced from five to three years with effect from 1st January, 1999. This resulted in an increased depreciation charge of HK\$0.9 million for fiscal 1999. Other operating expenses include items such as rent, rates and management fees, insurance costs and professional expenses. Other operating expenses increased 1.9 per cent. from HK\$10.5 million in fiscal 1998 to HK\$10.7 million in fiscal 1999.

Finance costs

Finance costs decreased by 0.5 per cent. in fiscal 1999 compared to fiscal 1998. Finance costs for fiscal 1999 comprised interest on bank loans and advances as well as interest on the loan advanced to the Group pursuant to the sponsorship obtained under the Applied Research and Development Scheme from the Applied Research Council of the Industry Department.

Loss from ordinary activities before taxation

Loss from ordinary activities before taxation was HK\$10.9 million in fiscal 1999 despite a 30.8 per cent. increase in turnover. The Directors believe this was due to the increase in staff costs in fiscal 1999, including as a result of the addition of development staff in the Software Centre for the development and enhancement of the Group's enterprise software, the reduction or postponement of investments in new IT related projects by customers in the last few months of fiscal 1999 in view of the year 2000 problem, the relatively lower margins for projects conducted for governmental authorities, and the larger proportion of turnover in fiscal 1999 attributable to the resale of IT products which the Directors believe generates lower margins compared to the Group's IT consultancy and custom development services.

Taxation and profit/loss for the year

No provision for Hong Kong profits tax was made for fiscal 1999 as all of the operating companies now comprising the Group and which were in existence as at 31st December, 1999 sustained losses for taxation purposes during the year. Tax credit for fiscal 1999 amounted to HK\$0.2 million, which was largely made up of a tax rebate from the Hong Kong government,

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and the reversal of deferred taxation provided for in fiscal 1998. The tax charge in fiscal 1998 amounted to HK\$0.8 million. There were no extraordinary items for both fiscal 1998 and fiscal 1999. The loss for fiscal 1999 was HK\$10.7 million and the profit for fiscal 1998 was HK\$1.7 million.

Financial year ended 31st December, 1998 compared to financial year ended 31st December, 1997

Turnover

On a combined basis, the Group recorded turnover of HK\$75.0 million in fiscal 1998, a decrease of 2.8 per cent. from turnover of HK\$77.1 million in fiscal 1997. The Directors believe the decrease in turnover was principally attributable to the Asian financial crisis, which slowed spending on IT products by the banking and finance sector in Asia.

Turnover from fixed price projects increased by 3.5 per cent. from HK\$25.5 million in fiscal 1997 to HK\$26.4 million in fiscal 1998 as new enterprise software (namely, EZ-File and HRMS) were developed and launched. Turnover from fixed price contracts represented 35.2 per cent. of the Group's turnover in fiscal 1998 as compared to 33.0 per cent. of the Group's turnover in fiscal 1997.

Turnover from hardware and software resale decreased by 32.6 per cent. from HK\$23.0 million in fiscal 1997 to HK\$15.5 million in fiscal 1998, following completion of a server consolidation project by a major customer of the Group in late 1997. Turnover from hardware and software resale represented 20.7 per cent. of the Group's turnover in fiscal 1998 as compared to 29.8 per cent. of the Group's turnover in fiscal 1997.

Turnover from time and material contracts increased by 11.9 per cent. from HK\$27.7 million in fiscal 1997 to HK\$31.0 million in fiscal 1998, partly as a result of an increase in the value of time and material contracts awarded by governmental authorities. Turnover from time and material projects represented 41.3 per cent. of the Group's turnover in fiscal 1998 as compared to 35.9 per cent. of the Group's turnover in fiscal 1997.

Turnover from maintenance services increased by 133.3 per cent. from HK\$0.9 million in fiscal 1997 to HK\$2.1 million in fiscal 1998. The Directors believe that this increase was principally brought about by the increased number of enterprise software licensed to the Group's customers and the resultant increase in the value of maintenance contracts with enterprise software customers for providing on-going maintenance support following completion of the customisation and implementation of the enterprise software. Turnover from maintenance services represented 2.8 per cent. of the Group's turnover in fiscal 1998 as compared to 1.2 per cent. of the Group's turnover in fiscal 1997.

Cost of computer software and hardware

Cost of computer hardware and software decreased by 3.3 per cent. from HK\$18.4 million in fiscal 1997 to HK\$17.8 million in fiscal 1998. Cost of computer hardware and software includes the cost (which is estimated to be HK\$4.3 million in fiscal 1998 and HK\$6.1 million in fiscal 1997) of sourcing hardware and software products for resale as part of fixed price contracts.

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Other revenue and other net income

Other revenue in fiscal 1998 included a training grant from Sun Microsystems and a government grant amounting in aggregate to HK\$0.4 million, as well as interest income. Other revenue in fiscal 1997 included interest income and income derived from providing IT recruitment services to other companies. Other revenue decreased by 23.0 per cent. from HK\$1.3 million in fiscal 1997 to HK\$1.0 million in fiscal 1998. In addition, in fiscal 1997, the Group generated other net income of HK\$0.01 million, representing profit on disposal of property, plant and equipment. There was no other net income recorded for fiscal 1998.

Staff costs

Staff costs increased by 0.9 per cent. from HK\$42.7 million in fiscal 1997 to HK\$43.1 million in fiscal 1998. Staff costs represented 78.1 per cent. of operating expenses in fiscal 1998 as compared to 73.6 per cent. of operating expense in fiscal 1997. The number of full-time employees of the Group increased from 139 as at the end of 1997 (of which 70 were members of the Group's development and implementation teams in the Software Centre) to 142 as at the end of fiscal 1998 (of which 80 were members of the Group's development and implementation teams in the Software Centre). Costs of staff engaging in research and development activities in fiscal 1998 represented 21.4 per cent. of total staff costs.

Depreciation and other operating expenses

Depreciation increased slightly by 1.3 per cent. from HK\$1.56 million in fiscal 1997 to HK\$1.58 million in fiscal 1998. Other operating expenses decreased by 23.4 per cent. from HK\$13.7 million in fiscal 1997 to HK\$10.5 million in fiscal 1998. The two largest components in other operating expenses for both fiscal 1998 and fiscal 1997 were fees paid to consultants who provided services to the Group and rent, rates and management fees. The primary reason for the reduction in operating expenses was the reduction in consultancy fees which decreased from HK\$7.3 million in fiscal 1997 to HK\$3.6 million in fiscal 1998 as the Group increased dependence on its own staff to provide services to customers and placed less reliance on the services of external consultants.

Finance costs

Financial costs increased by 7.6 per cent. in fiscal 1998 compared to fiscal 1997. In addition to interest on bank loans and advances, finance costs in fiscal 1998 also comprised interest on a loan provided to the Group by a company wholly owned by Ms. Peggy Chan. This loan was repaid in full by the Group in June, 1998.

Profit from ordinary activities before taxation

Despite the reduction in turnover in fiscal 1998 as compared to fiscal 1997, profit from ordinary activities before taxation was HK\$2.5 million in fiscal 1998, representing an increase of 56.3 per cent from HK\$1.6 million in fiscal 1997. The Directors believe that this increase was principally attributable to (i) the increase in turnover from time and material projects which the Directors believe generate higher margins compared to the resale of hardware and software

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products, (ii) the increase in turnover from maintenance services the provision of which involved minimal additional variable costs for the Group, and (iii) the reduction in other operating expenses which, as explained above, was largely a result of the reduction in the number of consultants hired by the Group.

Taxation and profit for the year

Tax charge for fiscal 1998 amounted to HK\$0.8 million as compared to HK\$0.4 million for fiscal 1997. The provision for Hong Kong profits tax is calculated on the taxable profit of each company comprising the Group at 16.5 per cent. and 16 per cent. during fiscal 1997 and fiscal 1998, respectively. There were no extraordinary items for both fiscal 1997 and fiscal 1998. The profit for fiscal 1998 was HK\$1.7 million and the profit for fiscal 1997 was HK\$1.2 million.

TAXATION

(a) *Bermuda*

The Company was incorporated under the laws of Bermuda and, under current Bermuda law, is not subject to tax on income or on capital gains. The Company has received an undertaking from the Ministry of Finance of Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, as amended, that in the event that Bermuda enacts any legislation imposing tax computed on profits or income, including any dividend or capital gains withholding tax, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to the Company or to any of its operations or the shares, debentures or other obligations of the Company, until 28th March, 2016.

(b) *Hong Kong*

Each company within the Group will be subject to Hong Kong profits tax if it derives Hong Kong sourced profits from a business carried on in Hong Kong. Such Hong Kong sourced profits, as adjusted in accordance with Hong Kong tax law, will generally be subject to tax at the rate of 16 per cent. However, there are certain profits which are specifically not subject to Hong Kong tax, including dividend income, most interest income from bank deposits and profits derived from the sale of capital assets.

(c) *Effective tax rates*

The effective tax rate of the Group in fiscal 1997 was approximately 24.5 per cent., which was higher than the then applicable profits tax rate of 16.5 per cent. This was, in part, due to the depreciation charged to the profit and loss account of a member of the Group in that fiscal year exceeding its allowable depreciation for taxation purposes by approximately HK\$0.4 million. The effective tax rate of the Group for fiscal 1998 was approximately 31 per cent., which was higher than the then applicable profits tax rate of 16 per cent. The tax loss of approximately HK\$2.1 million for fiscal 1998 sustained by a member of the Group could not be used to offset against the taxable profits of other companies comprising the Group. All of the operating companies now comprising the Group which were in existence as at 31st December, 1999 sustained losses for taxation purposes in fiscal 1999.

FINANCIAL INFORMATION

PROPERTY INTERESTS

The Group leases and occupies Rooms 3306 and 3307 on 33rd Floor, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong as its head office which has a total saleable area of approximately 4,910 sq.ft..

The Group also leases three office units on 10th Floor and an office unit on 14th Floor, Great Eagle Centre, 23 Harbour Road, Wan Chai, Hong Kong with a total saleable area of approximately 5,348 sq.ft.. Such offices are occupied by the operation/product teams of the Group, and part of the property with a saleable area of approximately 1,704 sq.ft. is (with the consent of the landlord) sub-leased to Net Fun Limited.

In addition, the Group leases the whole of 46th Floor, The Center, 99 Queen's Road Central, Hong Kong for its Software Centre. The saleable area of the property is approximately 18,889 sq.ft.. Part of the property with a saleable area of approximately 9,232 sq.ft. (with the consent of the landlord) is sub-leased to i21 Limited for running the ASP Business.

The Group owns Flat B on 21st Floor of Block 5 and a car parking space in Braemar Hill Mansions, 15-43 Braemar Hill Road, North Point, Hong Kong with a gross floor area of approximately 1,640 sq.ft. and Flat D on 9th Floor, Floral Tower, 22 Robinson Road, Mid-levels, Hong Kong with a gross floor area of approximately 779 sq.ft.. Such residential flats are occupied by two Directors as staff quarters.

Chesterton Petty Limited, an independent valuer, valued the property interests of the Group as of 30th April, 2000 at HK\$14 million. The text of the letter and the valuation certificate issued by Chesterton Petty Limited for this purpose is set out in Appendix III to this prospectus.

PROFIT FORECAST AND DIVIDEND POLICY

Profit forecast

The Directors forecast that, on the bases set out in Appendix II to this prospectus and an Offer Price of HK\$1.40 and in the absence of unforeseen circumstances, the combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 2000 will not be less than HK\$13 million. The forecast combined profit after taxation but before extraordinary items includes the share of forecast loss in an associated company.

On the basis of the above profit forecast and on the weighted average number of 858,557,892 Shares expected to be in issue during the year ending 31st December, 2000, the forecast earnings per Share for the year ending 31st December, 2000 would be HK\$0.015 representing a price/earnings multiple of 93 times based on an Offer Price of HK\$1.40. On a pro forma fully diluted basis and on (i) the assumption that the Company had been listed since 1st January, 2000 and had a total of 1,000,000,000 Shares in issue during the year; and (ii) the assumption that the interest income that would have been earned on the net proceeds of the Share Offer of approximately HK\$188 million had been received from that date and assuming an interest rate of 5 per cent. per annum had been applicable to the Group's deposits, the forecast pro forma fully diluted earnings per Share would be HK\$0.018, representing a price/earnings multiple of 78 times based on an Offer Price of HK\$1.40.

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The figures in the preceding paragraph do not take into account Shares which may be issued upon exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or upon the conversion of the Additional Convertible Note or 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 described under “Shareholders’ resolutions of the Company passed on 16th June, 2000” in Appendix VI to this prospectus.

The texts of the letters from the reporting accountants, KPMG, and from HSBC Investment Bank Asia in respect of the profit forecast are set out in Appendix II to this prospectus.

Dividend policy

The Directors presently do not intend to recommend any dividend for the financial year ending 31st December, 2000. The Directors expect that in future interim and final dividends will be paid in or about October and July of each year. Interim dividends will normally represent approximately one-third of the expected total dividends for each year. The declaration, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Company’s earnings, financial condition, cash requirements and availability, the provisions of relevant laws and all other relevant factors.

DISTRIBUTABLE RESERVES

The Company was incorporated on 21st January, 2000 and consequently had no distributable reserves as at 31st December, 1999.

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ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is based on the combined net assets of the Group as at 31st December, 1999 as set out in the Accountants' Report in Appendix 1, adjusted as described below:

	Based on an Offer Price of HK\$1.35 HK\$'000	Based on an Offer Price of HK\$1.40 HK\$'000
Combined net assets of the Group as at 31st December, 1999 as set out in the Accountants' Report in Appendix I	3,039	3,039
Unaudited combined profit for the four months ended 30th April, 2000 based on management accounts	1,611	1,611
Conversion of Convertible Notes into Shares (<i>Note 1</i>)	105,819	105,819
Estimated net proceeds of the Share Offer (<i>Note 2</i>)	<u>180,417</u>	<u>187,729</u>
Adjusted net tangible assets	<u>290,886</u>	<u>298,198</u>
Adjusted net tangible asset value per Share (<i>Note 3</i>)	<u>HK\$0.29</u>	<u>HK\$0.30</u>

Notes:

- (1) On 2nd March, 2000, the Company issued Convertible Notes of US\$13,600,000 principal value for cash at par, which have been translated into HK dollars at an exchange rate of US\$1 = HK\$7.78. The Convertible Notes have been converted into Shares on 15th June, 2000. Further details in respect of the Convertible Notes are set out under "Business — Group structure".
- (2) No account has been taken of the Shares which may be issued upon the exercise of the Over-allotment Option.
- (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 1,000,000,000 Shares in issue and to be issued as mentioned herein but it takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or upon conversion of the Additional Convertible Note or 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 described under "Shareholders' resolutions of the Company passed on 16th June, 2000" in Appendix VI to this prospectus.
- (4) The surplus on revaluation of the Group's owned properties has not been incorporated into the Group's combined net assets as at 31st December, 1999 and will not be incorporated into the Group's financial statements for the year ending 31st December, 2000. The Group's owned properties were revalued at 30th April, 2000 at HK\$14,000,000 and the surplus arising from revaluation of the Group's property interests as at 30th April, 2000 amounted to HK\$6,890,000. If the properties were to be included at their revalued amounts, an additional depreciation charge of approximately HK\$105,000 would be incurred for the year ending 31st December, 2000.

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NO MATERIAL CHANGE

Save as disclosed in this prospectus, the Directors are not aware of any material adverse change in the financial or trading positions or prospects of the Group since 31st December, 1999.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

OVERALL BUSINESS STRATEGIES

The Group's overall business objective is to be a leading business application solutions provider in the banking and finance sector in the Asia Pacific region. The Group has identified the following key strategies to achieve this goal:

- to continue its commitment to research and development in order to expand its range of products for the banking and finance sector and other sectors;
- to continue to form alliances with leading strategic and technology partners to aggressively implement the ASP and e-business solutions initiatives;
- to expand geographically by establishing regional operations, and in particular, to establish software development centres and distribution channels and networks for its products and services in the PRC and in Southeast Asia; and
- to strengthen its sales and marketing capabilities and organise and conduct joint marketing with branded computer product suppliers.

STRATEGIES

In order to meet the goal of becoming a leading business application solutions provider in the banking and finance sector in Asia, the Group has formulated the following business strategies for the period until the end of 2002.

The Group will continue to focus on developing new enterprise software, based on its existing suite of enterprise software, to provide advanced business application solutions for the banking and finance sector. The Directors believe that these new enterprise software will allow the Group to capture the ever increasing demand for sophisticated business application solutions in the region and enhance the Group's image as a leader in this sector. In conjunction with the Group's track record in providing quality support services, the Directors believe that these new products will enable the Group to further strengthen its leading position and to increase its market share significantly.

The Group intends to develop a revenue model in which income is not only generated at the time of product and service sales, but as recurring income over a long period of time. The ASP Business, a joint venture between the Group and iBusiness Corporation, is the first step towards such a revenue model. The ASP business model will allow the Group to generate revenue through subscription fees, transaction fees, access fees and other forms of recurring income.

The Group also intends to actively participate in various e-business ventures by leveraging on its Internet and business application solutions capabilities. In view of the need for IT solution and support service for entrepreneurs with innovative e-business proposals, the Directors believe that the Group is well-positioned to facilitate new e-business ventures with a set of consulting services, software solutions, business connections and day-to-day operation support services. It is expected that the Group will benefit from these new ventures' success through the form of either equity ownership, commission, revenue or profit sharing schemes.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Further details of the business strategy and the business and revenue models of the Group are set out under “Business — Business strategy”.

In order to put into effect the above key strategies and to realise the business and revenue models, the Directors intend to implement the following:

Enterprise software and product development

Technology research and infrastructure development

To support the Group’s enterprise software and product development activities for the period until the end of 2002, a dedicated research and development team will be formed. This team will fulfill the following:

- investigate and experiment with new technologies that can potentially be used to develop business application solutions for the banking and finance sector; and
- develop the necessary software infrastructure for the new technologies to be adopted.

The research and development team will monitor the market closely and keep in touch with technology vendors in order to be kept abreast of promising technologies. Intelligence and information on the technologies will be analysed to assess their maturity, applicability and potential. Once a technology is identified, its usability and stability will be further examined to ensure enterprise software on which they are developed will have commercial viability.

The research and development team will continue to build up the Group’s collection of reuseable framework to facilitate product development. The expanding collection of reuseable framework will ensure the quality of future products and reduce the total development time required. Once a piece of reuseable framework is developed and fully tested, it will be transferred to the software development teams for enterprise software development.

The number of staff required for this research and development team is estimated as follows.

	Second half 2000	First half 2001	Second half 2001	First half 2002	Second half 2002
Number of staff	6	8	12	15	15

Product development

Modular Banking System (“MBS”)

This is a treasury and capital market system targeting financial institutions in the region which engage in the borrowing and lending business. It will come in a modular structure to support a wide variety of financial instruments including loans, deposits, foreign exchange, swaps, equities, options and futures. MBS will employ the latest technology used by the Group and its development will utilise the Group’s collection of reuseable framework.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The development of MBS will need 24 months to complete, and it will be developed and launched in stages. Detailed product design commenced in May, 2000. The first phase of development will cover foreign exchange, loans, deposits, general ledger and risk management, and is expected to be completed by the first quarter of 2001. The second phase will cover swaps, futures, fixed income, equities and options, and is expected to be completed by the third quarter of 2001. Full development of the enterprise software is expected to be completed by April, 2002.

Insurance21

This is an insurance policy management system for general insurance and life insurance developed using the reusable framework of the Group. The first phase of development of the system will focus on quotation set-up, policy administration and claims processing for medical insurance companies.

The development of Insurance21 commenced in August, 1999 and will take approximately 24 months to complete. The first phase development covers medical insurance and is expected to be completed by June, 2000. The second phase will cover life insurance and is expected to be completed by December, 2000. The third phase will cover general insurance and is expected to be completed by July, 2001.

Other development projects

- *InterTrade Settlement Module.* Development work commenced in March, 2000. The first phase of this module, which covers the Hong Kong market, is expected to be released in July, 2000. Development in subsequent phases will cover securities of other markets
- *Collection and Liability Control Modules.* These are additional modules of LOANS which can be sold as separate systems. Design work commenced in January, 2000 and they are expected to be released in September, 2000.

Development of the ASP Business

In addition to iStock21, which was first deployed for customer use in June, 2000, the Group aims to launch the following on i21.

iHR21

iHR21 is expected to be launched in August, 2000. iHR21 will be based on the Group's existing enterprise software HRMS, and will target small and medium-sized enterprises which seek to automate certain parts of their human resources functions.

The functions expected to be offered on iHR21 include payroll processing, provident fund contribution and income tax calculation. Employees will be able to submit their leave applications and overtime claims and request information from their employers through the Internet or Intranet.

iClaims21

iClaims21 is expected to be launched in November, 2000. iClaims21 which will be based on the enterprise software Insurance21 that is presently being developed by the Group. iClaims21 will initially target medical insurance companies.

iClaims21 will allow policy holders to submit their claims through the Internet and thus eliminate the costs and delays incurred by a paper-based submission process. Medical insurance companies will also be able to generate quotations and policies through iClaims21.

Other software applications to be offered through i21

Following iStock21, iHR21 and iClaims21, it is expected that the ASP Business will offer a range of other software applications through i21, including accounting and treasury software applications to be developed by the Group, other enterprise software of the Group, and software applications that may be procured from third parties.

