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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

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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

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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.

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(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.

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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

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	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

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	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

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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)

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	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.

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- **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.

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- **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.

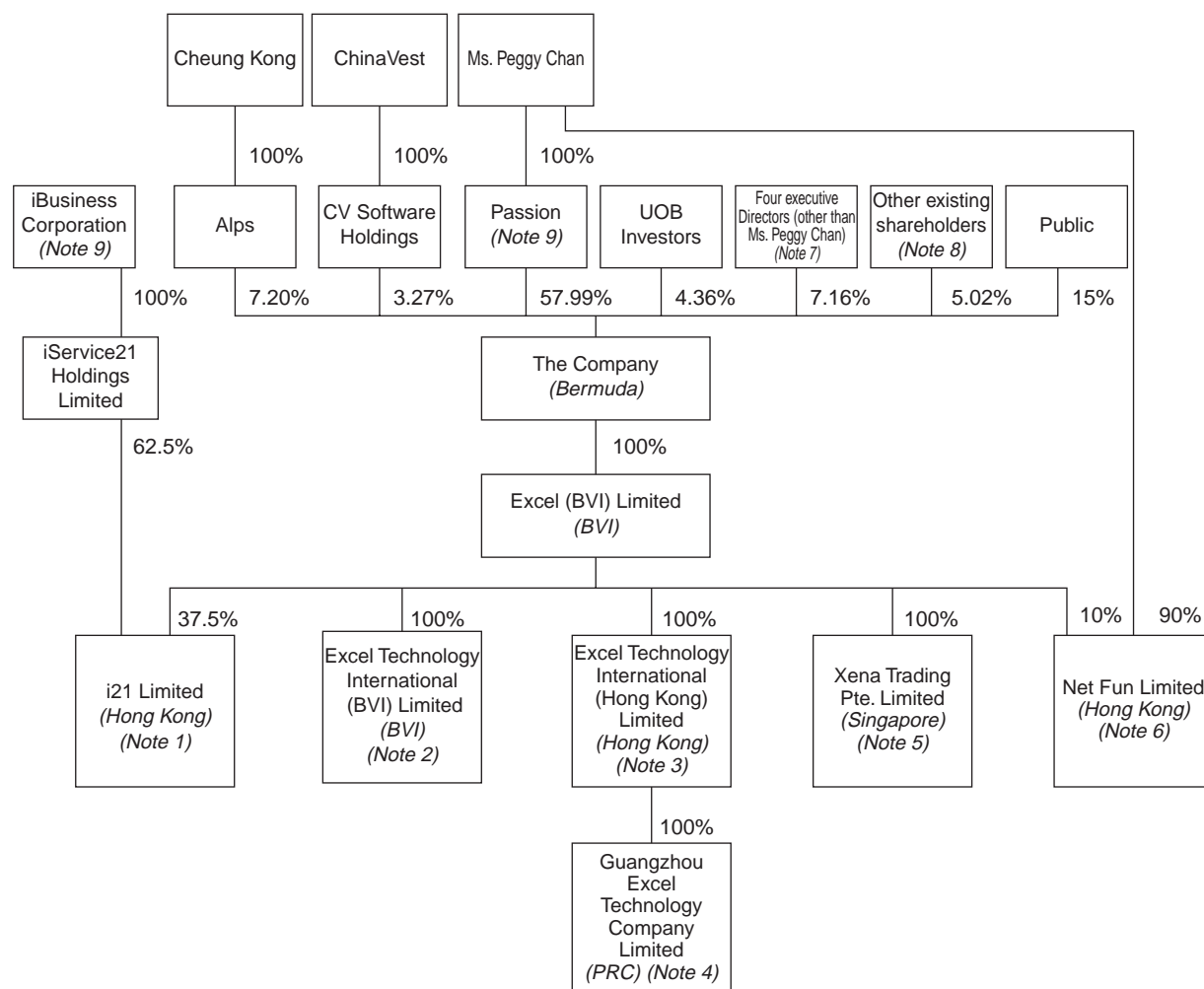
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GROUP STRUCTURE

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.

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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.

