
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

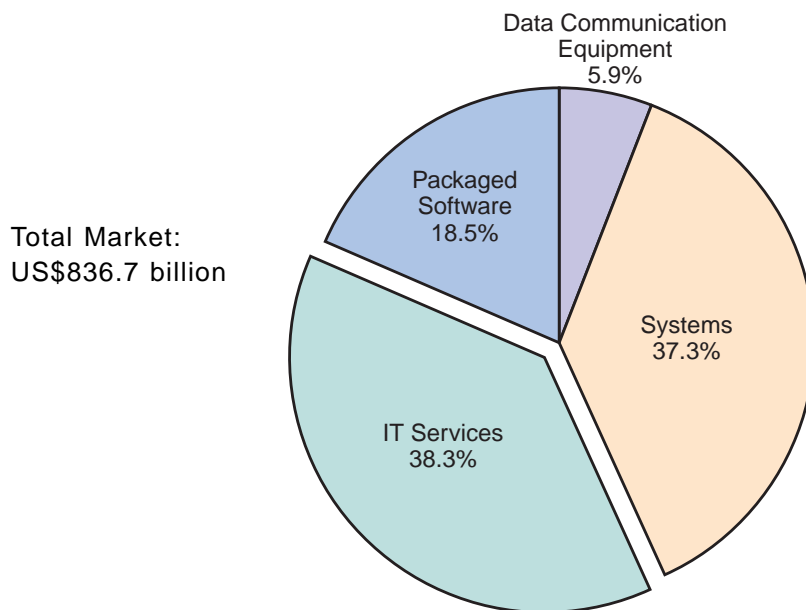
Global IT services market

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

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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.

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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.

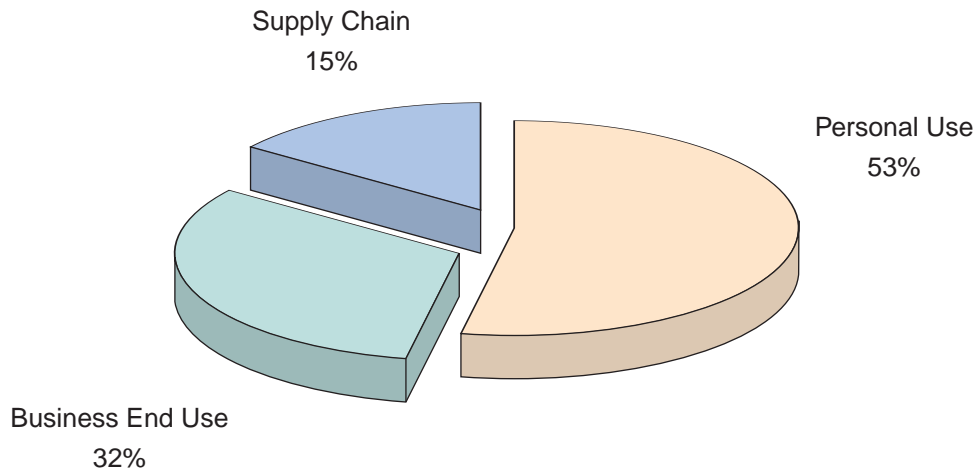
The growth of the Internet is attributable to its value as a low-cost, open and accessible platform for communications and commerce. As a result of these attributes, organisations are increasingly embracing the Internet as a critical platform for communicating with partners, customers and employees, 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.

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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.

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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.

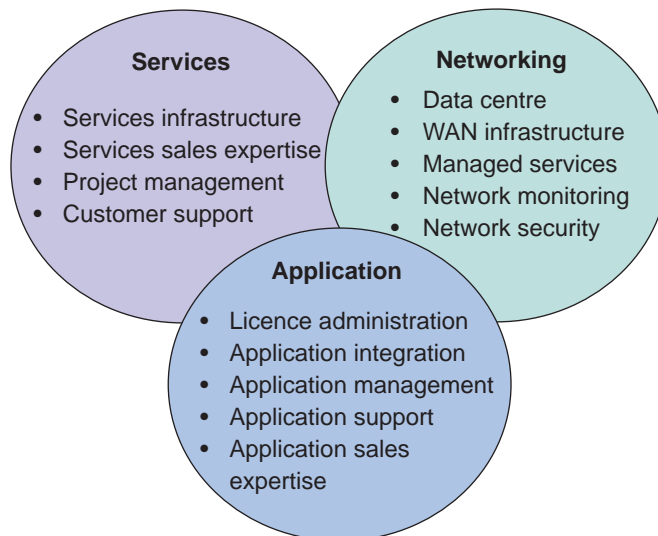
The following are the key characteristics of the ASP model:

- 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.