E-business solutions initiative

The Group will expand its present operations to the provision of integrated e-business strategy and technology implementation services (including maintenance and support services) to customers who are seeking to develop e-businesses. The following are examples of the Group's e-business solutions initiative.

The e-Centre solution

The Group is currently in discussions with companies and an industry association (who will act as promoters) for the establishment of a B2B e-marketplace, namely the e-Centre, using proprietary or third party technology.

The e-Centre is expected to include the following features:

- vendors and manufacturers for products and services will be able to set up customised on-line store-fronts, cyber trade-shows and electronic exhibitions on the e-Centre web-site market, and to distribute and sell their products and services;
- supply chain management features for purchasers to source products and services on the e-Centre web-site;
- vendors and purchasers will be able to interact directly with each other to negotiate prices and exchange information on product specifications as well as conduct a myriad of other functions such as payment and arrangement of delivery;
- the underpinning technology platform will enable e-commerce transactions to be conducted on the e-Centre web-site; and
- trade directory, guides and resources with comprehensive search facilities.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

It is intended that the Group will provide, source, develop and integrate the underpinning e-commerce platform and all related hardware, software, IT network and facilities. It will also train personnel and provide support to the e-Centre as well as provide process re-engineering consultancy to the e-Centre's participants. The promoters of the e-Centre, in turn, will promote the e-Centre among industry communities, manage and maintain the e-Centre web-site, provide and update content, incubate new participants in the e-Centre and provide consultancy services to its participants in relation to store-front management.

The Group expects that revenues from the e-Centre will be generated through transaction fees charged for completed transactions, advertising (through banner advertising and sponsorship arrangements on the e-Centre web-site) as well as other value-added services to be offered.

The e-Centre will enable more streamlined supply chain management by cutting down intermediaries in the supply chain, thereby cutting down costs. Subject to relevant rules and regulations, it is also intended that factories and suppliers in the PRC will be added to the e-Centre. The Directors intend to enter into strategic partnerships with parties whom it considers will be able to contribute to the successful operation of the e-Centre.

iTreasury

In April, 2000, Excel Technology International (Hong Kong) Limited, a member of the Group, entered into a contract with a customer which is independent of the Directors and the Initial Management Shareholders of the Company to develop iTreasury, a vertical portal for corporations, banks, financial institutions and individuals to conduct treasury transactions over the Internet. In particular, Excel Technology International (Hong Kong) Limited will provide system development and consulting services for the development of iTreasury. Pursuant to the terms of the contract, in addition to receiving a fee for the services to be rendered, Excel Technology International (Hong Kong) Limited will receive shares in the project vehicle after user's acceptance for phase one development of the project is given.

Geographic expansion into the PRC and Southeast Asia

PRC

The Directors consider the following to be the key growth drivers for the PRC as a target market of the Group:

- the entry of the PRC into the WTO, thereby opening the market for more foreign participation, which will lead to increased business opportunities for the Group; and
- the implementation of the reform programme for the PRC banking sector, the continued growth of the insurance industry and the continued existence of on-line securities trading, which will lead to increasing demand for IT solutions and services in the PRC.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The Group's strategy in the PRC will be to focus on the banking and finance sector and it will seek to position itself as a business application solutions provider for this sector. Subject to receiving all necessary consents and approvals from relevant government authorities, the Group intends to implement the plan for its PRC expansion as described in the following paragraphs:

The Group will aim to leverage on the expansion plans of its existing customers and seek strategic alliances with multinational or local businesses and technology partners. The Directors also plan to expand through acquiring appropriate targets in the PRC. In the middle to long term, the Group seeks to attain market recognition through the knowledge and experience it acquires in the local market.

The entry enterprise software of the Group are expected to include InterTrade, iBank, LOANS, LOS, HRMS and EZ-File. It is expected that MBS, which is being developed by the Group, will be a key product for the PRC market. In addition, the Directors intend to launch and provide ASP applications in the PRC.

The Directors intend to set up one or more software development centres in the PRC for product localisation, product development and technical support. This will, in the long term, create opportunities for the efficient reallocation of resources and help to minimise the costs of the Software Centre.

Southeast Asia

The Directors consider the following to be the key growth drivers for Southeast Asia as a target market of the Group:

- the rapid economic recovery of the region;
- the regional consolidation of banks, securities houses and insurance houses;
- the increasing demand for technology as an alternative channel for delivery of services as opposed to opening new branches; and
- the need to improve internal control and risk management systems as a result of the recent regional economic crises.

The Group's strategy in Southeast Asia will be to continue to focus on the banking and finance sector. The Group will also provide IT consulting services such as strategic planning, systems integration and implementation. It will seek to attain market recognition through the knowledge and experience it acquires in the local market.

The Group will seek to build upon its relationships with its existing customer base in the region and with other customers who are expanding into the region. The Group has completed consulting projects with some of the largest banks in Indonesia. The Group has also licensed its enterprise software and provided systems integration services to some of the leading banks in Singapore and Malaysia. The Group also intends to build upon its relationship with the UOB Investors (one of the Strategic Investors) which has an extensive network in the region.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The Directors believe that there will be potential demand in Southeast Asia for most of its enterprise software including iBank, InterTrade, LOANS and LOS. The Directors intend to set up the Group's regional offices in Southeast Asia initially in Singapore and Malaysia to facilitate sales and marketing and set up a software development centre to provide technical support. The regional head office for the Southeast Asia region will be set up in Singapore to co-ordinate the sales and marketing efforts for this region.

Sales and marketing capabilities

The Group intends to strengthen its sales and marketing capabilities to complement its expansion plans through the following strategies:—

- To relieve the sales and marketing responsibility from the Directors to enable them to concentrate on business development and product delivery. A new senior manager has been recruited to lead the sales and marketing team. He will focus on generating sales from the existing set of enterprise software and resale of third party IT products.
- The sales and marketing team will be expanded by recruiting additional sales personnel from the Group's professional staff pool. Professional staff with good presentation and communication skills will be given appropriate training in sales and marketing techniques.
- A public relations firm will be retained to provide on-going support in the areas of image building, public communication and product marketing.

Human resource deployment

For the year ending 31st December, 2000, the Directors expect the number of headcount of the Group to increase (after taking into account anticipated staff turnover) to approximately 200 from the 1999 year-end headcount of 170. This increase is mainly attributable to the addition of two senior management personnel who will be responsible for PRC operations and corporate finance, respectively, a moderate increase in administrative support staff, the formation of the dedicated research and development team, the hiring of additional staff to strengthen the Group's sales and marketing capabilities, and the recruitment of core personnel in the Group's planned new offices in the PRC and Southeast Asia.

It is anticipated that growth rate for the sales force will be much higher than that of management and administrative staff. The growth rate of technical professionals is expected to be moderate as the Group intends to gradually reallocate staff from product development to implementation. In addition, it is expected that productivity in product development will improve as technical staff become more knowledgeable and proficient.

Another area of headcount growth is expected to be through the Group's overseas offices. At present, the Directors expect that mainly sales and management staff, with a few technical support staff, will be required in each of the overseas offices.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The headcount projection for each six month period ending 31st December, 2002 is set out in the following table.

	Second half 2000	First half 2001	Second half 2001	First half 2002	Second half 2002
Senior management/Directors	6	6	6	6	6
Administration and office support	18	18	22	25	30
Sales & marketing	8	10	15	20	25
Development and implementation teams	150	160	165	170	175
Research & infrastructure development	6	8	12	15	15
Overseas offices	<u>12</u>	<u>54</u>	<u>62</u>	<u>65</u>	<u>70</u>
Total	200	256	282	301	321

The above projection assumes that the Group will expand its operations through organic growth, and does not take into account any headcount increase that may result from potential acquisitions by the Group.

Implementation Schedule

The Group intends to follow the implementation schedule below in achieving the business objectives based on the current state of the IT industry. However, the Directors believe that as the IT industry is a fast changing industry and the economic climate in Asian countries are difficult to predict, the implementation schedule reflects only the present intention of the Directors in executing the business objectives. The Directors intend to use their best endeavours to anticipate future changes in the IT industry and to take appropriate steps to remain flexible and versatile to enable the Group to stay ahead of or to promptly react to such changes.

Initiatives concerning the ASP Business will be conducted through i21 Limited, the joint venture between the Group and iBusiness Corporation.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

The estimated costs for implementing the Group's business objectives until the end of 2002 are set out below:

	June to December 2000	First half 2001	Second half 2001 (HK\$mn)	First half 2002	Second half 2002	Total
Development of the ASP Business	25	10	3	2	0	40
Research & development cost	10	10	7	10	10	47
Geographical expansion	7	7	10	8	8	40
Setting up the e-Centre	4	4	2	—	—	10
Marketing and promotional activities	2	2	2	2	2	10
Acquisitions and investments	<u>50</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>50</u>
Total	98	33	24	22	20	197

Period 1 : June to December 2000

Key business initiatives

- Marketing the Group's enterprise software aggressively
- Launching the first series of services of the ASP Business — iStock21, iHR21 and iClaims21
- Realising e-business solutions initiatives
- Identifying joint venture and acquisition targets

Sales and marketing

- Expanding the sales and marketing team
- Setting up a sales team for the ASP Business

Product and service development

- Completing the development of the InterTrade Settlement Module
- Continuing the development of MBS
- Completing the first phase (medical insurance) and second phase (life insurance) of development of Insurance21

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

- Completing the development of the software required for the operation of the first phase of the iTreasury project

Geographical expansion

- Establishing the first PRC office (in Guangzhou)
- Establishing the first Southeast Asia office in Singapore
- Identifying potential partners and acquisition targets in Singapore
- Commencing a program to localise products for the PRC and Southeast Asia.

Period 2 : First Half 2001

Key business initiatives

- Further developing the ASP Business by launching other enterprise software as an ASP service
- Commencing the marketing of Insurance21 upon completion of the second phase development
- Commencing the marketing of MBS upon completion of the first phase development
- Continuing the Group's geographical expansion, including through acquisitions

Sales and marketing

- Enlarging the sales force of the ASP Business to capture a larger share of the market
- Recruiting local distributors and/or resellers of the Group's enterprise software in the PRC and other Asian countries

Period 3 : Second Half 2001

Key business initiatives

- Further developing the ASP Business by including software developed by third party software vendors as part of the services offered
- Marketing the MBS and Insurance21 aggressively
- Continuing the Group's geographical expansion, including through acquisitions

Sales and marketing

- Recruiting additional local distributors and/or resellers in the PRC and other Asian countries

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Period 2 : First Half 2001

Product and service development

- Commencing the third phase of development (general insurance) of Insurance21
- Completing the first phase development (covering loans, deposits etc.) of MBS
- Commencing and completing the second phase development of the iTreasury project

Geographical expansion

- Establishing the second PRC office (in Shenzhen or Beijing)
- Establishing the second Southeast Asia office in Malaysia

Period 4: First Half 2002

Key business initiatives

- Further developing the ASP Business by launching new enterprise software developed by the Group as well as third party software vendors
- Marketing MBS to enterprise and banks for their treasury and capital market operations and businesses upon completion of full development, and continuing to promote and market Insurance21 aggressively
- Continuing to expand the operations of the Group through organic growth and acquisitions

Period 3 : Second Half 2001

Product and service development

- Completing the third phase development of Insurance21
- Completing the second phase development (covering swaps, equities, futures etc.) of MBS

Geographical expansion

- Establishing the third PRC office
- Establishing the third Southeast Asia office in the Philippines or Thailand

Period 5: Second Half 2002

Key business initiatives

- Expanding the customer base of the ASP Business by launching new enterprise software
- Continuing to market MBS and Insurance21 aggressively
- Continuing to expand the operations of the Group through organic growth and acquisitions

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

Period 4: First Half 2002

Sales and marketing

- Expanding the sales force in the regional offices
- Recruiting additional local distributors and/or resellers in PRC and other Asian countries

Product and service development

- Completing the development of the final phase of MBS

Geographical expansion

- Establishing additional offices in PRC
- Establishing additional offices in other Asian countries

Period 5: Second Half 2002

Sales and marketing

- Strengthening sales and marketing efforts in the regional offices and in Hong Kong
- Continuing to recruit additional local distributors and/or resellers in PRC and other Asian countries

Geographical expansion

- Establishing additional offices in PRC
- Establishing additional offices in other Asian countries

BASES AND ASSUMPTIONS

The Group's business objectives set out above are based on the following assumptions:

- There will be no significant change in the legal and regulatory environment of Hong Kong and other relevant countries and regions that will adversely affect the business and activities of the Group.
- The Hong Kong government will continue to promote and encourage the development of the IT industry.
- The markets in the PRC and Southeast Asia are sufficiently vast to accommodate the supply of services provided by the Group and its competitors.
- The growth of the Internet will continue and is sustainable.
- 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 under "Risk factors", the occurrence of any of which may delay or otherwise affect the attainment by the Group of any of its business objectives.

STATEMENT OF BUSINESS OBJECTIVES AND STRATEGIES

USE OF PROCEEDS OF THE SHARE OFFER

The proceeds of the Share Offer, after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Share Offer, are estimated to be approximately HK\$188 million (on the basis that the Over-allotment Option is not exercised) based on an Offer Price of HK\$1.40. If the Over-allotment Option is exercised in full, the net proceeds based on such Offer Price will increase to approximately HK\$30 million. The Company currently intends to use the net proceeds of the Share Offer as follows:

- approximately HK\$40 million for the development of the ASP Business for the period until the end of year 2002;
- approximately HK\$20 million for the research and development of new enterprise software for the period until end of year 2002;
- approximately HK\$20 million for the geographical expansion of the Group into the PRC and Southeast Asia for the period until end of year 2002;
- approximately HK\$10 million for setting up the e-Centre for the period until the end of year 2001;
- approximately HK\$10 million for marketing and promotional activities for the end period until end of year 2002;
- approximately HK\$50 million for acquisitions of and investments in companies and businesses which fit into the Group's business strategy for the period until the end of year 2000;
- the balance of approximately HK\$38 million for general working capital;
- in the event the Over-allotment Option is exercised in full, the additional net proceeds (based on an Offer Price of HK\$1.40) of approximately HK\$30 million will be applied by the Group as additional general working capital.

To the extent that the net proceeds of the Share Offer are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in interest-bearing deposits with financial institutions. In the event there is to be any material modification to the use of proceeds as described above, the Company will issue an announcement of the change.

In the event the Offer Price is less than HK\$1.40, the net proceeds allocated in respect of working capital shall be reduced accordingly.

UNDERWRITING

UNDERWRITERS

Public Offer Underwriters

HSBC Investment Bank Asia
Bear Stearns Asia Limited
CEF Capital Limited
Advanced Partners Brokerage Limited
Cazenove Asia Limited
CLSA Limited
Vickers Ballas Capital Limited

Placing Underwriters

HSBC Investment Bank Asia
Bear Stearns Asia Limited
CEF Capital Limited
Advanced Partners Brokerage Limited
Cazenove Asia Limited
CLSA Limited
Vickers Ballas Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

The Company is offering (a) the Public Offer Shares for subscription on and subject to the terms and conditions of this prospectus and the application forms relating thereto, and (b) the Placing Shares for subscription by way of the Placing. Subject to the GEM Listing Committee granting listing of and permission to deal in the Shares (subject only to allotment) and to certain other conditions set out in the Underwriting Agreement being satisfied not later than 20th July, 2000, (a) the Public Offer Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the application forms relating thereto, for the Public Offer Shares now being offered and which are not taken up under the Public Offer; and (b) the Placing Underwriters have severally agreed to apply or procure applications or places for the Placing Shares which have not been subscribed for or placed pursuant to the Placing.

Grounds for termination

The obligations of the Underwriters to subscribe or purchase or procure subscribers or purchasers for the Offer Shares are subject to termination and HSBC Investment Bank Asia (on behalf of the Underwriters) has the absolute right upon giving notice to the Company to terminate the Underwriting Agreement if certain events, including but not limited to the following, shall occur at any time prior to 6:00 p.m. on 29th June, 2000:

- (a) any breach of any of the warranties or any other provision of the Underwriting Agreement;

UNDERWRITING

- (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;
- (c) any statement contained in the prospectus is discovered to be or becomes untrue, incorrect or misleading in any respect;
- (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) any adverse change in the business or the financial or trading position of any member of the Group;
- (f) any event or series of events, matters or circumstances concerning or relating to, or any change in:—
 - (i) local, national or financial, political, economic, military, industrial, fiscal, regulatory or stock market conditions or sentiments in Hong Kong, Bermuda, the US or any other relevant jurisdiction; or
 - (ii) any new law or change in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, Bermuda, the US or any other relevant jurisdiction in which the Group operates; or
 - (iii) any event of force majeure affecting Hong Kong, Bermuda, the US or any other relevant jurisdiction in which the Group operates including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
 - (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange or the New York Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (v) a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, Bermuda or any other relevant jurisdiction in which the Group operates or affecting an investment in the Shares or the transfer or dividend payment in respect thereof; or
 - (vi) any litigation or claim of material importance being threatened or instigated against any member of the Group;

which, in the sole opinion of HSBC Investment Bank Asia:

- (a) 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
- (b) makes it inadvisable or inexpedient to proceed with the Public Offer and/or the Placing.

UNDERWRITING

Undertakings

(A) Each of the Initial Management Shareholders jointly and severally undertakes with the Company and HSBC Investment Bank Asia that he/she/it will not and will procure that none of his/her/its associates will (unless with the prior written consent of HSBC Investment Bank Asia and unless in compliance with the GEM Listing Rules):

- (i) sell, transfer or otherwise dispose of or grant any option or other right in or charge, encumber or otherwise create any security or similar interest over, or securities convertible into:
 - (a) any of the Shares held by him/her/it or his/her/its associates or any interests therein,
 - (b) any shares held directly or indirectly by him/her/it or his/her/its associates in any company which is the beneficial owner of any of the Shares or interests therein referred to in (a) above, in each case, as at the Listing Date,
 - (c) Shares allotted to him/her/it or his/her/its associates pursuant to any capitalisation issue effected after the Listing Date or pursuant to any exercise of options, subscription or conversion rights held immediately prior to the Listing Date, and
 - (d) (in the case of Ms. Peggy Chan and Passion) Shares that may be re-transferred to her/it by the executive Directors as described under “Further Information about the Company — Transfer of Shares by controlling shareholder” in Appendix VI to this prospectus (together, the “**Securities**”)

or enter into any agreement to do any of the foregoing; and

- (ii) permit the registered holder to sell, transfer or otherwise dispose of or grant any option or other right in or charge, encumber or otherwise create any security or similar interest over, or securities convertible into any of his/her/its direct or indirect interest in the Securities (or enter into any agreement to do so),

within six months from the Listing Date (the “**Lock-up Period**”), except, in the case of Ms. Peggy Chan and Passion, pursuant to the Stock Borrowing Agreement provided that she/it shall, in respect of the Shares returned pursuant to the Stock Borrowing Agreement, be subject to the same restrictions and requirements imposed by this paragraph (A), and paragraphs (B) and (D) below and as if those Shares were Securities.

(B) Each of the Initial Management Shareholders further undertakes with the Company and HSBC Investment Bank Asia to:

- (i) place in escrow on terms acceptable to the Stock Exchange its Securities during the Lock-up Period and (in the case of Ms. Peggy Chan and Passion) her/its Securities not yet disposed of in escrow for a further six-month period from the expiry of the Lock-up Period (the “**Additional Six-month Period**”); and

UNDERWRITING

- (ii) as part of the escrow arrangements, appoint an escrow agent acceptable to the Stock Exchange.
- (C) Each of Ms. Peggy Chan and Passion jointly and severally undertakes with the Company and HSBC Investment Bank Asia that she/it will not, and will procure that none of her/its associates will (unless with the prior written consent of HSBC Investment Bank Asia and unless in compliance with the GEM Listing Rules), do or cause to be done any of the acts referred to in paragraph (A) above during the Additional Six-month Period such that Ms. Peggy Chan and Passion would together control less than 35 per cent. of the issued Shares.
- (D) Each of the Initial Management Shareholders undertakes to the Company and HSBC Investment Bank Asia to comply with the following requirements:
- (i) in the event that he/she/it, in compliance with the terms in paragraph (A) above, pledges or charges any direct or indirect interest in any of the Securities at any time during the Lock-up Period (and in the case of Ms. Peggy Chan and Passion, during both the Lock-up Period and the Additional Six-month Period), he/she/it will inform the Company and HSBC Investment Bank Asia immediately thereafter, disclosing the details as required by the GEM Listing Rules; and
 - (ii) to inform the Company and HSBC Investment Bank Asia immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of any such interest in the Securities and of the number of the Securities affected.
- (E) Each of the Initial Management Shareholders undertakes with the Company and HSBC Investment Bank Asia that upon any sale, transfer or other disposal of any Shares beneficially owned by him/her/it or any interest therein following the expiry of the Lock-up Period and (in the case of Ms. Peggy Chan and Passion) the Additional Six-month Period, he/she/it will take all reasonable steps to ensure that such sale, transfer or disposal will not create a disorderly or false market for the Shares or other securities of the Company.
- (F) The Company undertakes with HSBC Investment Bank Asia that it will not, and each of the Initial Management Shareholders severally undertakes with the HSBC Investment Bank Asia to procure that the Company will not, without the prior written consent of HSBC Investment Bank Asia and unless in compliance with the GEM Listing Rules:
- (i) within the Lock-up Period issue or agree to issue or grant or agree to grant any options or warrants or other rights in or carrying the right to subscribe for, directly or indirectly, conditionally or unconditionally, any shares or other securities (including securities convertible into or exchangeable for shares) of the Company or any interest therein, or announce any intention to do so, except pursuant to an issue of shares upon the exercise of the Over-allotment Option and of options which may be granted under the Share Option Scheme, and
 - (ii) do or cause to be done any of the foregoing at any time during the Additional Six-month Period which would result in Ms. Peggy Chan and Passion together controlling less than 35 per cent. of the issued Shares.