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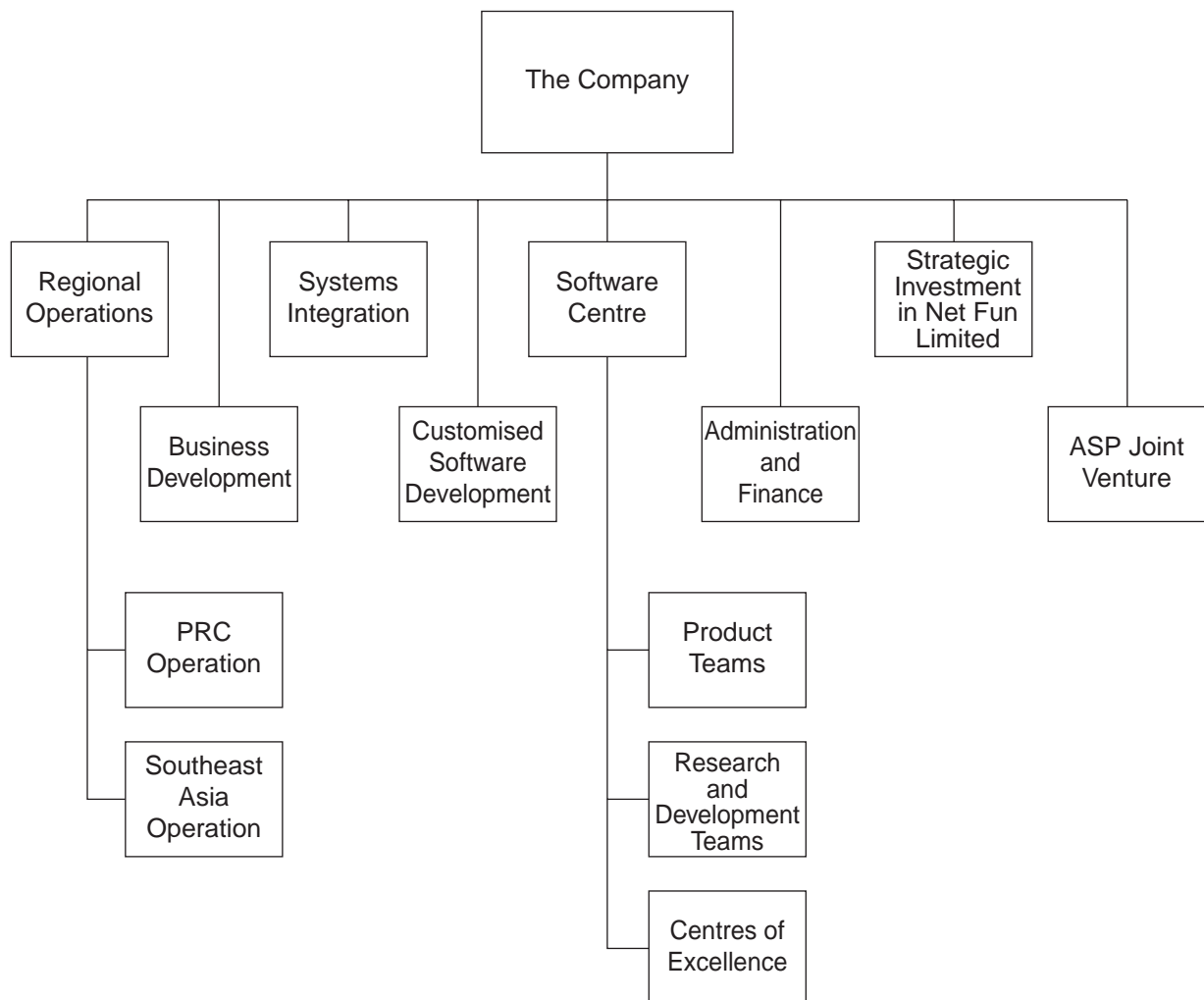
Additional Convertible Note

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:



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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.

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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 targetting 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.

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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.

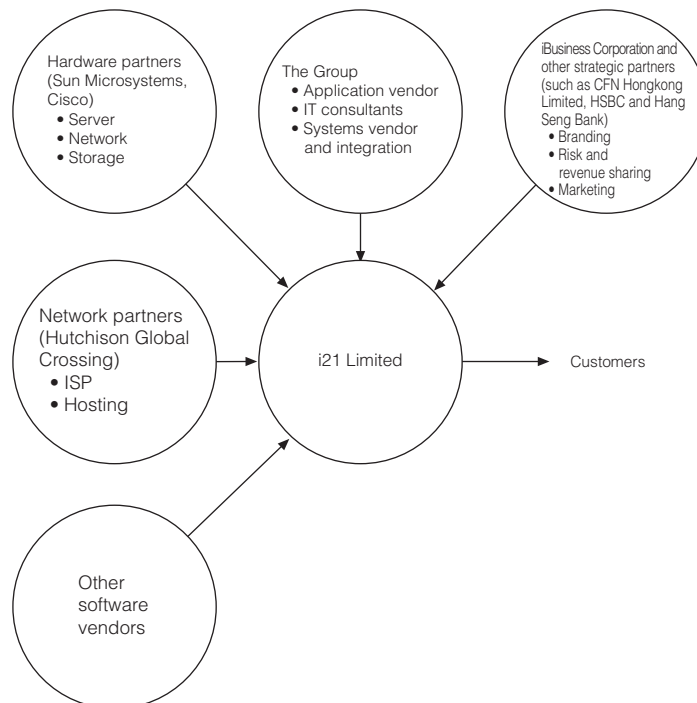
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Strategic alliances