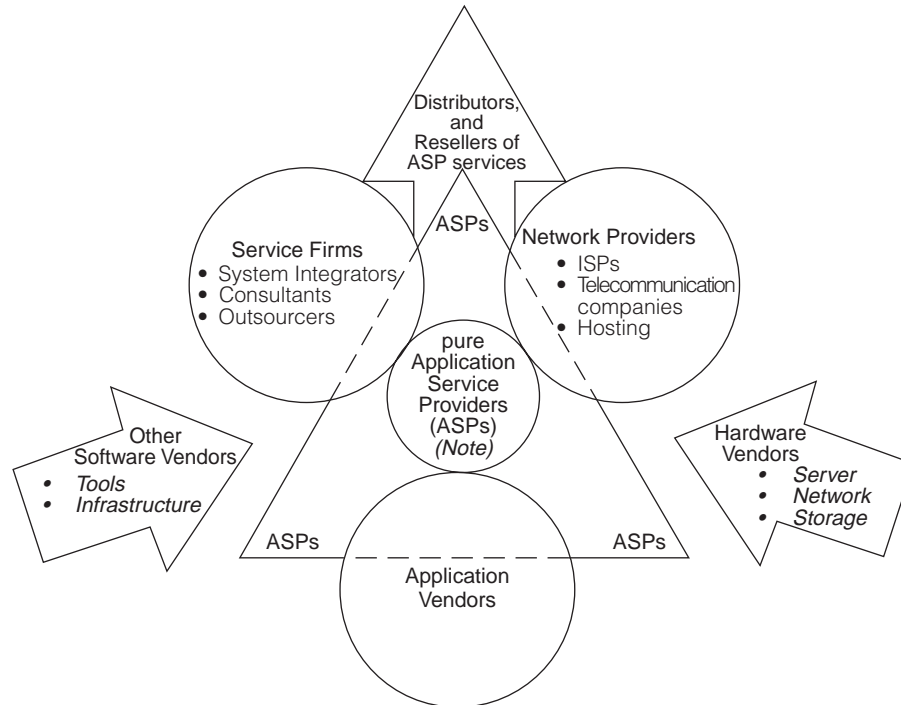
ASP required skill sets



Source: IDC

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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.

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THE BANKING AND FINANCE SECTOR

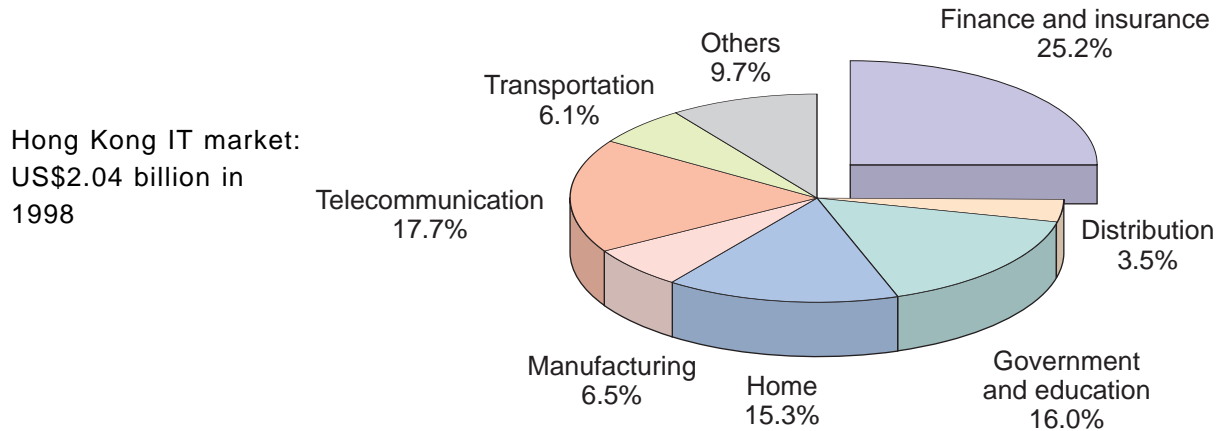
The banking and finance sector comprises the integration of the banking, financial, securities, fund management, insurance, real estate and business markets. Hong Kong's banking and finance sector is one of the main players in the international field. According to information published and updated by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

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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.