UNDERWRITING

(G) The Company agrees that it will not, and each of the Initial Management Shareholders jointly and severally undertakes to procure that the Company will not, effect any purchase of the Company's own shares, or agree to do so, which may reduce the holdings of Shares held by the public (as defined in Rule 11.23 of the GEM Listing Rules) below 15 per cent. without first having obtained the prior written consent of HSBC Investment Bank Asia.

Commission and expenses

The Underwriters will receive a commission of 2.5 per cent. of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commission. In addition, HSBC Investment Bank Asia will receive a financial advisory fee for providing advisory services and for acting as the sponsor to the Share Offer. Such financial advisory fee and commission, together with the Stock Exchange listing fees, the Stock Exchange transaction levy, legal and other professional fees, printing and other expenses relating to the Share Offer which are currently estimated to be approximately HK\$22 million in aggregate, will be payable by the Company.

Underwriters' interests in the Company

Save as pursuant to the Underwriting Agreement and save as described under "Sponsor's interest in the Company" below, none of the Underwriters is interested, beneficially or non-beneficially, in any member of the Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Sponsor's agreement

Under a sponsor's agreement dated 19th June, 2000 and made between HSBC Investment Bank Asia and the Company (the "Sponsor Agreement"), the Company appoints HSBC Investment Bank Asia and HSBC Investment Bank Asia agrees to act as a sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the date the Shares are listed on GEM to 31st December, 2000 and for two years thereafter until 31st December, 2002 or until the Sponsor Agreement is terminated upon the terms and conditions set out therein.

Sponsor's interest in the Company

Save for its obligations under the Underwriting Agreement and the Sponsor Agreement, and interests in securities that may be subscribed for or purchased pursuant to the Share Offer, neither HSBC Investment Bank Asia nor its associates have or may, as a result of the Share Offer, 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) except that HSBC, the indirect holding company of HSBC Investment Bank Asia, is one of principal bankers of the Group and will receive a fee for its services as the receiving banker to the Share Offer. HSBC Investment Bank Asia Holdings Limited is the holding company of HSBC Investment Bank Asia, and a subsidiary of HSBC Investment Bank Asia Holdings Limited, namely HSBC Nominees Asia Limited, will receive a fee for its services in connection with holding the application monies received pursuant to the Public Offer. HSBC Investment Bank Asia Holdings Limited has a 50 per cent. interest in Central Registration Hong Kong Limited, the Hong Kong branch share registrar and transfer office of the Company.

UNDERWRITING

No director or employee of HSBC Investment Bank Asia who is involved in providing advice to the Company has or may, as a result of the Share Offer, 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 Share Offer).

Neither HSBC Investment Bank Asia nor its associates has accrued any material benefit as a result of the successful outcome of the Share Offer, including by way of example, the repayment of material outstanding indebtedness or success fees save and except for the receipt of underwriting and placing commission by HSBC Investment Bank Asia as one of the Underwriters to the Share Offer and the financial advisory fee to be received by HSBC Investment Bank Asia, and save as otherwise disclosed in this prospectus.

No director or employee of HSBC Investment Bank Asia has a directorship in the Company or any other company in the Group.

STRUCTURE OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.40 and is expected to be not less than HK\$1.35. Applicants under the Public Offer should pay, on application, the maximum price of HK\$1.40 per Share plus one per cent. brokerage and 0.01 per cent. Stock Exchange transaction levy amounting to a total of HK\$2,828.28 per board lot of 2,000 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than the maximum price, appropriate refund payments will be made. Further details are set out under “How to apply for Public Offer Shares”.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed on or around 23rd June, 2000 (and in any event on or before 27th June, 2000) by agreement between HSBC Investment Bank Asia (on behalf of the Underwriters) and the Company with reference to market demand for the Shares. **Prospective investors should be aware that the Offer Price to be determined on the IPO Pricing Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

If, based on the level of interest expressed by prospective investors, HSBC Investment Bank Asia (on behalf of the Underwriters and with the consent of the Company) thinks it appropriate, the indicative Offer Price range may be reduced below than stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offer, cause to be published on the GEM Web-site and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese notice of the reduction of the Offer Price range. **Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the morning of Friday, 23rd June, 2000, the last day for lodging applications under the Public Offer.** Such notice will also include confirmation or revision, as appropriate, of the working capital position of the Company, the offer statistics as currently set out under “Summary of this prospectus” and any other financial information which may change as a result of any such reduction. **Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the Offer Price range is so reduced.**

If HSBC Investment Bank Asia (on behalf of the Underwriters) and the Company are unable to reach agreement on the Offer Price on or before 27th June, 2000, the Share Offer will not become unconditional and will lapse.

An announcement of the Offer Price, together with the results of applications under the Public Offer, level of indication of interests in the Placing and the basis of allocation of the Public Offer Shares, is expected to be published on Wednesday, 28th June, 2000.

STRUCTURE OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares will be conditional on:

- (a) 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 pursuant to the Share Offer (including Shares to be issued upon the exercise of the Over-allotment Option) and the Capitalisation Issue, and Shares that may be issued pursuant to the conversion of the Additional Convertible Note and the exercise of options that may be granted under the Share Option Scheme; and
- (b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by HSBC Investment Bank Asia on behalf of the Underwriters) and 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) and in any event not later than 20th July, 2000, being the date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be caused to be published by the Company on the GEM Web-site and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese on the next day following such lapse.

In the above eventuality, all application monies will be returned to the applicants, without interest and on the terms set out under "Refund of your money" in the application forms. In the meantime, application monies will be held in a separate bank account or separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will be issued on 28th June, 2000 and will become valid certificates of title at 6:00 p.m. on 29th June, 2000, provided that (i) the Share Offer has become unconditional and (ii) the right of termination as described under "Underwriting — Grounds for termination" has not been exercised prior thereto.

THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. A total of 150,000,000 Shares will initially be made available under the Share Offer. 22,500,000 Shares, representing 15 per cent. of the total number of Shares initially available under the Share Offer, will initially be offered for subscription under the Public Offer, and the remaining 127,500,000 Shares will initially be offered for subscription under the Placing.

Investors may apply for Shares under the Public Offer or indicate an interest for Shares under the Placing, but may not do both (except for full-time employees of the Group who, in addition to applying for Shares on a preferential basis under the Placing, may also apply for Public Offer Shares). The Public Offer is open to members of the public in Hong Kong as well

STRUCTURE OF THE SHARE OFFER

as to institutional and professional investors. The Placing will involve selective marketing of Shares to institutional and professional investors and other investors expected to have a sizeable demand for the Shares as well as an offer of Shares on a preferential basis as to allocation only to full-time employees of the Group (excluding the Directors). Shares allocated on a preferential basis to full-time employees of the Group under the Placing will not be subject to any lock-up arrangement. 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 shares and other securities. Other investors not having a sizeable demand for the Shares are unlikely to be allocated Placing Shares.

Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 15 per cent. of the Company's enlarged issued share capital immediately after completion of the Share Offer.

If the Over-allotment Option is exercised in full, the Shares comprised in the Share Offer will represent approximately 16.87 per cent. of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the exercise of the Over-allotment Option.

The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is fully underwritten by the Placing Underwriters, in each case on a several basis, each being subject to the conditions set out under "Underwriting — Underwriting arrangements and expenses". If, for any reason, the Offer Price is not agreed on or before 27th June, 2000 between the Company and HSBC Investment Bank Asia, on behalf of the Underwriters, the Share Offer will not proceed.

The Offer Shares are not available to the chief executive of the Company, the Directors, existing beneficial owners of Shares, or the associates (as defined in the GEM Listing Rules) of any of them.

THE PUBLIC OFFER

The Public Offer is a fully underwritten public offer (subject to agreement as to pricing and the other conditions described under "Conditions of the Share Offer") for subscription in Hong Kong of, initially, 22,500,000 Shares at the Offer Price (representing 15 per cent. of the total number of Shares initially available under the Share Offer). Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the Public Offer Shares will represent 2.25 per cent. of the Company's enlarged issued share capital immediately after completion of the Share Offer, assuming that the Over-allotment Option is not exercised.

The Public Offer is sponsored by HSBC Investment Bank Asia and underwritten by the Public Offer Underwriters. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$1.40 per Share in addition to one per cent. brokerage and 0.01 per cent. Stock Exchange transaction levy payable. If the Offer Price, as finally determined in the manner described above, is less than the maximum price of HK\$1.40, appropriate refund (including the brokerage and the Stock Exchange transaction levy attributable to the surplus application monies) will be made, without interest. Further details are set out under "How to apply for Public Offer Shares".

STRUCTURE OF THE SHARE OFFER

Allocation of Public Offer Shares will be based solely on the level of valid applications received. When there is over-subscription in the Public Offer, the basis of allocation may vary depending on the number of Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro-rata basis. In addition, the allocation of Public Offer Shares in such circumstances may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may not receive any Public Offer Shares.

THE PLACING

The Company is initially offering 127,500,000 Shares for subscription by way of Placing. Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the Placing Shares will represent 12.75 per cent. of the Company's enlarged issued share capital immediately after completion of the Share Offer, assuming that the Over-allotment Option is not exercised.

2,154,000 Placing Shares (representing approximately 1.44 per cent. of the Offer Shares and approximately 0.22 per cent. of the enlarged issued share capital of the Company immediately upon completion of the Share Offer, assuming the Over-allotment Option is not exercised) will be offered at the Offer Price by the Company on a preferential basis as to allocation only to full-time employees of the Group (excluding the Directors).

The remaining Placing Shares will be conditionally placed on behalf of the Company pursuant to an international placement by the Placing Underwriters or through selling agents appointed by them at the Offer Price which will be determined in Hong Kong dollars as described above in this section under "Determining the Offer Price". Shares will be placed with certain professional and institutional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong, Europe and other jurisdictions outside the United States (other than the PRC) in offshore transactions in reliance on Regulation S and in the United States with qualified institutional buyers in reliance on Rule 144A.

OFFER MECHANISM — REALLOCATION OF THE OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of the Offer Shares between the Placing and the Public Offer is subject to adjustment. If the number of Shares validly applied for in the Public Offer represents 15 times or more of the number of Shares initially available for subscription under the Public Offer, then 7,500,000 Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 30,000,000 Offer Shares will be available under the Public Offer, representing 20 per cent. of the Offer Shares initially available under the Share Offer. The number of Shares available under the Placing will be correspondingly reduced as a result of such reallocation.

In addition, if the Public Offer is not fully subscribed, HSBC Investment Bank Asia may, in its absolute discretion, reallocate all or any unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such proportion and in such manner as HSBC Investment Bank Asia considers appropriate.

STRUCTURE OF THE SHARE OFFER

OVER-ALLOTMENT OPTION

In connection with the Share Offer, the Company has granted to the Underwriters the Over-allotment Option which is exercisable by HSBC Investment Bank Asia on behalf of the Underwriters at any time on or before 20th July, 2000. Pursuant to the Over-allotment Option, the Company may be required to issue and allot at the Offer Price up to an aggregate of 22,500,000 additional Shares, representing 15 per cent. of the Shares initially available under the Share Offer, solely to cover over-allocations in the Placing and/or over-subscriptions in the Public Offer, if any. The additional Shares issued pursuant to the exercise of the Over-allotment Option will be allocated to the Placing and/or the Public Offer at the discretion of HSBC Investment Bank Asia, on behalf of the Underwriters. In order to facilitate settlement of over-allocations in connection with the Placing and/or over-subscriptions in connection with the Public Offer, the Stock Borrowing Agreement has also been entered into between HSBC Investment Bank Asia and Passion. Pursuant to this arrangement, Passion has agreed that, if so requested by HSBC Investment Bank Asia, Passion will lend to HSBC Investment Bank Asia up to 22,500,000 Shares on the following terms:

- (i) the borrowed Shares will only be used to settle over-allocations under the Placing and/or over-subscriptions in the Public Offer, and
- (ii) the same number of Shares must be returned to Passion, 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 for the exercise of the Over-allotment Option.

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 Ms. Peggy Chan and Passion following six months from the date of listing of the Shares on GEM, in order to allow Passion to enter into this stock borrowing arrangement. Details of such waiver are set out under "Waivers in respect of the GEM Listing Rules". HSBC Investment Bank Asia may also cover such over-allocations by, among other means, purchasing Shares in the secondary market, exercise of the Over-allotment Option, or by a combination of purchases in the secondary market and exercise of the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 16.87 per cent. of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made on the GEM Web-site, and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese.

STABILISATION

In connection with the Placing, HSBC Investment Bank Asia, on behalf of the Placing Underwriters, may over-allocate and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail. The number of Shares that may be over-allocated will be no greater than the number of Shares that may be issued under the Over-allotment Option. 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. Such stabilisation, if commenced, may be discontinued at any time.

STRUCTURE OF THE SHARE OFFER

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for 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 issue price of the securities. The stabilisation price will not be higher than the Offer Price.

Should stabilising transactions be effected in connection with the distribution of the Shares, they will be done at the direction, and in the absolute discretion, of HSBC Investment Bank Asia. In Hong Kong, such stabilisation activities are restricted to cases where underwriters genuinely purchase shares in the secondary market effected solely for the purpose of covering over-allocations in the offering. The relevant provisions of the Securities Ordinance (Cap 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

HOW TO APPLY FOR PUBLIC OFFER SHARES

There are two ways to make an application for Public Offer Shares. First, you may use an application form. Second, you may electronically instruct Hongkong Clearing to cause HKSCC Nominees to apply for Public Offer Shares on your behalf. **You may not both apply on a WHITE or YELLOW application form and give electronic instructions to Hongkong Clearing.**

I. APPLYING BY USING AN APPLICATION FORM

WHICH APPLICATION FORM TO USE

Use a **white** application form if you want the Public Offer Shares to be issued in your own name.

Use a **yellow** application form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant.

Note: The Public Offer Shares are not available to the chief executive of the Company, the Directors, existing beneficial owners of Shares, or the associates (as defined in the GEM Listing Rules) of any of them.

WHERE TO COLLECT THE APPLICATION FORMS FOR THE PUBLIC OFFER SHARES

Copies of this prospectus, together with the **white** application forms, may be obtained from:

Any member of
The Stock Exchange of Hong Kong Limited

or

HSBC Investment Bank Asia Limited

Level 15
1 Queen's Road Central
Hong Kong

or

Bear Stearns Asia Limited

26/F Citibank Tower
3 Garden Road
Hong Kong

or

CEF Capital Limited

Suite 2001, 20/F Cheung Kong Center
2 Queen's Road Central
Hong Kong

or

HOW TO APPLY FOR PUBLIC OFFER SHARES

Advanced Partners Brokerage Limited

6501-06 The Center
99 Queen's Road
Central
Hong Kong

or

Cazenove Asia Limited

3601 Two Exchange Square
8 Connaught Place
Central
Hong Kong

or

CLSA Limited

33rd Floor, Tower Two
Lippo Centre
89 Queensway
Hong Kong

or

Vickers Ballas Capital Limited

19th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

or any one of the following branches of **The Hongkong and Shanghai Banking Corporation Limited**:

HONG KONG ISLAND:	Hong Kong Office	Level 3, 1 Queen's Road Central
	Central Branch	29 Queen's Road Central
	Cityplaza Branch	Unit 065, Cityplaza I, Taikoo Shing
	Des Voeux Road Central Branch	141 Des Voeux Road Central
	Des Voeux Road West Branch	40-50 Des Voeux Road West
	Harcourt Road Branch	Ground Floor, Hutchison House,
		10 Harcourt Road
	Hay Wah Building Branch	Ground Floor, Hay Wah Building,
		71-85B Hennessy Road, Wanchai
	Hopewell Centre Branch	Shops 1-2, Ground Floor,
		Hopewell Centre,
		183 Queen's Road East, Wanchai
	North Point Branch	306-316 King's Road, North Point
KOWLOON:	Festival Walk Branch	Shops LG 1-37, Festival Walk,
		80 Tat Chee Avenue, Kowloon Tong
	Kwun Tong Branch	1 Yue Man Square, Kwun Tong
	Mongkok Branch	673 Nathan Road, Mongkok
	Tai Yau Street Branch	26-28, Tai Yau Street, San Po Kong
	Telford Gardens Branch	Unit P16, Block G, Telford Plaza I,
		Kowloon Bay
	Tsimshatsui Branch	82-84 Nathan Road, Tsimshatsui

HOW TO APPLY FOR PUBLIC OFFER SHARES

Union Park Centre Branch

Shops 4-7, Ground Floor, Union
Park Centre, 771-775 Nathan Road
71 Waterloo Road, Homantin

Waterloo Road Branch

NEW TERRITORIES:

City Landmark Branch

Shops 117-131, 1st Floor,
City Landmark I,

Shatin City One Branch

68 Chung On Street, Tsuen Wan
Shops 138-140, 1st Floor,

Yuen Long Branch

City One Plaza, Shatin
Ground Floor, HSBC Building Yuen
Long, 150-160 Castle Peak Road,
Yuen Long

You can collect a **yellow** application form and a prospectus from:

- (1) the Service Counter of Hongkong Clearing at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) the Investor Service Centre of Hongkong Clearing at Room 1901, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay, Hong Kong; or
- (3) your broker may have the application forms available.

HOW TO COMPLETE THE APPLICATION FORM

There are detailed instructions on each application form. You should read those instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier orders to you (or the first-named applicant in the case of joint applicant(s)) at your own risk at the address stated on the application form.

If your application is made through a duly authorised attorney, HSBC Investment Bank Asia, in consultation with the Company, or its agents may accept your application at its discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney.

HOW MANY APPLICATIONS YOU MAY MAKE

There is only one situation where you may make more than one application for Public Offer Shares:

- If you are a **nominee**, you may lodge more than one application in your own name on behalf of different owners. In the box on the application form marked "For nominees" you must include:
 - an account number; or
 - some other identification code for each beneficial owner.

If you do not include this information, the application will be treated as being for your own benefit.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an application form, you:

- (if the application is made for your own benefit) **warrant** that this is the only application which will be made for your benefit on a **white** or **yellow** application form or through giving instructions to Hongkong Clearing **electronically**;
- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** application form or through giving instructions to Hongkong Clearing **electronically**, and that you are duly authorised to sign this form as that other person's agent.

Multiple applications or suspected multiple applications will be rejected. Save as referred to above, all of your applications will be rejected as multiple applications if you, or you and/or joint applicants together:

- make more than one application (whether individually or jointly with others) on a **white** or **yellow** application form (save in the case of applications made by nominees as described under the section "**HOW MANY APPLICATIONS YOU MAY MAKE**") or by giving **electronic** application instructions to Hongkong Clearing (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant); or
- apply on a **white** or **yellow** application form or by giving **electronic** application instructions to Hongkong Clearing (if you are a CCASS Investor Participant or applying through a CCASS Broker or Custodian Participant) for more than the total number of the Public Offer Shares initially made available for subscription by the public in Hong Kong; or
- both apply on a **white** or **yellow** application form and give **electronic** application instructions to Hongkong Clearing.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on electronic application instructions).

If an application is made by an unlisted company and

- the only business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

An unlisted company means a company with no equity securities listed on the Stock Exchange.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Statutory control means you:

- control the composition of the board of directors of that company; or
- control more than half of the voting power of that company; or
- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

MEMBERS OF THE PUBLIC - TIME FOR APPLYING FOR PUBLIC OFFER SHARES

Completed **white** or **yellow** application forms, with payment attached, must be lodged by 12:00 noon on Friday, 23rd June, 2000, or, if the application lists are not open on that day, then by 12:00 noon on the next business day the application lists are open.