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

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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.

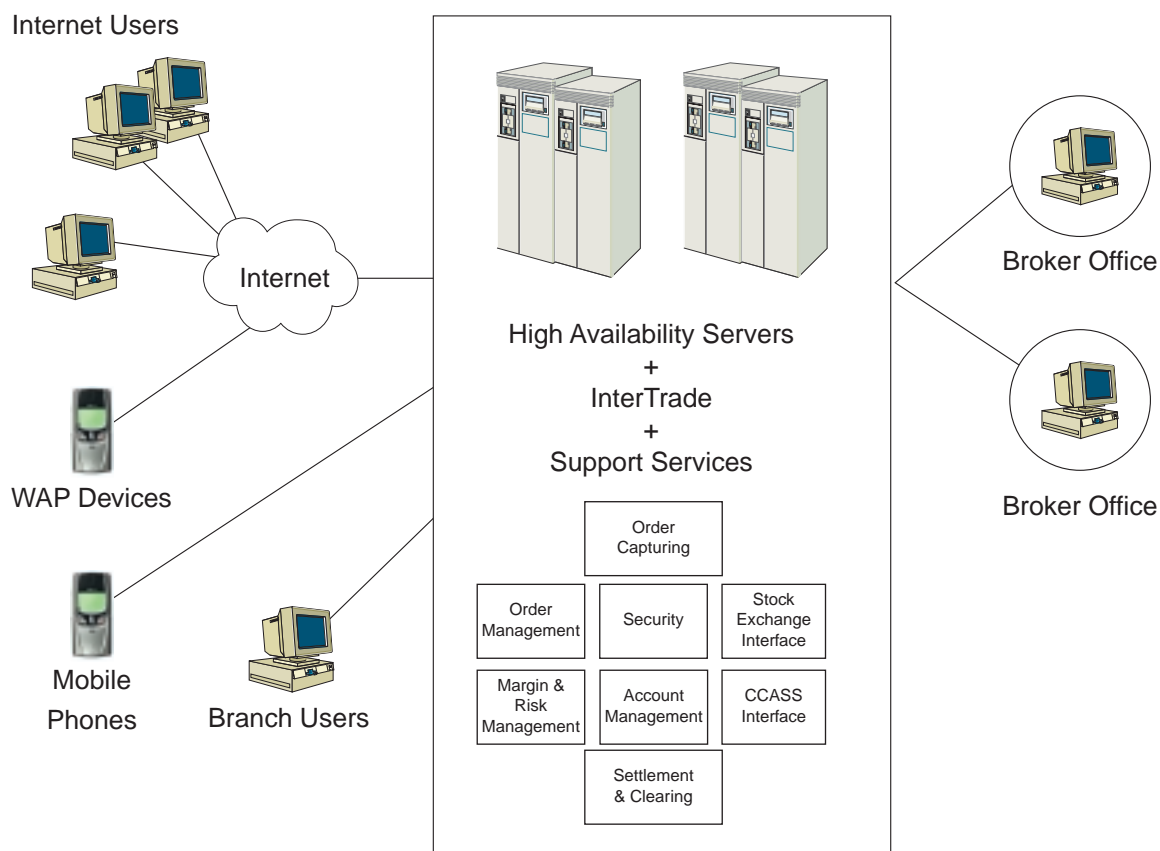
The first application implemented through the ASP Business is iStock21, which is a software application based on the Group's enterprise software InterTrade. The Directors believe iStock21 will be able to capitalise on the growth and expansion of the on-line trading of securities and the opportunities 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.

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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.

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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.

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- (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.

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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.

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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

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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.

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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;

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- 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.

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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.

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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.

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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

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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).