Your completed application form, with payment attached, should be deposited in any of the special collection boxes provided at any of the branches of The Hongkong and Shanghai Banking Corporation Limited listed above at the following times:

Tuesday, 20th June, 2000 — 9:00 a.m. to 4:00 p.m.
Wednesday, 21st June, 2000 — 9:00 a.m. to 4:00 p.m.
Thursday, 22nd June, 2000 — 9:00 a.m. to 4:00 p.m.
Friday, 23rd June, 2000 — 9:00 a.m. to 12:00 noon

The application lists will be open **from 11:45 a.m. to 12:00 noon on Friday, 23rd June, 2000**. The application for the Public Offer Shares will not be processed and no allotment of any such Public Offer Shares will be made until the closing of the application lists.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not be open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 23rd June, 2000. Instead the application lists will be open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

*For the purposes of this section, **business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.*

APPLICATION BY HKSCC NOMINEES

Where a **white** application form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to apply for Public Offer Shares:

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the application form or the prospectus;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (ii) HKSCC Nominees does the following things on behalf of each of the persons:
- **agrees** that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to that person's CCASS Investor Participant stock account or the stock account of the CCASS Participant who has input electronic application instructions on that person's behalf;
 - **undertakes** and **agrees** to accept the Public Offer Shares in respect of which that person has given electronic application instructions or any lesser number;
 - **undertakes** and **confirms** that that person has not applied for or taken up any Public Offer Shares under the Placing nor otherwise participated in the Placing (except for the full-time employees of the Group who have applied for or taken up Shares on a preferential basis under the Placing);
 - (if the electronic application instructions are given for that person's own benefit) **declares** that only one set of electronic application instructions has been given for that person's benefit;
 - (if that person is an agent for another person) **declares** that it has given only one set of electronic application instructions for the benefit of that other person, and that it is duly authorised to give those instructions as that other person's agent;
 - **understands** that the above declaration will be relied upon by the Company in deciding whether or not to make any allotment of Public Offer Shares in respect of the electronic application instructions given by that person and that person may be prosecuted if he makes a false declaration;
 - **authorises** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allotted in respect of that person's electronic application instructions and to send share certificates and/or refund monies in accordance with arrangements separately agreed between the Company and Hongkong Clearing;
 - **confirms** that that person has read the terms and conditions and application procedures set out in the prospectus and agrees to be bound by them;
 - **confirms** that that person has only relied on the information and representations in the prospectus in giving that person's electronic application instructions or instructing that person's broker to give electronic application instructions on that person's behalf;
 - **agrees** that the Company, the Underwriters, the Directors and any other parties involved in the Share Offer are liable only for the information and representations contained in the prospectus;
 - **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentations;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- **agrees** to disclose that person's personal data to the Company and its agents and any information which they require about that person;
- **agrees** that that person cannot revoke electronic application instructions before 30th June, 2000, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before 30th June, 2000 except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), being 30th June, 2000, if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for the prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's electronic application instructions can be revoked and that acceptance of that application will be evidenced by the press announcement on results of the Public Offer published by the Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and Hongkong Clearing, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to the Public Offer Shares.

IF YOUR APPLICATION FOR PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

The Company will not issue temporary documents of title. No receipt will be issued for application money paid.

WHITE application form:

If you have applied for 1,000,000 Public Offer Shares or above and have indicated on your application form that you will collect your share certificates and refund cheques (if any) in person, you may collect them in person from:

Central Registration Hong Kong Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company on the GEM Web-site and in the newspapers as the date of despatch of share certificates. This is expected to be on Wednesday, 28th June, 2000.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Applicants being individuals who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants must show their identification documents (which must be acceptable to Central Registration Hong Kong Limited) to collect share certificates and/or refund cheques. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chops. Their authorised representatives must produce at the time of collection evidence of identity acceptable to Central Registration Hong Kong Limited.

If you do not collect your share certificates and/or refund cheque (if any), they will be sent to the address on your application form in the afternoon on the date of despatch, by ordinary post and at your own risk.

If you have applied for 1,000,000 Public Offer Shares or above and have not indicated on your application form that you will collect your share certificates and refund cheque (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares, then your share certificates and refund cheque (if any) will be sent to the address on your application form shortly thereafter on the date of despatch, by ordinary post and at your own risk.

YELLOW application form:

Your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you at the close of business on Wednesday, 28th June, 2000, or in the event of a contingency, on any other date as shall be determined by Hongkong Clearing or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- the Company will publish the results of CCASS Investor Participants' applications together with the results of the Share Offer on the GEM Web-site and in the newspapers on or before Wednesday, 28th June, 2000. You should check against the announcement published by the Company and report any discrepancies to Hongkong Clearing before 5:00 p.m. on Wednesday, 28th June, 2000 or such other date as shall be determined by Hongkong Clearing or HKSCC Nominees. On Thursday, 29th June, 2000, you can check your new account balance via the CCASS Phone System (under the procedures contained in Hongkong Clearing's "An Operating Guide for Investor Participants" in effect from time to time). Hongkong Clearing will also mail to you an Activity Statement showing the number of Public Offer Shares credited to your stock account.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you have applied for 1,000,000 Public Offer Shares or above and have indicated on your application form that you will collect your refund cheque in person, the procedures set out under “**WHITE** application form” above will apply.

If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque (if any) will be sent to the address on your application form on the date of despatch, which is expected to be Wednesday, 28th June, 2000, by ordinary post and at your own risk.

II. APPLYING BY GIVING ELECTRONIC INSTRUCTIONS TO HONGKONG CLEARING

GENERAL

CCASS Participants may give electronic instructions to apply for Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with Hongkong Clearing and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 (using the procedures contained in “An Operating Guide for Investor Participants” in effect from time to time). Hongkong Clearing can also input electronic application instructions for you if you come to:

Investor Service Centre of Hongkong Clearing
at Room 1901, Chinachem Exchange Square
1 Hoi Wan Street, Quarry Bay
Hong Kong

or to

Service Counter of Hongkong Clearing
at 2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from any of the above addresses.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for Public Offer Shares.

You are deemed to have authorised Hongkong Clearing and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your broker or custodian to the Company and its registrars.

HOW TO APPLY FOR PUBLIC OFFER SHARES

TIME FOR INPUTTING ELECTRONIC APPLICATION INSTRUCTIONS

CCASS Participants can input electronic application instructions at the following times:

Tuesday, 20th June, 2000 — 9:00 a.m. to 7:00 p.m.
Wednesday, 21st June, 2000 — 9:00 a.m. to 7:00 p.m.
Thursday, 22nd June, 2000 — 9:00 a.m. to 7:00 p.m.
Friday, 23rd June, 2000 — 9:00 a.m. to 12:00 noon

EFFECT OF BAD WEATHER ON THE LAST APPLICATION DAY

The latest time for inputting your electronic application instructions is **12:00 noon on Friday, 23rd June 2000, the last application day**. If a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on the last application day, it will be postponed to the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HONGKONG CLEARING

By giving electronic application instructions to Hongkong Clearing or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to Hongkong Clearing, you (and if you are joint applicants, you each jointly and severally) are deemed to do the following things. Neither Hongkong Clearing nor HKSCC Nominees will be liable to the Company or any other person in respect of the things mentioned below:

- **instruct and authorise** Hongkong Clearing to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for Public Offer Shares on your behalf;
- **instruct and authorise** Hongkong Clearing to arrange payment of the Offer Price, brokerage and the Stock Exchange transaction levy by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications, refund of the application money by crediting your designated bank account;
- **instruct and authorise** Hongkong Clearing to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in its application form.

MINIMUM SUBSCRIPTION AMOUNT AND PERMITTED MULTIPLES

You may give electronic application instructions in respect of a minimum of 2,000 Public Offer Shares. Such instructions in respect of more than 2,000 Public Offer Shares must be in one of the multiples set out in the table on the application form.

MULTIPLE APPLICATIONS

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you

HOW TO APPLY FOR PUBLIC OFFER SHARES

have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Public Offer Shares given by you or for your benefit to Hongkong Clearing shall be deemed to be an actual application.

ALLOCATION OF PUBLIC OFFER SHARES

For the purpose of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instruction is given shall be treated as an applicant.

IF YOUR APPLICATION FOR PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

The Company will not issue temporary document of title. No receipt will be issued for application money paid.

Your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your CCASS Investor Participant stock account or the stock account of the CCASS Participant which you have instructed to give electronic application instructions on your behalf, at the close of business on Wednesday, 28th June, 2000, or in the event of a contingency, on any other date Hongkong Clearing or HKSCC Nominees chooses.

The Company will publish **the application results of CCASS Participants** (and where the CCASS Participant is a broker or custodian, the Company shall include information relating to the beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer, on the GEM Web-site and in the newspapers on Wednesday, 28th June, 2000. You should check against the announcement published by the Company and report any discrepancies to Hongkong Clearing before 5:00 p.m. on Wednesday, 28th June, 2000 or any other date Hongkong Clearing or HKSCC Nominees chooses.

If you are instructing your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that broker or custodian.

If you are applying as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System on Wednesday, 28th June, 2000. On Thursday, 29th June, 2000 (the next day following the credit of the Public Offer Shares to your stock account), Hongkong Clearing will mail to you an Activity Statement showing the number of Public Offer Shares credited to your stock account and the amount of refund money credited to your designated bank account (if any).

WARNING

The subscription of Public Offer Shares by giving electronic application instructions to Hongkong Clearing is only a facility provided to CCASS Participants. The Sponsor and the Company take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

To ensure that CCASS Investor Participants can give their electronic application instructions to Hongkong Clearing through the CCASS Phone System, CCASS Investor Participants are advised not to wait until the last minute to phone in. In the event that CCASS Investor Participants have problems to connect to the CCASS Phone System to submit electronic application instructions, they should either (i) submit the **white** or **yellow** application form, or (ii) go to Hongkong Clearing's Investor Service Centre or Service Counter to complete an application instruction input request form before 12:00 noon on Friday, 23rd June, 2000.

III. GENERAL

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

Details of the circumstances which you will not be allotted Public Offer Shares are set out in the notes contained in the application forms, and you should read them carefully. You should note in particular the following two situations in which Public Offer Shares will not be allotted to you:

- **Your application is revoked:**

You cannot revoke your application before the end of the fifth day (excluding Saturdays, Sundays and public holidays) after the time of the opening of the application lists, being 30th June, 2000, except that you may revoke your application earlier than that date if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application has been accepted, it cannot be revoked.

- **At the discretion of the Company or its agent:**

The Company and the agents for the Company have full discretion to reject or accept any application, or to accept only part of any application.

The Company and the Underwriters in their capacity as agents for the Company do not have to give any reason for any rejection or acceptance.

- **If you do not receive any allocation:**

You will not receive any allocation if:

- you make multiple applications;
- you or the person for whose benefits you have applied have been allotted Placing Shares (except for a full-time employee of the Group who has been allotted Shares on a preferential basis under the Placing); or
- your payment is not made correctly.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- **If your application or HKSCC Nominee's application is not accepted:**

Your application or HKSCC Nominee's application will not be accepted if:

- the Underwriting Agreement does not become unconditional; or
- the Underwriting Agreement is terminated in accordance with its terms.

- **Circumstances in which allotment of Public Offer Shares will be void**

Your allotment of Public Offer Shares and the allotment to HKSCC Nominees, if made, will be void if the GEM Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the GEM Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

REFUND OF YOUR MONEY

If you do not receive any Public Offer Shares for any of the above reasons, the Company will refund your application monies (including brokerage and Stock Exchange transaction levy). No interest will be paid thereon. If your application is accepted only in part, the Company will refund the appropriate portion of your application monies (including brokerage and Stock Exchange transaction levy) without interest.

If you are a CCASS Participant subscribing for Public Offer Shares by giving electronic application instructions to Hong Kong Clearing, all refunds will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 28th June, 2000.

PERSONAL DATA

The section of the application form headed "Personal Data" applies to any personal data held by the Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

SECTION 40 OF THE COMPANIES ORDINANCE

For the avoidance of doubt, the Company and all other parties involved in the preparation of the prospectus acknowledge that each CCASS Participant who gives, or causes to give, electronic application instructions is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

PUBLICATION OF RESULTS

The Company expects to announce the Offer Price, the level of indication of interest in the Placing, basis of allotment and results of applications of the Public Offer and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants

HOW TO APPLY FOR PUBLIC OFFER SHARES

under the Public Offer on or before Wednesday, 28th June, 2000 on the GEM Web-site and in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

HOW MUCH TO PAY FOR THE PUBLIC OFFER SHARES

The proposed board lot for trading in the Shares is 2,000 Shares. The maximum Offer Price of the Public Offer Shares is HK\$1.40 each. You must also pay the brokerage of one per cent. and a Stock Exchange transaction levy of 0.01 per cent. This means that for every 2,000 Shares, you will pay HK\$2,828.28. The application forms have tables showing the exact amount payable for multiples of Shares applied for.

You must pay the maximum Offer Price, brokerage and the Stock Exchange transaction levy in full when you apply for the Shares.

If your application is successful, brokerage is paid to participants of the Stock Exchange, and the transaction levy is paid to the Stock Exchange.

If the Offer Price as finally determined is less than the maximum Offer Price, appropriate refund payments (including brokerage and the Stock Exchange transaction levy attributable to the surplus application monies) will be made to successful applicants, without interest.

COMMENCEMENT OF DEALINGS IN THE PUBLIC OFFER SHARES

Dealings in the Shares are expected to commence on Friday, 30th June, 2000.

SHARES WILL BE ELIGIBLE FOR CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the GEM as well as 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 the 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.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Available for Inspection" in Appendix VII to this prospectus, a copy of the accountants' report is available for inspection.



8th Floor
Prince's Building
10 Chater Road
Hong Kong

20th June, 2000

The Directors
Excel Technology International Holdings Limited
HSBC Investment Bank Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Excel Technology International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31st December, 1999 (the "relevant period") for inclusion in the prospectus of the Company dated 20th June, 2000.

The Company was incorporated in Bermuda on 21st January, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda for the purpose of acting as the holding company of the subsidiaries now comprising the Group, details of which are set out in Section 6 below, which were acquired by the Group as part of a group reorganisation (the "Reorganisation"). References to the "Group" are to the Company and its subsidiaries, or, in respect of the period prior to the Reorganisation, the companies listed in Section 6 of this report that have been assumed by the Group pursuant to such Reorganisation.

We have examined the audited financial statements or unaudited management accounts of the companies now comprising the Group for the relevant period (or where the companies were incorporated at a date later than 1st January, 1997, from their respective dates of incorporation to 31st December, 1999) in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants. We have not audited any financial statements of the companies now comprising of the Group in respect of any period subsequent to 31st December, 1999.

No audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not carried out any business other than the transactions related to the Reorganisation referred to herein and certain subsequent events as set out in Section 7 of this report. In addition, no audited financial statements have been prepared for Excel (BVI) Limited and Excel Technology International (BVI) Limited as there are no statutory audit requirements for these companies and as Excel Technology Center Limited (formerly known as Excel Solutions Limited) was declared dormant under section 344A of the Hong Kong

Companies Ordinance on 22nd July, 1998, it was not required to prepare audited financial statements for the years ended 31st December, 1998 and 1999. No audited financial statements of Excel Technology Center Limited were prepared for the year ended 31st December, 1997.

We have acted as auditors of all the other companies now comprising the Group for the year ended 31st December, 1999. For the years ended 31st December, 1997 and 1998, the financial statements of Excel Technology International (Hong Kong) Limited (formerly known as Excel Consultancy Limited), Excel Systems Limited and Excel International Limited were audited by Tam, Hui, Tse & Ho, Certified Public Accountants.

The auditors' report on the financial statements of Excel Technology International (Hong Kong) Limited for the year ended 31st December, 1997 was qualified by Tam, Hui, Tse & Ho, Certified Public Accountants, in respect of (i) a disagreement about accounting treatment on contract work in progress as the previous auditors considered that the contract work in progress was not calculated in accordance with Statement of Standard Accounting Practice No. 3 "Stocks and work in progress" issued by the Hong Kong Society of Accountants and (ii) a limitation in audit scope as the previous auditors were unable to obtain sufficient evidence to quantify the effects of any adjustments as a result of change in accounting policy for contract work in progress and to ascertain the value of contract work in progress at 31st December, 1997. The auditors' report on the financial statements of Excel Technology International (Hong Kong) Limited for the year ended 31st December, 1998 was qualified in respect of (i) a limitation in audit scope as the previous auditors were unable to obtain sufficient evidence as to the recoverability of amounts due from related parties and (ii) non compliance with an accounting standard relating to a change in accounting policy for contract work in progress. The auditors' reports on the financial statements of Excel Systems Limited for the years ended 31st December, 1997 and 1998 were qualified in respect of (i) a disagreement about accounting treatment as the previous auditors considered that a provision should be made against the amount due from the holding company of Excel Systems Limited and (ii) in respect of non preparation of consolidated financial statements. The auditors' reports on the financial statements of Excel International Limited for the years ended 31st December, 1997 and 1998 were qualified in respect of non preparation of consolidated financial statements and non disclosure of certain information as required by the Hong Kong Companies Ordinance. The auditors' reports on the financial statements of Excel Technology International (Hong Kong) Limited and Excel International Limited for the year ended 31st December, 1999 were qualified in respect of non preparation of consolidated financial statements. We have satisfied ourselves by carrying out additional procedures such that any material adjustments arising from the above audit qualifications have been incorporated into the Group's combined results for the relevant period presented in this report in accordance with the basis of presentation set out in Section 1 below.

The directors of the respective companies of the Group are responsible for the financial statements or, where financial statements are not prepared, management accounts, which give a true and fair view. In preparing the financial statements and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

The summaries of the combined results of the Group for the relevant period and of the combined net assets of the Group as at 31st December, 1999 (the "Summaries"), for which the Directors of the Company are responsible, and which are set out in this report have been prepared by the Directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, after making such adjustments as are appropriate and on the basis set out in Section 1 below.

It is our responsibility to form an independent opinion on the Summaries. In our opinion, for the purpose of this report, and on the basis of presentation set out in Section 1 below, all adjustments considered necessary have been made and the Summaries set out below together with the notes thereto give a true and fair view of the combined results of the Group for the relevant period and of the combined net assets of the Group as at 31st December, 1999.

1. BASIS OF PRESENTATION

The summary of the combined results of the Group for the relevant period includes the results of the companies which now comprise the Group for the period from 1st January, 1997 to 31st December, 1999 as if the current group structure had been in existence and remained unchanged throughout the relevant period. The summary of the combined net assets of the Group as at 31st December, 1999 has been prepared to present the combined assets and liabilities of the Group as at that date as if the current group structure has been in existence as at that date.

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

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial information set out in this report has been prepared in accordance with the principal accounting policies set out below. These accounting policies conform with accounting principles generally accepted in Hong Kong. The information presented conforms with the disclosure requirements of the Growth Enterprise Market Listing Rules of The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports included in Listing Documents.

The measurement basis used in the preparation of the financial information set out in this report is historical cost as explained in the accounting policies set out below.

(b) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) *Income from fixed price contracts*

The Group enters into contracts with customers whereby a number of elements are bundled together in one contract - for example, resale of hardware and software products, sale of software licences and the development of customised software including completion of services provided for post delivery service support. The contract price is fixed prior to the commencement of the contract and the company refers to these as "fixed price contracts".

In instances where the contract price can be allocated on a reasonable basis into elements of resale of hardware and software products, sale of software licences and development of customised software, revenue is recognised in accordance with accounting policies as described in Section 2b(ii), (iii) and (iv) below.

Where the contract price cannot be allocated into individual elements of the fixed price contract, revenue is recognised by reference to the stage of completion of the fixed price contract, including post delivery service support, at the balance sheet date.

Work in progress is recorded in the balance sheet at the amount of contract costs incurred plus attributable profit less progress billings.

Amounts received before the related work is performed are included as deferred income in the balance sheet.

(ii) *Income from hardware and software resale*

Revenue is recognised when goods are delivered at the customers' premises, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is stated after deduction of any trade discounts.

(iii) *Sale of software licences*

Revenue from sale of software licences to end-users is recognised upon delivery of the software products to the customer when there are no significant post-delivery obligations.

(iv) *Development of customised software*

Revenue from the development of customised software is recognised in the profit and loss account by reference to the stage of completion of the customisation work, including post delivery service support, at the balance sheet date.

(v) *Income from time and material projects*

Time and material projects generally call for the company to provide technical support to customers.

Revenue from time and material projects is recognised in the profit and loss account upon the provision of services.

(vi) *Income from maintenance services*

Revenue from maintenance service contracts, which is received or receivable from customers once the maintenance service contracts are signed, is amortised and credited as revenue to the profit and loss account on a straight line basis over the term of the maintenance service contracts.

Where maintenance revenue is not separately invoiced, it is unbundled from license fees and deferred and credited as revenue to the profit and loss account on a straight line basis over the life of the maintenance service contract.

Other service revenue, primarily training and consulting, is recognised at the time the service is performed.

(vii) *Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of such assets on a straight line basis at the following rates per annum:

Leasehold land	Over the unexpired term of the lease
Buildings	2.5%
Computer and office equipment	20% to 33 $\frac{1}{3}$ %
Furniture and fixtures	25%
Motor vehicles	30%

The carrying amount of property, plant and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the assets are discounted to their present values.

With effect from 1st January, 1999, following a re-appraisal of the estimated useful lives of computer and office equipment, the related useful lives were reduced from 5 to 3 years, resulting in an increased depreciation charge of HK\$883,007 for the year ended 31st December, 1999.

Gains or losses arising from the disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset.

(d) Investments

Investment securities which are held on a continuing basis for an identified long term purpose are classified as "investment securities" and are stated in the statement of net assets at cost less provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

Profits or losses on disposal of investment securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(e) Research and development costs

Costs incurred in research and development of software products of the Group are expensed as incurred unless the development costs satisfy the criteria for the recognition of such costs as an asset. During the relevant period, all software research and development costs have been expensed as no expenses satisfied the criteria for capitalisation as an asset.

(f) Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(g) Translation of foreign currencies

The functional currency of the Group's operations is the Hong Kong dollar.

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Differences arising on foreign currency translation are dealt with in the profit and loss account.

(h) Operating leases

Rentals payable under operating leases are charged to profit and loss account on a straight line basis over the periods of the respective leases.

(i) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(j) Related parties

For the purposes of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(k) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the relevant period, prepared on the basis set out in Section 1 above:

	Note	Year ended 31st December,		
		1997 HK\$'000	1998 HK\$'000	1999 HK\$'000
		<i>(except per share data)</i>		
Turnover	(a)	77,126	74,984	98,071
Cost of computer hardware and software		<u>(18,373)</u>	<u>(17,773)</u>	<u>(43,623)</u>
		58,753	57,211	54,448
Other revenue	(b)	1,282	1,007	847
Other net income	(b)	11	—	108
Staff costs		(42,673)	(43,093)	(52,359)
Depreciation		(1,560)	(1,582)	(2,614)
Other operating expenses		<u>(13,722)</u>	<u>(10,485)</u>	<u>(10,749)</u>
Profit/(Loss) from operations		2,091	3,058	(10,319)
Finance costs	(c)	<u>(529)</u>	<u>(569)</u>	<u>(566)</u>
Profit/(Loss) from ordinary activities before taxation	(c)	1,562	2,489	(10,885)
Taxation	(f)	<u>(382)</u>	<u>(764)</u>	<u>227</u>
Profit/(Loss) for the year		<u>1,180</u>	<u>1,725</u>	<u>(10,658)</u>
Dividends	(g)	<u>—</u>	<u>—</u>	<u>(5,000)</u>
Basic and diluted earnings/(loss) per share (dollars)	(h)	<u>HK\$0.59</u>	<u>HK\$0.86</u>	<u>HK\$(5.33)</u>

Notes:

(a) **Turnover**

Turnover represents income from computer hardware and software sales and computer services rendered to customers during the year, net of returns and discounts allowed, after eliminating intra-Group transactions. The amount of each significant category of revenue recognised in turnover during the relevant period is as follows:

	Year ended 31st December,		
	1997	1998	1999
	HK\$'000	HK\$'000	HK\$'000
Fixed price projects	25,477	26,438	39,097
Hardware and software resale	22,982	15,506	35,699
Time and material projects	27,723	30,988	20,575
Maintenance services	944	2,052	2,700
	<u>77,126</u>	<u>74,984</u>	<u>98,071</u>

(b) **Other revenue and other net income**

	Year ended 31st December,		
	1997	1998	1999
	HK\$'000	HK\$'000	HK\$'000
Other revenue			
Interest income	217	339	202
Government grant and sponsorship income	—	434	—
Rental income from Net Fun Limited	—	—	180
Management fee income from Net Fun Limited	—	—	240
Recruitment services income	770	—	159
Payment in lieu of notice	25	167	66
Sundry income	270	67	—
	<u>1,282</u>	<u>1,007</u>	<u>847</u>
Other net income			
Profit on disposal of property, plant and equipment	<u>11</u>	<u>—</u>	<u>108</u>

(c) Profit/(Loss) from ordinary activities before taxation

Profit/(Loss) from ordinary activities before taxation is arrived at after charging:

	Year ended 31st December,		
	1997	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Finance costs:			
Interest on bank loans, overdrafts, and other borrowings repayable within five years	<u>529</u>	<u>569</u>	<u>566</u>
(b) To the extent that staff costs and direct overheads can be allocated by management on a reasonable basis to research and development activities, research and development expenses are as follows:			
— staff costs	8,153	9,216	9,758
— direct overheads	<u>2,097</u>	<u>2,013</u>	<u>2,053</u>
	<u>10,250</u>	<u>11,229</u>	<u>11,811</u>
Other costs such as depreciation of fixed assets and indirect overheads have not been included in the above analysis.			
(c) Other items:			
Auditors' remuneration	54	50	293
Rentals payable under operating leases in respect of land and buildings	<u>3,646</u>	<u>4,246</u>	<u>3,653</u>

(d) Directors' remuneration

Details of emoluments payable by the Group to the Directors of the Company in respect of the relevant period are as follows:

	Year ended 31st December,		
	1997	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing and other allowances, and benefits in kind	<u>2,999</u>	<u>4,199</u>	<u>5,285</u>

An analysis of the Directors' emoluments by number of directors and emolument ranges is as follows:—

	Year ended 31st December,		
	1997	1998	1999
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Not more than HK\$1,000,000	2	1	1
HK\$1,000,001 — HK\$1,500,000	2	3	2
HK\$1,500,001 — HK\$2,000,000	—	—	1
	<u>4</u>	<u>4</u>	<u>4</u>

The four directors received emoluments of approximately HK\$567,000, HK\$1,112,000, HK\$1,320,000 and HK\$Nil for the year ended 31st December, 1997, approximately HK\$567,000, HK\$1,112,000, HK\$1,320,000 and HK\$1,200,000 for the year ended 31st December, 1998 and approximately HK\$1,789,000, HK\$976,000, HK\$1,320,000 and HK\$1,200,000 for the year ended 31st December, 1999. There were no amounts paid during the relevant period to former directors in connection with their retirement from employment with the Group.

There were no amounts paid during the relevant period to Directors as an inducement to join or upon joining the Group and no director waived any emoluments during the relevant period.

During the relevant period, no emoluments were paid or payable to independent non-executive directors of the Company.

(e) Senior management remuneration

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commission on sales generated by the employees concerned) of those employees of the Group who, not being directors of the Company, are among the top five paid individuals (including Directors of the Company and other employees of the Group) employed by the Group.

Aggregate emoluments

	Year ended 31st December,		
	1997	1998	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing and other allowances, and benefits in kind	<u>910</u>	<u>975</u>	<u>975</u>

An analysis of the senior management's emoluments by number of employees and emolument ranges is as follows:

	Year ended 31st December,		
	1997	1998	1999
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Not more than HK\$1,000,000	<u>1</u>	<u>1</u>	<u>1</u>

No amounts were paid or payable to senior management as an inducement to join the Group or as compensation for loss of office during the relevant period.

(f) **Taxation**

The taxation charge comprises:

	Year ended 31st December,		
	1997 HK\$'000	1998 HK\$'000	1999 HK\$'000
Hong Kong profits tax charge for the year	390	823	—
(Over)/under provision in respect of prior years	(8)	1	3
Tax rebate from Hong Kong SAR Government	—	—	(73)
	<u>382</u>	<u>824</u>	<u>(70)</u>
Deferred taxation	—	(60)	(157)
	<u>—</u>	<u>(60)</u>	<u>(157)</u>
Taxation charge/ (credit)	<u>382</u>	<u>764</u>	<u>(227)</u>

The provision for Hong Kong profits tax is calculated separately on the taxable profit of each company comprising the Group at 16.5% and 16% during the years ended 31st December, 1997 and 1998, respectively.

No provision for Hong Kong profits tax has been made during the year ended 31st December, 1999 as the companies comprising the Group sustained losses for taxation purposes during the year.

(g) **Dividends**

No dividends has been paid or declared by the Company since its incorporation. Excel Technology International (Hong Kong) Limited proposed a final dividend to the former shareholder, Ms Zee Chan Mei Chu, Peggy, of HK\$5,000,000 in respect of the year ended 31st December, 1999, which was paid on 8th March, 2000.

(h) **Basic and diluted earnings/(loss) per share**

The calculation of the basic earnings/(loss) per share for each year is based on the combined profit/(loss) for each respective year and on the 2,000,000 shares of the Company outstanding after the Group's Reorganisation as if those shares had been outstanding for each year presented.

Diluted earnings/(loss) per share is the same as basic earnings/(loss) per share as there were no potential ordinary shares outstanding during any of the years presented.

(i) **Pension schemes**

The Group did not operate any retirement schemes for Directors or employees during the relevant period.

4. COMBINED NET ASSETS

		31st December, 1999
	<i>Note</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	(a)	8,362
Investment securities	(b)	<u>—</u>
		8,362

Current assets		
Work in progress	(c)	6,902
Trade receivables		20,519
Other receivables, deposits and prepayments	(d)	949
Taxation recoverable		56
Deposits with banks	(e)	100
Cash at bank and in hand		<u>6,140</u>
		34,666

Current liabilities		
Bank overdraft	(f)	1,699
Bank loans	(f)	376
Other loan	(g)	2,539
Trade payables		9,137
Other payables and accrued expenses		4,136
Deferred income	(h)	4,324
Amount due to a director	(i)	6,055
Dividend payable	3(g)	<u>5,000</u>
		33,266

Net current assets		<u>1,400</u>

Total assets less current liabilities		9,762
Non current liabilities		
Bank loans	(f)	<u>6,723</u>
Net assets		<u>3,039</u>

Notes:

(a) **Property, plant and equipment**

	31st December, 1999		
	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and buildings	7,856	712	7,144
Computer and office equipment	5,130	4,556	574
Furniture and fixtures	4,603	4,249	354
Motor vehicles	415	125	290
	<u>18,004</u>	<u>9,642</u>	<u>8,362</u>

All land and buildings are situated in Hong Kong under long leases. At 31st December, 1999, land and buildings with a net book value of HK\$7,144,000 were mortgaged to various banks to secure banking facilities granted to the Group (See Section 4(f)).

(b) **Investment securities**

The investment relates to a 10% interest in the share capital of Net Fun Limited, an unlisted Hong Kong incorporated company, which was retained by the Group as part of the Reorganisation at a consideration of HK\$1. Prior to the Reorganisation, the Group held a beneficial interest in 95% of the share capital of Net Fun Limited. Management intends to hold the investment for long term strategic purposes.

In addition to the 10% interest held by the Group in the share capital of Net Fun Limited, following the Reorganisation, the Company's principal shareholder had an additional beneficial interest of 90% in the share capital of Net Fun Limited held outside the Group.

(c) **Work in progress**

Work in progress represents the amount of contract costs incurred plus attributable profit less progress billings. All the amounts are expected to be recovered within one year.

(d) **Other receivables, deposits and prepayments**

	31st December, 1999
	<i>HK\$'000</i>
Utilities and rental deposits	876
Other debtors and prepayments	<u>73</u>
	<u>949</u>

Utilities and rental deposits which are expected to be recovered after more than one year amounted to HK\$870,000.

(e) **Deposits with banks**

The time deposit of HK\$100,000 was pledged by the Group in order to obtain a bank guarantee of HK\$100,000 in relation to the provision of services to a customer. The guarantee expired on 15th May, 2000 and the Group is arranging for the pledge to be released.

(f) Bank loans and overdrafts

At 31st December, 1999, bank loans and overdrafts were as follows:

	31st December, 1999 <i>HK\$'000</i>
Bank overdrafts	
- secured	583
- unsecured	<u>1,116</u>
	1,699
Bank loans (secured)	<u>7,099</u>
	<u>8,798</u>
The above bank loans and overdrafts were repayable as follows:	
- on demand or within a period not exceeding one year	<u>2,075</u>
- after one year but not more than two years	409
- after two years but not more than five years	1,711
- after five years	<u>4,603</u>
	<u>6,723</u>
	<u>8,798</u>

The banking facilities of the Group are secured by mortgages over the Group's land and buildings which had an aggregate carrying value of HK\$7,144,000 at 31st December, 1999 (See Section 4(a)). Such banking facilities, amounting to HK\$12,877,000 at 31st December, 1999, were utilised to the extent of HK\$7,700,000 at 31st December, 1999.

(g) Other loan

The loan was from Applied Research Council, bearing interest at the Hong Kong dollar prime rate and was repaid in cash in March 2000.

(h) Deferred income

Deferred income represents amounts received from customers before the related services have been rendered. All the amounts included in the deferred income are expected to be credited to the profit and loss account within one year.

(i) Amount due to a director

The amount represented loans from a director who is also the principal shareholder of the Company. The loan was provided to finance the Group's operations and is unsecured, interest free and was repaid in cash in March 2000.

(j) Deferred taxation

No deferred taxation has been provided for as at 31st December, 1999 as the Group had a potential deferred tax asset, the realisation of which is uncertain. The major components of the potential deferred tax asset not provided for as at 31st December, 1999 are as follows:

	31st December, 1999 <i>HK\$'000</i>
Future benefit of tax losses	1,840
Tax depreciation allowances in excess of related accounting depreciation	<u>(107)</u>
	<u><u>1,733</u></u>

(k) Distributable reserves

At 31st December, 1999 the Company had not been incorporated and hence the Company had no reserve available for distribution at that date.

(l) Commitments and contingencies**(i) Commitments under operating leases**

At 31st December, 1999, the Group had commitments to make payments in the next twelve months under operating leases which expire in the second to fifth years inclusive in respect of land and building amounting to HK\$2,872,000.

Subsequent to 31st December, 1999, the Group entered into a lease agreement to make payments in the year ending 31st December, 2000 under operating leases which expire after five years in respect of land and buildings amounting to HK\$4,875,000.

(ii) Capital commitments

The Group had no capital commitments outstanding at 31st December, 1999.

Subsequent to 31st December, 1999, the Group authorised contracts for an amount of HK\$5,600,000 in relation to the renovation of buildings.

(iii) Contingencies

A member of the Group (the "member") entered into an agreement on 1st May, 1993 to acquire from a third party vendor, inter alia, a software programme at a consideration of HK\$2,000,000, and paid an initial deposit of HK\$200,000. A dispute arose between the Group and the third party vendor in respect of the completeness of the software programme that was delivered and the representations made at the time of sale, and the Group rejected delivery of the software programme. On 9th January, 1995, the third party vendor filed a claim against the member for payment of HK\$1,800,000 plus damages and the costs of the legal action. However, the third party vendor did not place a security deposit for the litigation, and no further actions or proceedings had taken place in respect of the dispute since April, 1995. The Directors have been advised that as many years have elapsed since the commencement of the action, the member may apply to the court to strike out the claim of the third party vendor for want of prosecution. The court will take into account all circumstances of the case before exercising its discretion as to whether the striking out application would be granted. Ms. Peggy Chan has agreed to indemnify the member for any losses up to HK\$2,000,000 arising from the claim for the period up to and including 30th June, 2001.

It is the intention of the Directors to defend the claim vigorously in the event the third party vendor continues legal action. Accordingly, no provision for the claim and legal costs in respect thereof has been made in the financial statements of the Group.

Subsequent to 31st December, 1999, two members of the Group are in dispute with a firm of lawyers (the "Previous Lawyers") handling the Group's pre-listing restructuring, Convertible Notes issue and intellectual property registration in respect of several invoices for an aggregate amount of around HK\$2,300,000 rendered by the Previous Lawyers and are currently seeking a taxation of such invoices. The Group has already paid HK\$2,500,000 into court which covers the full amount of the bills and the costs of taxation. An amount of HK\$1,000,000 (plus taxation fees) has been paid out from the HK\$2,500,000 to the Previous Lawyers as interim payment without prejudice to demand for refund to the relevant members of the Group such amounts overpaid after taxation. The Previous Lawyers are required to lodge detailed bills of costs for the purpose of taxation within 45 days from 10th April, 2000. The members of the Group will raise objection to the detailed bills. The court will then decide and certify the ultimate amount to be paid by the relevant members of the Group. It is likely that the taxation process will take several months from the date the detailed bills are lodged with the court to a final assessment. As the dispute was in respect of work carried out subsequent to 31st December, 1999, no provision for the claim and legal costs in respect thereof has been made in the Group's financial statements. Ms. Peggy Chan has agreed to indemnify such two members of the Group for any loss in excess of the amount already paid by the two members of HK\$1,000,000, up to a limit of HK\$1,500,000 arising from the dispute for the period up to and including 31st December, 2000.

5 RELATED PARTY TRANSACTIONS

The following transactions represent material and significant related party transactions during the relevant period between the Group and related parties identified by management.

In the Directors' opinion, the transactions were entered into in the ordinary course of business and on normal commercial terms

	<i>Note</i>	Year ended 31st December,		
		1997	1998	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental receivable on land and buildings	(i)	—	—	180
Management fee receivable	(ii)	—	—	240
Housing allowance	(iii)	600	600	600
Interest paid to a related company	(iv)	—	60	—
Interest paid to a related party	(v)	60	—	—
Emoluments paid to Directors who are also initial management shareholders of the Company	(vi)	2,999	4,199	5,285

Notes:

- (i) This represents office rental receivable from Net Fun Limited. Subsequent to the Reorganisation, the Group holds a 10% interest in Net Fun Limited, in which the Company's principal shareholder and managing director, held a remaining beneficial interest of 90%. Rentals have been calculated based on the percentage of floor space occupied by Net Fun Limited.
- (ii) This represents management fee receivable from Net Fun Limited. The amount is based on estimated staff costs and overheads incurred by the Group.
- (iii) This represents housing allowance paid to a company, in which a director of the Company had a beneficial interest. The amount is based on the actual rentals payable in respect of the related property.

- (iv) This represents interest incurred on a loan provided to the Group by a related company which is beneficially owned by the Company's principal shareholder and managing director. The loan was unsecured and interest bearing at market rates.
- (v) This represents interest incurred on a loan provided to the Group by a related party of the Company's principal shareholder and managing director. The loan was unsecured and interest bearing at market rates.
- (vi) This represents emoluments paid to certain directors who are defined as initial management shareholders of the Company under the GEM Listing Rules during the relevant period. The total amount of directors' remuneration is disclosed in section 3(d).

Staff quarters have been provided to two directors during the relevant period. The related benefits in kind have been included in the emoluments of Directors and senior management detailed in Section 3 above.

At 31st December, 1999, the Company owed HK\$6,055,128 to the principal shareholder and managing director of the Company, which was repaid in March 2000.

At 31st December, 1999, two directors provided personal guarantees to banks for facilities of HK\$12,877,000 granted to the Group, of which \$7,700,000 was outstanding at 31st December, 1999, which were secured on the Group's land and buildings. On 9th May, 2000, these personal guarantees were released and replaced by guarantees given by the Company.

6. PARTICULARS OF SUBSIDIARIES

Immediately following the completion of the Reorganisation and for the purpose of these combined financial statements, the Company had the following subsidiaries:

Name of company	Place and date of incorporation/ establishment and operation	Attributable equity interest %		Issued share capital/ registered capital	Principal activities
		Direct	Indirect		
Excel (BVI) Limited	British Virgin Islands 4th January, 2000	100%		US\$5,000	Investment holding
Excel Technology International (Hong Kong) Limited (formerly known as Excel Consultancy Limited)	Hong Kong 10th November, 1987		100%	HK\$1,000	Development of computer software, systems integration and maintenance
Guangzhou Excel Technology Company Limited	The People's Republic of China 16th May, 2000		100%	HK\$705,000	Inactive

Name of company	Place and date of incorporation/ establishment and operation	Attributable equity interest %		Issued share capital/ registered capital	Principal activities
		Direct	Indirect		
Xena Trading Pte. Limited	Singapore 14th December, 1999		100%	S\$2	Inactive
Excel Systems Limited	Hong Kong 1st December, 1992		100%	HK\$1,000,000	(Note (i))
Excel International Limited	Hong Kong 13th May, 1988		100%	HK\$10,000	(Note (ii))
Excel Technology International (BVI) Limited	British Virgin Islands 1st October, 1999		100%	US\$1	Investment holding
Excel Technology Center Limited (formerly known as Excel Solutions Limited)	Hong Kong 5th December, 1996		100%	HK\$200,000	Dormant

Notes

- (i) The principal activity of Excel Systems Limited for the three years ended 31st December, 1999 was the resale of computer hardware and software packages. With effect from February, 2000, such activity has been undertaken by Excel Technology International (Hong Kong) Limited.
- (ii) The principal activity of Excel International Limited for the three years ended 31st December, 1999 was investment holding. Immediately following the completion of the Reorganisation, Excel International Limited no longer holds any investments and became inactive with effect from February 2000.

7. SUBSEQUENT EVENTS

The following events took place subsequent to 31st December 1999:

In February 2000, the Group completed the Reorganisation in preparation for the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. As a result of the Reorganisation, the Company became the holding company of the Group in February 2000.

On 12th February, 2000, the Company entered into an agreement to issue convertible notes, and notes totalling US\$13.6 million were issued on 2nd March, 2000 pursuant to this agreement. The notes do not bear interest and have a maturity date of 2nd March, 2003 and shall automatically be converted into shares of the Company upon listing of the Company's shares on the Growth Enterprise Market, provided that such listing takes place within a specified period. If certain conditions contained in the related bond agreement are not

satisfied, the noteholders may request the Company to redeem the notes at a premium of between 10% and 30% depending on the circumstances.

On 14th March, 2000, the Company entered into an agreement with iBusiness Corporation, under which the parties have agreed to pursue a joint venture to establish the business of Application Service Provider ("ASP") under the brand name "i21", in which the Group holds a beneficial interest of 37.5% of the joint venture's capital. The Group anticipates investing HK\$37.5 million in the joint venture.

On 15th June, 2000, the convertible notes were converted into ordinary shares and 422,688 additional shares were issued upon conversion. HK\$6.1 million from the issue of the convertible notes was utilised to repay the loan from a major shareholder of the Company in March 2000.

On 15th June, 2000, the Company agreed to issue an additional convertible note totalling HK\$47,220,278. The note does not bear interest, matures on 31st May, 2002 and is convertible into shares of the Company. If the note is not converted to shares, the Company shall be required to redeem it at a premium of up to 125% of its principal amount on or before its maturity date.

Yours faithfully,
KPMG
Certified Public Accountants

The forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 2000 is set out under “Financial information — Profit forecast and dividend policy”.

(1) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the combined profit after taxation but before extraordinary items of the Group for the year ending 31st December, 2000 based on the unaudited management accounts of the Group for the four months ended 30th April, 2000, and a forecast of the results of the Group for the remaining eight months of the year ending 31st December, 2000. The forecast combined profit after taxation but before extraordinary items includes the share of forecast loss in an associated company. The Directors are not aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31st December, 2000. The profit forecast has been prepared on the basis of accounting policies consistent in all material respects with those adopted by the Group as summarised in the Accountants’ Report as set out in Appendix I to this prospectus.

The Directors have adopted the following assumptions in the preparation of the profit forecast:

- (a) there will be no material changes in existing political, legal, fiscal or economic conditions in Hong Kong or other territories in which the Group conducts business or where the Group’s major customers or suppliers are located;
- (b) there will be no changes in legislation or regulations whether in Hong Kong or elsewhere materially affecting the businesses carried on by the Group;
- (c) there will be no material changes in the bases or rates of taxation applicable to the activities of the Group; and
- (d) there will be no material changes in interest rates or exchange rates from those presently prevailing.

(2) LETTERS

Set out below are the texts of the letters received by the Directors from KPMG and from HSBC Investment Bank Asia in connection with the forecast of the combined profit after taxation but before extraordinary items of the Group for the year end 31st December, 2000 for the purpose of incorporation in this prospectus.

(i) Letter from KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

20th June, 2000

The Directors
Excel Technology International Holdings Limited
HSBC Investment Bank Asia Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the combined profit after taxation but before extraordinary items of Excel Technology International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ending 31st December, 2000 (the "Forecast"), for which the Directors of the Company are solely responsible, as set out in the prospectus of the Company dated 20th June, 2000 (the "Hong Kong Prospectus"). The Forecast has been prepared by the Directors of the Company based on the unaudited management accounts of the Group for the four months ended 30th April, 2000, and a forecast of the results of the Group for the remaining eight months ending 31st December, 2000.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions adopted by the Directors of the Company as set out in section (1) of Appendix II to the Hong Kong Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 20th June, 2000, the text of which is set out in Appendix I to the Hong Kong Prospectus.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

(ii) **Letter from HSBC Investment Bank Asia**



20th June, 2000

The Directors
Excel Technology International Holdings Limited
Suites 3306-3307
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Dear Sirs,

We refer to the forecast of the combined profit after taxation but before extraordinary items of Excel Technology International Holdings Limited (the "Company") and its subsidiaries for the year ending 31st December, 2000 (the "Forecast") as set out in the prospectus of the Company dated 20th June, 2000.

We have discussed with you the bases and assumptions as set out in section (1) of Appendix II to the above-mentioned prospectus, upon which the Forecast has been made. We have also considered the letter dated 20th June, 2000 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations reviewed by KPMG, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
HSBC Investment Bank Asia Limited
Peter Au-Yang
Joint Head of Corporate Finance - Asia

HSBC Investment Bank Asia Limited
Level 15, 1 Queen's Road Central, Hong Kong
Tel: (852) 2841 8888 Fax: (852) 2845 5654

The following is the text of a letter, summary of values and valuation certificate, prepared for the purposes of incorporation in this prospectus received from Chesterton Petty Limited, an independent valuer, in connection with their valuations as at 30th April, 2000 of the property interests of the Group.



International Property Consultants

Chesterton Petty Ltd
16/F., CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

20th June, 2000

The Directors
Excel Technology International Holdings Limited
Rooms 3306-3307
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Dear Sirs

In accordance with your instructions for us to value various property interests held by Excel Technology International Holdings Limited (the "Company") or its subsidiaries (together referred to as the "Group"), we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of these property interests as at 30th April, 2000.

Our valuation is our opinion of the open market value which we would define as intended to mean "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 valuation has been made on the assumption that the owner sells the property interests in the open market without the benefit of any deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuation.

We have valued the property interests in Group I with reference to sales evidence as available on the market assuming that vacant possession of the properties would be readily available upon completion of a sale.

The property interests in Group II have no commercial value mainly due to their short term nature or the prohibition or restriction against assignment/sub-letting or the lack of substantial profit rent.

We have been provided with extracts of title documents relating to the property interests in Group II and we have caused searches to be made for the property interests in Group I at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us.

We have relied to a very considerable extent on information given by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupancy, tenancy particulars, floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents and tenancy agreements provided to us and are therefore only approximations.

We have inspected the exterior of the properties and where possible, we have also inspected the interior of the premises. 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 that these properties are free from rot, infestation or any other structural defect. No tests were carried out to any of the services.

We have not arranged for any investigation to be carried out to determine whether or not all equipment, plant and machinery and services which form part of, or are contained within the properties are year 2000 compliant. We are therefore unable to report that these equipment, plant and machinery and services are year 2000 compliant. For the purposes of this valuation, we have assumed that the values of the property interests will not be adversely affected by the year 2000 problem.

No allowance has been made in our valuation for any charge, mortgage or amount owing on any property interest nor for any expense 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 an onerous nature which could affect their values.

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully
For and on behalf of
Chesterton Petty Limited
Charles C K Chan
ARICS FHKIS MCI Arb RPS(GP)
Executive Director

SUMMARY OF VALUES

Property	Open market value in existing state as at 30th April, 2000
Group I — Properties owned and occupied by the Group	
1. Flat B on 21st Floor of Block 5 and Car Port No. LG273 on Lower Ground Floor, Braemar Hill Mansions, 15-43 Braemar Hill Road, North Point, Hong Kong	HK\$10,000,000
2. Flat D on 9th Floor, Floral Tower, 22 Robinson Road, Mid-levels, Hong Kong	HK\$4,000,000
Sub-Total	<u>HK\$14,000,000</u>

Property	Open market value in existing state as at 30th April, 2000
Group II — Properties rented by the Group	
3. Rooms 3306 and 3307 on 33rd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong	No commercial value
4. Suites 1005, 1006 and 1007 on 10th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong	No commercial value
5. Suite 1405 on 14th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong	No commercial value
6. 46th Floor, The Center, 99 Queen's Road Central, Hong Kong	No commercial value
Sub-Total	<u>No commercial value</u>
Grand Total	<u><u>HK\$14,000,000</u></u>

VALUATION CERTIFICATE

Group I — Properties owned and occupied by the Group

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30th April, 2000
1. Flat B on 21st Floor of Block 5 and Car Port No. LG273 on Lower Ground Floor, Braemar Hill Mansions, 15-43 Braemar Hill Road, North Point, Hong Kong 17/13,531st shares of and in The Remaining Portion of Inland Lot No. 8398 .	<p>Braemar Hill Mansions comprises fifteen 25-storey residential buildings with ancillary car parking spaces and communal recreational facilities completed in 1978.</p> <p>The property comprises a residential unit on the 21st Floor of Block 5 of the development with a gross floor area of approximately 152.36 sq. m. (1,640 sq. ft.) and a covered car parking space on the lower ground floor of the development.</p> <p>Inland Lot No 8398 is held under Conditions of Exchange No. 10799 for a term of 999 years from 11th July, 1893. The annual rent payable for Inland Lot No. 8398 is HK\$1,032.</p>	The property is currently occupied by a Director as staff quarters.	HK\$10,000,000

Notes:

- (1) The registered owner of the property is Excel Technology International (Hong Kong) Limited (formerly known as Excel Consultancy Limited), a wholly-owned subsidiary of the Group.
- (2) The property is subject to a legal charge/mortgage to secure general banking facilities in favour of The Bank of East Asia, Limited.

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 30th April, 2000
<p>2. Flat D on 9th Floor, Floral Tower, 22 Robinson Road, Mid-levels, Hong Kong</p> <p>150/17,000th shares of and in Section A and Section B and The Remaining Portion of Inland Lot No. 347, The Remaining Portion of Sub-section 2 of Section E of Inland Lot No. 717, The Remaining Portion of Section E of Inland Lot No. 717, Sections B and C of Inland Lot No. 717, The Remaining Portions of Sub-sections 1 and 2 of Section A of Inland Lot No. 392, Section A and Section B of Sub-section 1 of Section A of Inland Lot No. 392 and Section A of Sub-section 2 of Section A of Inland Lot No. 392.</p>	<p>Floral Tower is a 31-storey residential building over a 2-level commercial/carparking podium completed in 1992.</p> <p>The property comprises a residential unit on the 9th Floor of the building with a gross floor area of approximately 72.37 sq. m. (779 sq. ft.).</p> <p>Inland Lots Nos 347, 392 and 717 are each held under a Government lease for a term of 999 years from 27th November, 1849, 17th March, 1855 and 25th June, 1861 respectively. The total annual rent payable for Inland Lots Nos. 347 and 392 is 1 pound 14 shillings 2 pence. The annual rent payable for Inland Lot No. 717 is HK\$7.28.</p>	<p>The property is currently occupied by a Director as staff quarters.</p>	<p>HK\$4,000,000</p>

Note:

The registered owner of the property is Excel Technology International (Hong Kong) Limited (formerly known as Excel Consultancy Limited), a wholly-owned subsidiary of the Group.

Group II — Properties rented by the Group

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 30th April, 2000
3. Rooms 3306 and 3307 on 33rd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong	<p data-bbox="534 434 919 629">China Resources Building comprises a 46-storey main office tower and a 3-storey office tower surmounting a 4-storey exhibition hall/commercial arcade and three-levels of carparking basement completed in 1982.</p> <p data-bbox="534 663 919 801">The property comprises two office units on the 33rd Floor of the main office tower with a total saleable area of approximately 456.15 sq. m. (4,910 sq. ft.).</p> <p data-bbox="534 835 919 1059">The property is rented by the Group under a tenancy agreement for a term of three years from 1st August, 1999 at a monthly rent of HK\$99,738 exclusive of rates and air-conditioning charges but inclusive of management fees and Government rent.</p> <p data-bbox="534 1093 919 1176">The Government rent for the lot on which the building stands is HK\$1,000 per annum.</p>	The property is currently occupied by the Group as an office.	No commercial value

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 30th April, 2000
4. Suites 1005, 1006 and 1007 on 10th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong	<p data-bbox="533 371 900 568">Great Eagle Centre is a 30-storey (including penthouse, three refuge floors and one mechanical floor) office building surmounting a 10-level (including two basement levels) commercial/carparking podium completed in 1983.</p> <p data-bbox="533 602 911 741">The property comprises three office units on the 10th Floor of the building with a total saleable area of approximately 338.54 sq. m. (3,644 sq. ft.).</p> <p data-bbox="533 775 919 972">The property is rented by the Group under a tenancy agreement for a term of three years from 1st June, 1999 at a monthly rent of HK\$86,856 exclusive of rates, air-conditioning and service charges but inclusive of Government rent.</p> <p data-bbox="533 1005 906 1084">The Government rent for the lot on which the building stands is HK\$1,000 per annum.</p>	The property is currently occupied by the Group as an office.	No commercial value

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 30th April, 2000
5. Suite 1405 on 14th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong	<p>Great Eagle Centre is a 30-storey (including penthouse, three refuge floors and one mechanical floor) office building surmounting a 10-level (including two basement levels) commercial/carparking podium completed in 1983.</p> <p>The property comprises an office unit on the 14th Floor of the building with a saleable area of approximately 158.31 sq. m. (1,704 sq. ft.).</p> <p>The property is rented by the Group under a tenancy agreement for a term from 1st May, 1999 to 31st May, 2002 at a monthly rent of HK\$39,960 exclusive of rates, air-conditioning and service charges but inclusive of Government rent.</p> <p>The Government rent for the lot on which the building stands is HK\$1,000 per annum.</p>	<p>The property is currently occupied by the Group as an office. However, by a sub-tenancy agreement, the Group has sub-leased the property to Net Fun Limited, a company which the Group has a 10% interest, for a term from 1st June, 2000 to 24th May, 2002 at a monthly rent of HK\$39,960 exclusive of rates, air-conditioning and service charges but inclusive of Government rent.</p>	No commercial value

Property	Description and tenancy particulars	Particulars of occupancy	Open market value in existing state as at 30th April, 2000
6. 46th Floor, The Center, 99 Queen's Road Central Hong Kong	<p>The Center is a 70-storey commercial/office tower over a 3-level basement carpark completed in 1998. Office floors are located at the 9th to 79th Floors (13th, 14th, 24th, 34th, 44th, 54th, 64th and 74th Floors are omitted for numbering).</p> <p>The property comprises the whole of the office space on the 46th Floor of the building with a saleable area of approximately 1,754.83 sq. m. (18,889 sq. ft.).</p> <p>The property is rented by the Group under a lease for a term of six years from 15th March, 2000 at a monthly rent of HK\$655,614 for the first to fourth years and HK\$852,299 for the fifth to sixth years exclusive of Government rent, rates, management and air-conditioning charges.</p> <p>The Government rent for the lot on which the building stands is at 3% of the rateable value for the time being of the lot.</p>	<p>By a sub-tenancy agreement, a portion of the property with a saleable area of approximately 857.67 sq.m. (9,232 sq.ft.) is sub-leased to i21 Limited, a company which the Group has a 37.5% interest, for a term from 15th March, 2000 to 28th February, 2006 at a monthly rent of HK\$327,807 for the first to fourth years and HK\$426,149.5 for the remaining term of the sub-lease exclusive of rates, Government rent, management and air-conditioning charges. The remaining portion of the property is occupied by the Group as an office.</p>	No commercial value

Set out below is a summary of certain provisions of the memorandum of association (the "Memorandum of Association") and bye-laws (the "Bye-laws") of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association 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 Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the "board") upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on 16th June, 2000. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

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

Subject 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 Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. 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 Act, the Bye-laws and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) 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 of its subsidiaries*

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: 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 Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

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

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 no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed "Bermuda Company Law" in this Appendix.

(v) *Financial assistance to purchase shares of the Company*

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) *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 auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, 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 Bye-laws, 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 Act and to the Bye-laws, no Director or proposed or intending 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 Bye-laws)) is beneficially interested in 5 percent. 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.
- (vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (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 incurred or expected to be 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 provided for by or pursuant to any other Bye-law. A 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 dependants 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 dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants 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.

(viii) *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.

Note: 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, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. 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 at the meeting. 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) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. 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 unless otherwise determined from time to time by members of the Company.

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 (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). 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.

(ix) *Borrowing powers*

The board may from time to time at its discretion 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 Act, 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.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) **Alterations to constitutional documents**

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws 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 Act:

- (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 of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) 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, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

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

Subject to the Companies Act, 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 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 Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) 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 in the case of a member being a corporation, its duly authorised representative) 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.

(e) Special resolution-majority required

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 per cent. 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.

(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 Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, 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 instalments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (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.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) 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 provisions of the Companies Act 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, subject to the Companies Act, 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 of inspecting 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.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor 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 Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

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

An annual general meeting and any special 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 special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or standard form (which may include such standard form of transfer as may be prescribed by the Stock Exchange) 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 Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

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 Bye-laws) 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 an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), 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 Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

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

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

(m) Dividends and other methods of distribution

Subject to the Companies Act, 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 Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

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 a member by the Company on 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.

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.

(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. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws 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 instalments. 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 cent. 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 instalments 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 cent. per annum as the board determines.

(p) Inspection of register of members

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 five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of US\$10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes 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.

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

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda 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.

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 Act, 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

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 Bye-laws) 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 Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) 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) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, 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.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. In certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective 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. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

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

(a) Share capital

The Companies Act 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”, to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

However, only premiums arising on the same class of shares can be used to pay up bonus shares or in providing for the premiums payable on redemption of shares referred to in (i) and (iii) above, respectively.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, 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, and

where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

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

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due; and the realisable value of the company's assets, after the giving of such financial assistance, would not thereby be less than the aggregate of its liabilities, issued share capital and share premium accounts. However, in certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

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

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may only be made if at least two directors, by affidavit, declare that on the effective date of the purchase and taking into account the purchase, the company is solvent or that all of the creditors of the company on that date have consented in writing to the purchase. In the case where a company is listed on an appointed stock exchange (as defined in the Companies Act), the affidavit may, at the option of the company, be sworn within thirty days after the end of each calendar quarter giving details of the purchases made during each quarter. The shares so purchased will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

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 Bermuda law that a company's memorandum of association or its bye-laws 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 Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by

the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act 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. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the bye-laws of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to 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.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or, subject to the Companies Act, at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so

as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least seven days before the general meeting of the company at which the financial statements are to be tabled.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for

the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20 per cent. interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company's certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company's memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company's audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda 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, 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.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

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 requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make 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 shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice dated 20th June, 2000 summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to under "Documents available for inspection" in Appendix VII to this prospectus. Any person wishing to have a detailed summary of Bermuda 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.

APPENDIX V PRINCIPAL TERMS OF THE ADDITIONAL CONVERTIBLE NOTE

The principal terms of the Additional Convertible Note are as follows:

Issuer:	The Company
Principal amount:	HK\$47,220,278
Conversion rights:	The Additional Convertible Note or any part thereof is convertible into Shares at the option of the holder thereof at any time during the period commencing from the date which is 9 months after the Listing Date and up to and including the Maturity Date (as defined below).
Conversion price:	HK\$363.23 per Share, subject to adjustment for, amongst other things, subdivision or consolidation of Shares, bonus issue or rights issue of Shares or other dilutive events. The Additional Convertible Note is convertible into Shares which will represent approximately 4.56 per cent. of the enlarged issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue assuming the Over-allotment Option is not exercised, and approximately 4.36 per cent. as enlarged by the Shares issued pursuant to the full conversion of the Additional Convertible Note.
Maturity date (the "Maturity Date"):	31st May, 2002
Redemption:	The Additional Convertible Note (to the extent not previously converted or redeemed) will be redeemed by the Company on the Maturity Date at redemption amounts equal to 125 per cent. of the principal amount. If the Company fails to redeem the Additional Convertible Note (to the extent not previously converted) on the Maturity Date, the Company shall pay interest to the holder thereof at the rate of 15 per cent. per annum from the Maturity Date up to the date of repayment.
Form:	The Additional Convertible Note will be in registered form.
Status of the Additional Convertible Note:	Direct, unsecured and unsubordinated obligations of the Company and ranking pari passu with all other present and future direct, unsecured and unsubordinated obligations of the Company.

APPENDIX V PRINCIPAL TERMS OF THE ADDITIONAL CONVERTIBLE NOTE

Listing and transferability: The Additional Convertible Note will not be listed on any stock exchange. The Additional Convertible Note is freely transferable to third parties provided that such transfer is made on or after the first anniversary of issue in accordance with, inter alia, any applicable requirements of the Stock Exchange, the GEM Listing Rules, and applicable laws and regulations. Application has been made for the listing of, and permission to deal in, the Shares fallen to be issued upon conversion of the Additional Convertible Note on GEM.

Governing Law: Hong Kong laws

FURTHER INFORMATION ABOUT THE COMPANY**Incorporation**

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act on 21st January, 2000. The Company has established a principal place of business in Hong Kong at Suites 3306-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 28th April, 2000. Mr. Ip Kim Kuen of 19A, Tower 2, Lyttelton Garden, 29 Lyttelton Road, Hong Kong was appointed as the agent of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. As the Company is incorporated in Bermuda, it operates subject to the Companies Act and to its constitution which comprises a memorandum of association and bye-laws. A summary of various provisions of its constitution and relevant aspects of the Companies Act is set out in Appendix IV to this prospectus.

Changes in share capital

As at the date of incorporation of the Company, its authorised share capital was HK\$100,000 divided into 1,000,000 Shares, all of which were allotted and issued nil paid, to Ms. Peggy Chan on 24th January, 2000 and were credited as fully paid on 31st January, 2000.

On 31st January, 2000 the authorised share capital of the Company was increased from HK\$100,000 to HK\$400,000 by the creation of an additional 3,000,000 Shares each ranking pari passu with the then existing Shares in all respects and 1,000,000 Shares were issued fully paid to Ms. Peggy Chan.

On 15th June, 2000, 205,128 Shares, 93,240 Shares and 124,320 Shares were allotted and issued to each of Alps, CV Software Holdings and the UOB Investors pursuant to exercise of rights of conversion under the Convertible Notes.

On 16th June, 2000, the Company increased its authorised share capital from HK\$400,000 to HK\$500,000,000 by the creation of an additional 4,996,000,000 Shares.

Assuming that the Share Offer becomes unconditional and the issue of Offer Shares pursuant to the Share Offer is made, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option nor the exercise of the conversion rights under the Additional Convertible Note, the authorised share capital of the Company will be HK\$500,000,000 divided into 5,000,000,000 Shares and the issued share capital will be HK\$100,000,000 divided into 1,000,000,000 Shares (each of which will be fully paid or credited as fully paid) and 4,000,000,000 Shares will remain unissued.

Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme or the exercise of conversion rights under the Additional Convertible Note, the Directors have no present intention to issue any part of the authorised but unissued capital of the Company, and without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid, there has been no alteration in the share capital of the Company since its incorporation.

Transfer of Shares by controlling shareholder

In February, 2000, Ms. Peggy Chan transferred part of her shareholding in the Company amounting to 142,997 Shares to certain investors who are independent of the Directors and the Initial Management Shareholders. Immediately following completion of the Share Offer and the Capitalisation Issue, these investors will together hold 50,170,492 Shares, representing approximately 5.02 per cent. of the issued share capital of the Company as enlarged by the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option). The transfer was effected at an aggregate consideration of HK\$35,742,000, representing approximately HK\$0.71 per Share after taking into account the Shares to be issued to these investors pursuant to the Capitalisation Issue. On 15th June, 2000, Ms. Peggy Chan transferred another part of her shareholding in the Company amounting to 204,000 Shares to the other executive Directors, namely Mr. Fung Din Chung, Rickie, Mr. Ng Wai King, Steve, Ms. Leung Lucy, Michele (through Mossell) and Mr. Ip Kim Kuen at a consideration of HK\$1 received from each of these executive Directors. Immediately following completion of the Share Offer and the Capitalisation Issue, these executive Directors will together hold 71,573,394 Shares, representing approximately 7.16 per cent. of the issued share capital of the Company as enlarged by the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option). Until the Listing Date, these executive Directors shall not sell, transfer, pledge, charge or howsoever dispose of or deal with (or enter into any agreement or arrangement to such effect) any of their Shares and shall waive all their rights to vote at any general meetings of the Company. These executive Directors are further subject to a 2 year lock-up whereby they will be required (i) to re-transfer the Shares to Ms. Peggy Chan at a consideration of HK\$1 should they cease to be employed as director of the Company at any time during the two years following the Listing Date, and (ii) not to effect a transfer of the Shares to any person in the first six-month period following the Listing Date and not to effect a transfer of more than 50 per cent. of the Shares in the second six-month period. Pursuant to a further Share transfer on 15th June, 2000, Ms. Peggy Chan transferred the then balance of her interest in the Company amounting to 1,653,003 Shares to Passion, a company wholly-owned by her. Immediately following completion of the Share Offer and the Capitalisation Issue, Passion will hold 579,956,044 Shares, representing approximately 57.99 per cent. of the issued share capital of the Company as enlarged by the Share Offer and the Capitalisation Issue (assuming no exercise of the Over-allotment Option).

On 15th June, 2000, Passion granted options over existing Shares held by it (which will represent approximately 1.61 per cent. of the Company's enlarged share capital immediately following completion of the Share Offer and the Capitalisation Issue, assuming no exercise of the Over-allotment Option) to the Designated Employees. See the section headed "Directors, senior management and staff — Options over existing Shares" for further details.

Shareholders' resolutions of the Company passed on 16th June, 2000

Pursuant to the resolutions passed by the shareholders of the Company on 16th June, 2000:

- (a) the authorised share capital of the Company was increased from HK\$400,000 to HK\$500,000,000 by the creation of an additional 4,996,000,000 Shares;
- (b) the Company adopted its new bye-laws;
- (c) conditional on the same conditions as stated under "Structure of the Share Offer — Conditions of the Share Offer":
 - (i) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to allot and issue the Offer Shares and any Shares which may be issued pursuant to the exercise of the Over-allotment Option;
 - (ii) conditional further on the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and the grant of options thereunder and the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any such options, the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto;
- (d) conditional on the share premium account of the Company being credited pursuant to the Share Offer, the sum of HK\$84,757,731.20 being part of the amount then standing to the credit of the share premium account of the Company be capitalised by issuing 847,577,312 Shares, credited as fully paid at par, to the holders of Shares in the capital of the Company registered on the register of members of the Company as at the close of business on 16th June, 2000 (or as the Directors may direct) in proportion as nearly as possible to their respective shareholdings and that the Board or a committee thereof be and is authorised to do all such things as may be necessary to give effect to such capitalisation issue;
- (e) a general unconditional mandate was given to the Directors to allot, issue and deal with (otherwise than by way of rights issues or scrip dividend schemes or other similar arrangements in accordance with the bye-laws of the Company or pursuant to the exercise of any options which may be granted under the Share Option Scheme or the exercise of conversion rights under the Additional Convertible Note), on behalf of the Company, Shares with an aggregate nominal value not exceeding:
 - (i) 20 per cent. of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (such share capital shall include the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
 - (ii) the aggregate nominal value of Shares repurchased under the authority granted to the Directors as referred to in paragraph (f) below;

- (f) a general unconditional mandate was given to the Directors to exercise all the powers for and on behalf of the Company to repurchase on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose Shares with an aggregate nominal amount not exceeding 10 per cent. of:
 - (i) the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue; and
 - (ii) the aggregate nominal value of the share capital of the Company which may be issued pursuant to the exercise of the Over-allotment Option.

Each of the general mandates referred to in paragraphs (e) and (f) above will remain in effect until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the applicable laws of Bermuda or the bye-laws of the Company to be held or when it is revoked or varied by an ordinary resolution of shareholders of the Company in general meeting, whichever is the earliest.

Corporate reorganisation

The Group has undergone a reorganisation to rationalise its structure in preparation for the listing of the Shares on GEM. The reorganisation involved the following:

(a) Excel Technology International (Hong Kong) Limited

- (i) On 21st January, 2000, Excel Technology International (Hong Kong) Limited allotted and issued at par of 998 ordinary shares of HK\$1 each in its share capital to Excel (BVI) Limited, which is the intermediate holding company of the Group.
- (ii) On 27th January, 2000, Ms. Peggy Chan transferred 1 share of HK\$1 in the share capital of Excel Technology International (Hong Kong) Limited to Excel (BVI) Limited at a consideration of HK\$1; and Ms. Leung, Lucy Michele (being the nominee of Ms. Peggy Chan for 1 share of Excel Technology International (Hong Kong) Limited) transferred such 1 share of Excel Technology International (Hong Kong) Limited to Ms. Peggy Chan at nil consideration, who held such 1 share upon trust for Excel (BVI) Limited.
- (iii) On 8th February, 2000, Excel Technology International (Hong Kong) Limited changed to its current name.

(b) Excel Technology Center Limited

- (i) On 27th January, 2000, Ms. Peggy Chan transferred 100,000 shares of HK\$1 each in the share capital of Excel Technology Center Limited to Excel Technology International (BVI) Limited at a consideration of HK\$1; and Excel International Limited transferred 99,999 shares of Excel Technology Center

Limited to Excel Technology International (BVI) Limited at a consideration of HK\$1 and 1 share of Excel Technology Center Limited to Ms. Peggy Chan at a consideration of HK\$1, who held such 1 share upon trust for Excel Technology International (BVI) Limited.

- (ii) On 8th February, 2000, Excel Technology Center Limited changed to its current name.

(c) Excel Technology International (BVI) Limited

- (i) On 21st January, 2000, Excel Technology International (BVI) Limited changed to its current name.
- (ii) On 22nd January, 2000, Excel Technology International (BVI) Limited allotted and issued at par of 1 share of US\$1 each in its share capital, constituting its entire issued share capital, to Excel (BVI) Limited.

(d) Excel International Limited

On 27th January, 2000, Ms. Peggy Chan transferred 9,999 shares of HK\$1 each in the share capital of Excel International Limited to Excel (BVI) Limited at a consideration of HK\$1; and Excel Technology International (Hong Kong) Limited (being a nominee of Ms. Peggy Chan for 1 share of Excel International Limited) transferred such 1 share of Excel International Limited to Ms. Peggy Chan at nil consideration, who held such 1 share upon trust for Excel (BVI) Limited.

(e) Excel Systems Limited

On 27th January, 2000, Mr. Fung Din Chung, Rickie transferred 490,000 shares of HK\$1 each in the share capital of Excel Systems Limited to Excel (BVI) Limited at a consideration of HK\$1; and Excel International Limited transferred 509,999 shares of Excel Systems Limited to Excel (BVI) Limited at a consideration of HK\$1 and 1 share of Excel Systems Limited to Ms. Peggy Chan at a consideration of HK\$1, who held such 1 share upon trust for Excel (BVI) Limited.

(f) Net Fun Limited

- (i) On 29th January, 2000, Excel Technology International (Hong Kong) Limited transferred to Rich-Pines Investments Company Limited 8,500 shares of HK\$1 each in the share capital of Net Fun Limited, representing 85 per cent. of its then issued share capital, at a consideration of HK\$1.
- (ii) On 29th January, 2000, Excel Technology International (Hong Kong) Limited transferred at a consideration of HK\$1 to Excel (BVI) Limited 1,000 shares of HK\$1 each in the share capital of Net Fun Limited, representing 10 per cent. of its then issued share capital.

- (iii) On 3rd May, 2000, Ms. Pang Ping Ying Josephine transferred to Ms. Peggy Chan 500 shares of HK\$1 each in the share capital of Net Fun Limited at a consideration of HK\$1,000.

(g) Excel (BVI) Limited

On 31st January, 2000, Ms. Peggy Chan transferred at a consideration of US\$1 to the Company 5,000 shares of US\$1 each in the share capital of Excel (BVI) Limited, constituting the entire issued share capital of Excel (BVI) Limited.

(h) i21 Limited

- (i) On 18th February, 2000, i21 Limited was incorporated in Hong Kong under the Companies Ordinance with limited liability. On 14th March, 2000, i21 Limited was acquired as to 37.5 per cent. by Excel (BVI) Limited and as to 62.5 per cent. by iService21 Holdings Limited, a wholly-owned subsidiary of iBusiness Corporation.

- (ii) On 26th April, 2000, i21 Limited changed to its current name.

(i) Guangzhou Excel Technology Company Limited

On 16th May, 2000, Guangzhou Excel Technology Company Limited was established as a wholly owned subsidiary of Excel (BVI) Limited in the form of a wholly foreign owned enterprise in Guangzhou, the PRC.

(j) Xena Trading Pte. Limited

On 16th June, 2000, Excel (BVI) Limited acquired 2 shares in Xena Trading Pte. Limited, constituting its entire issued share capital, for a consideration of S\$2.

Changes in share capital of subsidiaries

The Company's subsidiaries are set out in section 6 of 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 have taken place within the two years immediately preceding the date of this prospectus:

- (a) On 21st January, 2000, Excel Technology International (Hong Kong) Limited allotted and issued at par of 998 shares of HK\$1 each in its share capital to Excel (BVI) Limited.
- (b) On 22nd January, 2000, Excel Technology International (BVI) Limited allotted and issued at par of 1 share of US\$1 each in its share capital, constituting its entire issued share capital, to Excel (BVI) Limited.

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

Repurchase by the Company of its own Shares

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. The term “shares” in this section shall mean shares of all classes and securities which carry a right to subscribe or purchase the shares of a company listed on GEM.

A resolution was passed by the shareholders of the Company on 16th June, 2000, pursuant to which a general unconditional mandate (the “Repurchase Mandate”) has been granted to the Directors authorising the repurchase by the Company on the Stock Exchange, 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 of Hong Kong and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (such share capital shall include the Shares which may be issued pursuant to the exercise of the Over-allotment Option), during the period from the passing of such resolution up to:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the applicable laws of Bermuda or the bye-laws of the Company to be held; or
- (c) the revocation or variation of the Repurchase Mandate by an ordinary resolution of shareholders of the Company in general meeting,

whichever is the earliest.

(a) Provisions of the GEM Listing Rules

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

(i) Shareholder approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with its listings on GEM must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

(ii) Source of funds

Repurchases by a company may only be financed out of funds legally available for the purposes in accordance with its memorandum of association and bye-laws and any applicable laws. A listed company may not repurchase its own 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.

(iii) *Trading restrictions*

The total number of shares which a company is authorised to repurchase on GEM is shares representing up to a maximum of 10 per cent. of the aggregate nominal amount of the existing issued share capital at the date of the passing of the ordinary resolution approving the repurchase mandate. A company may not issue or announce an issue of new shares for a period of 30 days immediately following a repurchase of shares (except pursuant to the issue of shares pursuant to an exercise of warrants, share options or similar instruments outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, the purchase price of shares purchased on GEM should not be 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) and the opening bid or any bid shall not be made in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange. A company is also prohibited from making securities repurchases on GEM if the repurchase would result in the number of listed securities in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange.

A company shall procure that any broker appointed by it to effect the purchase of its own shares shall disclose to the Stock Exchange such information with respect to purchases made on behalf of the company as the Stock Exchange may request.

(iv) *Status of repurchased securities*

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled and the certificates of those securities must be cancelled and destroyed as soon as reasonably practicable. Under Bermuda law, a company's repurchased shares shall be treated as cancelled.

(v) *Suspension of repurchases*

Any repurchase of securities is prohibited after a piece of price sensitive information has developed or has been the subject of a decision until the price sensitive information has been publicly announced. In particular, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's interim report, a company is prohibited from making any repurchase of securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit a company from making any repurchase of securities on the Stock Exchange if a company has breached any of 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. The Stock Exchange is to make this information publicly available as soon as possible. In addition, a company's annual report and accounts are required to disclose details regarding securities repurchases made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest investment price paid for such repurchases and the aggregate price paid. The

directors' report shall contain reference to the repurchases made during the year and the directors' reasons for making such repurchases. The company shall make arrangements with its broker who effects the repurchase to provide the company in a timely fashion the necessary information in relation to the repurchase made on behalf of the company to report to the Stock Exchange.

(vii) *Connected parties*

A company is prohibited from knowingly repurchasing securities on GEM from a "connected person", that is, a director, chief executive, substantial shareholder or management shareholder of the company or an associate of any of them (as defined in the GEM Listing Rules), and a connected person is prohibited from knowingly selling his securities to the company on the Stock Exchange.

(b) Reasons for Repurchases

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets or its earnings per Share or both.

(c) Funding of Repurchases

Any repurchases will only be financed out of funds of the Company legally available for the purposes in accordance with its memorandum of association and bye-laws and the applicable laws of Bermuda. The Company will 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.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in its latest published audited accounts) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(d) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after the completion of the Share Offer and the Capitalisation Issue (and on the assumption that the Over-allotment Option is not exercised) could accordingly result in up to 100,000,000 Shares being repurchased by the Company during the period from the passing of such resolution 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 applicable laws of Bermuda or the bye-laws of the Company to be held; or
- (iii) the revocation or variation of the Repurchase Mandate by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

(e) Disclosure of Interests

As at the Latest Practicable Date, none of the Directors and, to the best of their knowledge, having made all reasonable enquiries, none of their respective associates (as defined in the GEM Listing Rules), have any present intention to sell any Share to the Company or its subsidiaries if the Repurchase Mandate is approved by the shareholders of the Company and exercised by the Directors.

As at the Latest Practicable Date, no connected persons (as defined in the GEM Listing Rules) have notified the Company that they have a present intention to sell Shares to the Company, or have undertaken not to do so, if the Repurchase Mandate is approved by the shareholders of the Company and exercised by the Directors.

(f) Directors' Undertaking

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of Bermuda.

(g) Takeovers Code Consequences

If as a result of a 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 purposes of the Takeovers Code. Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of the shareholder's interest, 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 as a result of any such increase.

FURTHER INFORMATION ABOUT THE BUSINESS

Summary of material contracts

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

- (a) bought and sold notes executed by Excel Technology International (Hong Kong) Limited (formerly known as Excel Consultancy Limited) and Wiply Investment Limited dated 5th December, 1998, pursuant to which 9,500 shares of HK\$1 each in the share capital of Net Fun Limited were transferred from Wiply Investment Limited to Excel Technology International (Hong Kong) Limited at a consideration of HK\$1;

- (b) bought and sold notes executed by Rich-Pines Investments Company Limited and Excel Technology International (Hong Kong) Limited (formerly known as Excel Consultancy Limited) dated 29th January, 2000, pursuant to which 8,500 shares of HK\$1 each in the share capital of Net Fun Limited were transferred from Excel Technology International (Hong Kong) Limited to Rich-Pines Investments Company Limited at a consideration of HK\$1;
- (c) a subscription agreement dated 12th February, 2000 entered into among the Company, Excel Systems Limited, Excel Technology International (Hong Kong) Limited, Ms. Peggy Chan, and investors comprising Alps, CV Software Holdings Limited, UOB, UOB Venture Investments Limited, UOB Venture Investments II Limited and UOB Venture Technology Investments Limited (the "Investors"), pursuant to which the Company agreed to allot and issue to the Investors or their respective nominees the Convertible Notes;
- (d) a note instrument dated 2nd March, 2000 executed by the Company, Excel Systems Limited, Excel Technology International (Hong Kong) Limited and Ms. Peggy Chan constituting the Convertible Notes;
- (e) an agreement dated 21st February, 2000 entered into between the Company and Cheung Kong pursuant to which the Company and Cheung Kong agreed to form a strategic alliance to provide application software, information technology and e-commerce related services;
- (f) a joint venture agreement dated 21st February, 2000 between the Company and Cheung Kong as superseded by a side letter dated 14th March, 2000 between the same parties thereto, and a joint venture agreement dated 14th March, 2000 between the Company and iBusiness Corporation (the "JV Agreement"), as modified by a side letter dated as of 14th March, 2000 between the Company and iBusiness Corporation in relation to the management and operation of a joint venture for the ASP Business, including the provision of application business systems and operations support via telecommunications network and the Internet;
- (g) an addendum dated 15th June, 2000 between the Company and iBusiness Corporation relating to the JV Agreement whereby, in the event the application for listing of i21 Limited is approved by a recognised stock exchange on or before 31st December, 2000, the Company and iBusiness Corporation shall procure i21 Limited to issue to the Company new shares in i21 Limited representing 5 per cent. of the issued share capital of i21 Limited immediately before the time of such allotment at a consideration equal to the total investment of iBusiness Corporation in i21 Limited up to the date of such allotment multiplied by the difference between the respective dilutions of iBusiness Corporation's interest and the Group's interest in i21 Limited as a result of such allotment;
- (h) a letter agreement dated 15th June, 2000 entered into between the Company and Alps pursuant to which the Company agreed to issue to Alps the Additional Convertible Note at an issue price of 100 per cent. of the principal amount thereof;

- (i) the Underwriting Agreement; and
- (j) a deed of indemnity dated 19th June, 2000 executed by Ms. Peggy Chan and Passion in favour of the Group in relation to (i) contingent liabilities referred to under “Financial information — Contingent liabilities” of this prospectus; and (ii) taxation and estate duty referred to under “Other information — Estate duty and tax indemnity” in this Appendix.

Intellectual property

As at the Latest Practicable Date, the Group has applied for registration of the following marks in respect of the classes of goods and services specified below:

Trade Mark	Place of application	Class	Name of applicant	Application number	Date of application
Hong Kong					
志鴻	Hong Kong	9	Excel Technology International (BVI) Limited	3678 of 2000	24th February, 2000
志鴻	Hong Kong	35	Excel Technology International (BVI) Limited	3679 of 2000	24th February, 2000
志鴻	Hong Kong	42	Excel Technology International (BVI) Limited	3680 of 2000	24th February, 2000
EXCEL	Hong Kong	9	Excel Technology International (BVI) Limited	3681 of 2000	24th February, 2000
EXCEL	Hong Kong	35	Excel Technology International (BVI) Limited	3682 of 2000	24th February, 2000
EXCEL	Hong Kong	42	Excel Technology International (BVI) Limited	3683 of 2000	24th February, 2000
<i>Excel</i> 志鴻	Hong Kong	37	Excel Technology International (BVI) Limited	9318 of 2000	28th April, 2000
EXCEL 志鴻					
<i>Excel</i> 志鴻	Hong Kong	41	Excel Technology International (BVI) Limited	9319 of 2000	28th April, 2000
EXCEL 志鴻					

Trade Mark	Place of application	Class	Name of applicant	Application number	Date of application
Singapore					
志鴻	Singapore	9	Excel Technology International (BVI) Limited	T00/03578Z	8th March, 2000
志鴻	Singapore	35	Excel Technology International (BVI) Limited	T00/03579H	8th March, 2000
志鴻	Singapore	42	Excel Technology International (BVI) Limited	T00/03580A	8th March, 2000
EXCEL	Singapore	9	Excel Technology International (BVI) Limited	T00/03575E	8th March, 2000
EXCEL	Singapore	35	Excel Technology International (BVI) Limited	T00/03576C	8th March, 2000
EXCEL	Singapore	42	Excel Technology International (BVI) Limited	T00/03577A	8th March, 2000

The Group has registered the following domain names:

Domain Names	Date of Registration	Place of Registration
excel.com.hk	12th December, 1997	Hong Kong
itjob.com.hk	28th August, 1998	Hong Kong

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT, STAFF AND EXPERTS

Particulars of service contracts

Each of the executive Directors has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

Ms. Peggy Chan, Ms. Leung Lucy, Michele, Mr. Fung Din Chung, Rickie and Mr. Ng, Wai King, Steve have entered into service contracts with the Company commencing from 1st March, 2000 and Mr. Ip Kim Kuen has entered into a service contract with the Company commencing from 20th March, 2000. The term of each contract is three years subject to termination by not less than six months' notice in writing served by either party on the other.

Each of Ms. Peggy Chan and Ms. Leung Lucy, Michele is entitled to a basic monthly salary (subject to review at the time of the annual reviews for the Directors) and a thirteenth month's salary, representing respectively an aggregate amount of HK\$1,300,000 per annum. Mr. Fung Din Chung, Rickie, Mr. Ng, Wai King, Steve and Mr. Ip Kim Kuen are entitled to a basic monthly salary (subject to review at the time of the annual review for the Directors), representing an aggregate amount of HK\$1,200,000, HK\$1,320,000 and HK\$1,800,000 per annum

respectively. Each of the Directors is also entitled to other benefits including provision of free medical, dental and optical services. In addition, each of the Directors is entitled to a discretionary bonus. The aggregate amount of the bonuses payable to all Directors for any financial year will not exceed 5 per cent. of the audited consolidated net profits of the Group for the relevant financial year. None of the Directors is entitled to vote on any resolution of the board of Directors relating to any bonus payable to him/her. Two residential properties of the Group are provided to Ms. Peggy Chan and Ms. Leung Lucy, Michele as their respective quarters free of charge.

Save as disclosed herein, 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).

Directors' remuneration

An aggregate of approximately HK\$5.3 million was incurred in respect of Directors' emoluments for the year ended 31st December, 1999. Further information in respect of the Directors' emoluments is set out in the Accountants' Report in Appendix I to this prospectus.

Under the present arrangement, the aggregate of the Directors' fees and remuneration paid or payable to, and benefits in kind received or receivable by, the Directors for the year ending 31st December, 2000 are estimated to be approximately HK\$7.5 million.

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

- (a) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility and the time devoted to the Group;
- (b) non-cash benefits are provided to the Directors under the remuneration package; and
- (c) the Directors may be granted, at the discretion of the board of Directors, share options under the Share Option Scheme as part of their remuneration package.

Interests of Directors and experts in the share capital of the Company after the Share Offer

Immediately following the completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be taken up under the Share Offer and the Shares to be issued pursuant to the Over-allotment Option, once the Shares are listed, the interests of the Directors and chief executives in the equity or debt securities of the Company or any 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), or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register required to be kept therein, 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 will be as follows:

Name of Director	Name of company	Personal interests	Family interests	Corporate interests
Ms. Peggy Chan	the Company	—	—	579,956,044 ⁽¹⁾
Ms. Leung Lucy, Michele	the Company	—	—	24,559,498 ^{(2),(3)}
Mr. Fung Din Chung, Rickie	the Company	24,559,498 ⁽³⁾	—	—
Mr. Ng Wai King, Steve	the Company	21,050,998 ⁽³⁾	—	—
Mr. Ip Kim Kuen	the Company	1,403,400 ⁽³⁾	—	—

Notes:

- (1) These Shares are held by Passion. Ms. Peggy Chan is deemed to have interests in these Shares under the SDI Ordinance as Passion is wholly owned by her. These Shares are inclusive of Shares subject to the Share Option Deeds.
- (2) These Shares are held by Mossell. Ms. Leung Lucy, Michele is deemed to have interests in these Shares under the SDI Ordinance as Mossell is wholly-owned by her.
- (3) The Shares owned by each of the Directors as listed above were acquired from Ms. Peggy Chan at a consideration of HK\$1.00 on 15th June, 2000. Each of the Directors had undertaken to Ms. Peggy Chan that he/she shall not dispose of any of his/her Shares during the period from the date of acquisition thereof to the last day of the 6 month-period following the Listing Date and of 50 per cent. of his/her Shares within 1 year from the Listing Date, and that if he/she ceases to be employed as director of the Company within 2 years from the Listing Date, he/she shall re-transfer to Ms. Peggy Chan all the Shares acquired from her at a consideration of HK\$1.

So far as the Directors are aware, the following (not being Directors nor chief executives of the Company) will, immediately following the completion of the Share Offer and the Capitalisation Issue and on the assumption that the Over-allotment Option is not exercised and taking no account of Shares that may be taken up under the Share Offer, be interested in 10 per cent. or more of the voting power at general meetings of members of the Group:

Name	Registered address	Number of shares in the Company	Approximate percentage of holding (Note 1)
Passion	East Asia Chambers, P.O. Box 91, Road Town, Tortola, B.V.I.	579,956,044	57.99%

Note:

- (1) The percentage is calculated based on 1,000,000,000 issued Shares, assuming completion of the Share Offer and the Capitalisation Issue and no Over-allotment Option is exercised.

Agency fees or commissions received

None of the Directors, the promoter of the Company or the persons named under “Consents” in this Appendix had received any discounts, brokerages and other special terms, agency fee or commission from the Group in connection with the issue or sale of any member of the Group within the two years immediately preceding the date of this prospectus.

Related party transactions

On 29th January, 2000, Excel Technology International (Hong Kong) Limited transferred to Rich-Pines Investments Company Limited, which is wholly beneficially owned by Ms. Peggy Chan, 8,500 shares of HK\$1 each in the share capital of Net Fun Limited at a consideration of HK\$1.

On 3rd May, 2000, Excel Technology International (Hong Kong) Limited and Net Fun Limited entered into a sub-tenancy agreement pursuant to which Net Fun Limited sub-leased office premises located at Suite 1405, 14th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong from Excel Technology International (Hong Kong) Limited for a fixed term of 23 months and 24 days from 1st June, 2000 to 24th May, 2002. On 1st June, 2000, Excel Technology International (Hong Kong) Limited and Net Fun Limited entered into an administrative services agreement pursuant to which Excel Technology International (Hong Kong) Limited agreed to provide accounting, general office administrative and company secretarial services as may be requested by Net Fun Limited from time to time. Details of the sub-tenancy agreement and the administrative services agreement referred to hereinabove are set out under “Business — Continuing connected transactions”.

Related party transactions entered into by the Group within the three years immediately preceding the date of this prospectus are set out in section 5 of the Accountants’ Report in Appendix I to this prospectus.

Disclaimers

Save as disclosed in this Appendix:

- (a) once the Shares are listed, none of the Directors or chief executives of the Company has any interest in the equity or debt securities 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 he will be taken or deemed to have under Section 31 of, or Part 1 of the Schedule to, the SDI Ordinance), or which will be required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register required to be kept therein 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;
- (b) none of the Directors or persons referred to under “Consents” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of, by or leased to any member of the Group, or are proposed to be acquired or disposed of, by or leased to any member of the Group;

- (c) except for a sponsor's agreement dated 19th June, 2000 entered into between HSBC Investment Bank Asia and the Company whereby the Company has appointed HSBC Investment Bank Asia to act as its sponsor (for a sponsor's fee) for the purposes of the GEM Listing Rules, none of the Directors or persons referred to under "Consents" 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 taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts 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);
- (e) taking no account of any Shares which may be taken up under the Share Offer, the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately following the completion of the Share Offer and the Capitalisation Issue and on the assumption that the Over-allotment Option is not exercised, be interested, directly or indirectly, in 10 per cent. or more of the nominal amount of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or any options in respect of such capital; and
- (f) none of the persons referred to under "Consents" 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.

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a resolution passed by the shareholders of the Company on 16th June, 2000:

(a) Who may join

The board of Directors ("**Board**") may offer to grant to any Participants (as defined in the next paragraph below) as the Board may in its absolute discretion select options to subscribe for such number of Shares as the Board may determine at a price calculated in accordance with paragraph (d) below.

For the purposes of the Share Option Scheme, "**Participant**" means any full time employee or director of the Company or any Subsidiary who satisfies the following requirements:

- (i) in the case of a director, any executive director of the Company or any Subsidiary; or

- (ii) in the case of an employee, the aggregate number of hours spent by that employee in providing services to the Company or any Subsidiary is not less than 25 hours per week, determined by averaging out the total number of hours so spent since the employee commenced working for the Company or any Subsidiary and up to the date of the proposed grant of any Option and the employee has been in continuous employment with the Group for a period of six months.

(b) Grant of Option

Any grant of options must not 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 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 options should be granted until such information has been announced pursuant to the requirements of the GEM Listing Rules.

(c) Payment on acceptance of option offer

HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer.

(d) Price of Shares

The subscription price for Shares in relation to options to be granted under the Share Option Scheme will be a price determined by the Board and notified to each relevant Participant (subject to adjustments) and will be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day, (ii) the average closing price of the Shares 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.

(e) Maximum number of Shares

The limit of the total number of Shares subject to the Share Option Scheme and any other schemes established by the Company from time to time shall be determined as follows:

- (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 per cent. of the issued shares of the Company from time to time (excluding (i) Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)) (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 per cent. of its total issued shares from time to time (excluding (i) Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)).

Upon completion of the Share Offer, the total number of Shares subject to the Share Option Scheme will be 300,000,000, representing 30 per cent. of the issued share capital of the Company following completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised) (excluding (i) Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes of the Company; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)).

No Participant shall be granted an option which, if exercised in full, would result in such person's maximum entitlement to exceed 25 per cent. of the aggregate number of Shares for the time being issued and are issuable under the Share Option Scheme.

(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 (the "Option Period") to be notified by the Board to each grantee. The Option Period shall not be less than three years and not more than ten years from the date upon which the option is accepted in accordance with the Share Option Scheme but subject to the provisions for early termination contained therein.

(g) Rights are personal to grantee

An option may not be sold, transferred, assigned, charged, mortgaged or encumbered and is personal to the grantee, nor shall any interest be created in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle the Company to cancel any outstanding option or part thereof granted to such grantee.

(h) Rights on ceasing to be a Participant

- (i) If the grantee of an option ceases to be a Participant on grounds of resignation, retirement, expiry of employment contract or termination of employment for any reason other than death, misconduct or certain other grounds (including bankruptcy, insolvency or a conviction for a criminal offence), the grantee may exercise the option up to the grantee's entitlement at the date of cessation (to the extent not already exercised) within the period of three months following the date of such cessation, which date shall be the last actual working day with the relevant company in the Group whether salary is paid in lieu of notice or not.

- (ii) If the grantee of an option ceases to be a Participant for reason of misconduct or certain other grounds (including bankruptcy, insolvency or a conviction for a criminal offence), the option (to the extent not exercised) shall lapse and not be exercisable on the date of such cessation.

(i) Rights on death

If the grantee of an option dies before exercising the option in full and none of certain events which would be grounds for termination of his or her employment or contract for service, including misconduct, bankruptcy, insolvency and a conviction for a criminal offence, occurs, his or her personal representative(s) may exercise the option in full (to the extent not already fully exercised) within a period of twelve months from the date of death or such shorter period as the Board may determine, failing which the option will lapse.

(j) Effects of alterations to capital

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable, such corresponding alterations (if any) certified in writing by the auditors for the time being of the Company or an independent financial adviser as fair and reasonable (except in the case of a capitalisation issue where no such certification shall be required) will be made in the Shares to which the option relates, the aggregate number of Shares subject to outstanding options, the subscription price of each outstanding option; provided that any such alterations shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible (but shall not be greater than) as it was before such event, no such alteration shall be made so that a Share would be issued at less than its nominal value or which 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 as consideration in a transaction.

(k) Rights on take-over

If a general offer (including any take-over) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) with the terms of the offer having been approved in accordance with applicable laws and regulatory requirements becomes, or is declared unconditional, the grantee (or his or her personal representative(s)) may 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.

(l) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees on the same date as it dispatches the notice to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his or her personal

representative(s)) shall be entitled to exercise all or any of his or her options in whole or in part at any time prior to 12 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any grantee as a result of the aforesaid suspension.

(m) Lapse of Option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of the periods referred to in sub-paragraphs (h), (i) or (k) respectively;
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (l);
- (iv) the date of the commencement of the winding-up of the Company;
- (v) the date on which the grantee of an option ceases to be a Participant by reason of the termination of his or her employment or contract for service on grounds specified in the Share Option Scheme including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence involving his or her integrity or honesty; or
- (vi) the date on which the grantee sells, transfers, assigns, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option in breach of the Share Option Scheme.

(n) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to the Company's bye-laws for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions 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 if the record date therefor is 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 HK\$0.10 each or of such other nominal amount as shall result from a sub-division or a consolidation of such Shares from time to time.

(o) Cancellation of Options granted

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

(p) Period of Share Option Scheme

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional (which is expected to be on or before the Listing Date) after which period no further options will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto.

(q) Termination of Share Option Scheme

The Company by resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect in respect of any options granted prior thereto.

(r) Alteration to 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 the advantage of grantees or prospective grantees except with the prior approval of the shareholders of the Company in general meeting (with 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 Company’s shareholders under the Company’s bye-laws for the time being for a variation of the rights attached to the Shares.

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

(s) Administration of the Share Option Scheme

The Share Option Scheme shall be subject to the administration of a committee whose members include the independent non-executive Directors and, if applicable, also the independent non-executive directors of any holding company of the Company which is also listed on the Main Board or on GEM.

(t) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on (i) the GEM Listing Committee 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 Share Option Scheme being approved by the shareholders of the Company at its general meeting. Application has been 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 the options granted under the Share Option Scheme.

(u) Grant of option to connected persons

Where an offer of the grant of any option is proposed to be made to a connected person (as such term is defined in the GEM Listing Rules), such offer of the grant of an option must be approved by the majority of independent non-executive directors of the Company.

In addition, where any offer of grant of an option is proposed to be granted to a connected person who is also a substantial shareholder of the Company or any of his/her associates (as defined in the GEM Listing Rules) which would result in the Shares the subject matter of all options granted (including options exercised and outstanding) and proposed to be granted to such person under the Share Option Scheme and any other scheme(s) in the 12-month period up to and including the proposed date of grant of the option (a) representing in aggregate over 0.1 per cent. of the issued share capital of the Company then in issue; and (b) having a value, based on the closing price of the Shares at the proposed date of grant, in excess of HK\$5 million, such offer of grant of options must be approved by the shareholders of the Company in general meeting with all the connected persons of the Company abstaining from voting.

Present status of 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.

Application has been made to the GEM Listing Committee for the approval of the Share Option Scheme and the subsequent granting of options under the Share Option Scheme and for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

OTHER INFORMATION**Estate duty and tax indemnity**

Ms. Peggy Chan and Passion have given joint and several indemnities in connection with, among other things, any liability for Hong Kong estate duty which might be payable by any member of the Group, by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the

Group on or before the date on which the Share Offer becomes unconditional; and any other tax liabilities of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Share Offer becomes unconditional.

Ms. Peggy Chan and Passion will, however, not be liable under the deed of indemnity for taxation where:

- (a) provision or allowance has been made for such taxation in the audited combined accounts of the Group for the three years ended 31st December, 1999 set out in Appendix I to this prospectus;
- (b) the taxation arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date of the deed of indemnity;
- (c) the liability for payment would not have arisen but for any act, transaction, omission or delay by any member of the Group voluntarily effected after the date of the deed of indemnity and otherwise than in the ordinary course of business (other than pursuant to a legally binding commitment created on or before the date of the deed of indemnity) without the prior written consent or agreement of Ms. Peggy Chan or Passion; or
- (d) provisions or reserve made for taxation in the audited combined accounts of the Group for the three years ended 31st December, 1999 finally established to be an over-provision or an excessive reserve.

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 Bermuda and the BVI.

Litigation

A member of the Group (the "member") entered into an agreement on 1st May, 1993 to acquire from a third party vendor, inter alia, a software programme at a consideration of HK\$2 million, and paid an initial deposit of HK\$200,000. A dispute arose between the Group and the third party vendor in respect of the completeness of the software programme that was delivered and the representations made at the time of sale, and the Group rejected delivery of the software programme. On 9th January, 1995, the third party vendor filed a claim against the member for payment of HK\$1.8 million plus damages and the costs of the legal action. However, the third party vendor did not place a security deposit for the litigation, and no further actions or proceedings had taken place in respect of the dispute since April, 1995. The Directors have been advised that as many years have elapsed since the commencement of the action, the member may apply to the court to strike out the claim of the third party vendor for want of prosecution. The court will take into account all circumstances of the case before exercising its discretion as to whether the striking out application would be granted.

It is the intention of the Directors to defend the claim vigorously in the event the third party vendor continues legal action. Accordingly, no provision for the claim and legal costs in respect thereof has been made in the financial statements of the Group. Ms. Peggy Chan has agreed to indemnify the member for any losses up to HK\$2 million arising from the claim for the period up to and including 30th June, 2001.

Two members of the Group are in dispute with a firm of lawyers (the "Previous Lawyers") handling the Group's pre-listing restructuring, Convertible Notes issue and intellectual property registration in respect of several invoices for an aggregate amount of around HK\$2.3 million rendered by the Previous Lawyers and are currently seeking a taxation of such invoices. The Group has already paid HK\$2.5 million into court which covers the full amount of the bills and the costs of taxation. An amount of HK\$1 million (plus taxation fees) has been paid out from the HK\$2.5 million to the Previous Lawyers as interim payment without prejudice to demand for refund to the relevant members of the Group such amounts overpaid after taxation. The Previous Lawyers are required to lodge detailed bills of costs for the purpose of taxation within 45 days from 10 April 2000. The members of the Group will raise objection to the detailed bills. The court will then decide and certify the ultimate amount to be paid by the relevant members of the Group. Ms. Peggy Chan has agreed to indemnify such two members of the Group for any losses in excess of the amount already paid by the two members of HK\$1 million, up to a limit of HK\$1.5 million, arising from the dispute for the period up to and including 31st December, 2000. It is likely that the taxation process will take several months from the date the detailed bills are lodged with the court to a final assessment.

Save as disclosed above, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

Sponsor

HSBC Investment Bank Asia has made an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, all the Shares in issue, the Shares to be issued as mentioned herein and any Shares which may fall to be issued pursuant to (i) the exercise of any options granted under the Share Option Scheme; and (ii) the exercise of conversion rights under the Additional Convertible Note.

HSBC Investment Bank Asia, which will receive a commission and a financial advisory fee as mentioned under "Underwriting", is an indirect subsidiary of HSBC, which will receive a fee for its services as the receiving banker to the Share Offer. HSBC Nominees Asia Limited, a subsidiary of HSBC Investment Bank Asia Holdings Limited, the holding company of HSBC Investment Bank Asia, will receive a fee for its services in connection with holding the application monies received pursuant to the Share Offer.

Minimum subscription

There is no minimum subscription which must be raised by the offer of Shares by the Company under the Share Offer in order to provide the sums required to cover the matters referred to in section 28 of the Companies Act.

Registration procedures

Subject to the provisions of the Companies Act, the register of members of the Company will be maintained in Bermuda by Butterfield Corporate Services Limited and a branch register of members of the Company will be maintained in Hong Kong by Central Registration Hong Kong Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in Bermuda.

Taxation of holders of Shares**(a) *Bermuda***

Under present Bermuda law, transfers and other dispositions of Shares are exempt from Bermuda stamp duty.

(b) *Hong Kong*

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

There will be no Hong Kong tax on capital profits derived by holders of Shares from the sale of Shares, unless an investment in the Shares forms part of a share dealing business carried on in Hong Kong, in which case the profit from the sale of Shares will be subject to Hong Kong tax at the maximum rate of 15 per cent. for individual investors, or 16 per cent. for corporate investors, if it is considered to be a Hong Kong sourced revenue profit. Dividends are not subject to Hong Kong tax for either individual or corporate investors.

(c) *Generally*

Potential holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of applying for, purchasing, holding or disposing of, or dealing in, Shares. It is emphasised that none of the Company, the Directors, HSBC Investment Bank Asia, the Underwriters, their respective directors nor any other parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of, persons resulting from the subscription for, holding, purchase or disposal of or dealing in, Shares.

Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US\$5,500 and are payable by the Company.

Promoter

The promoter of the Company is Ms. Peggy Chan. Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoter in connection with the Share Offer or related transactions described in this prospectus within the two years preceding the date of this prospectus nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Share Offer or related transactions as described in this prospectus.

Qualifications

The following are the qualifications of the persons which have given their opinion or advice which is contained in this prospectus:

Name	Qualification
HSBC Investment Bank Asia	An exempt dealer under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
KPMG	Certified public accountants
Chesterton Petty Limited	Chartered surveyors and independent valuers
Conyers Dill & Pearman	Bermuda barristers and attorneys

Consents

Each of HSBC Investment Bank Asia, KPMG, Chesterton Petty Limited and Conyers Dill & Pearman has given and has 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 opinion and/or the references to its name included herein in the form and context in which it is respectively included.

Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, 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 so far as applicable.

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, 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, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.

- (b) The Directors confirm that:
- (i) since 31st December, 1999, there has been no material adverse change in the financial or trading position or prospects of the Group; and
 - (ii) there has not been any interruption in the business of the Group which may have or have had a material adverse effect on the financial position of the Group in the 12 months preceding the date of this prospectus.
- (c) Each of Mr. John Charles Ross Collis and Mr. Anthony Devon Whaley, the Bermuda resident representative and deputy resident representative of the Company, is a partner in Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, which firm will receive normal professional fees in connection with the Share Offer. Mr. Ira Stuart Outerbridge III, currently a joint secretary of the Company who will resign after the listing of the Shares on GEM, is an employee of Codan Services Limited, a company affiliated with Conyers Dill and Pearman.

DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** application forms, the written consents referred to under “Consents” in Appendix VI to this prospectus, the statement of adjustments and copies of the material contracts referred to under “Summary of material contracts” in Appendix VI to this prospectus. The copy of this prospectus which was also filed with the Registrar of Companies in Bermuda has attached to it copies of the **WHITE** and **YELLOW** application forms.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Baker & McKenzie, 14th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours up to and including 4th July, 2000:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the Accountants’ Report prepared by KPMG, the text of which is set out in Appendix I to this prospectus, together with the statement of adjustments;
- (c) the audited financial statements of Excel Technology International (Hong Kong) Limited, Excel Systems Limited and Excel International Limited for each of the three years ended 31st December, 1999;
- (d) the letters relating to the profit forecast, the texts of which are set out in Appendix II to this prospectus;
- (e) the letter, summary of values and valuation certificate relating to the property interests of the Group prepared by Chesterton Petty Limited, the texts of which are set out in Appendix III to this prospectus;
- (f) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Bermuda company law referred to in Appendix IV to this prospectus;
- (g) the Companies Act;
- (h) the rules of the Share Option Scheme;
- (i) the material contracts referred to under “Summary of material contracts” in Appendix VI to this prospectus, together with the service contracts with the executive Directors referred to under “Particulars of service contracts” in Appendix VI to this prospectus; and
- (j) the written consents referred to under “Consents” in Appendix VI to this prospectus.