
INDUSTRY OVERVIEW

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Enterprise Software Market

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

Worldwide market

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

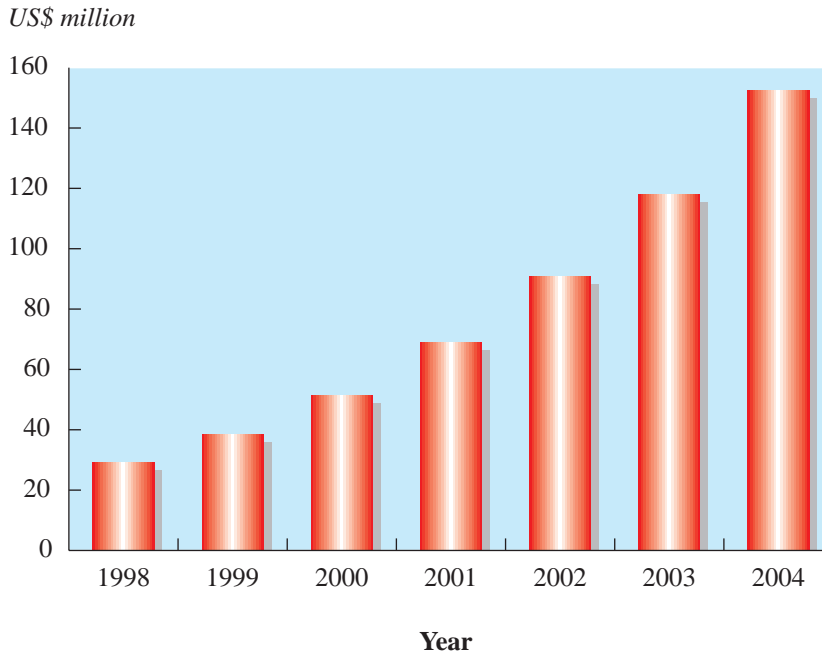
The PRC market

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

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

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



Source: IDC, 2000

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

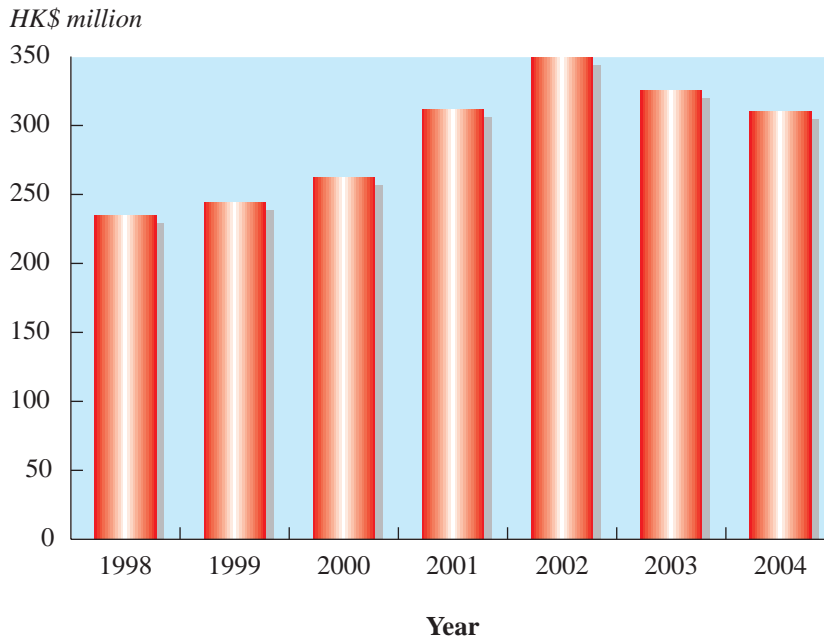
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Hong Kong market

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

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

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



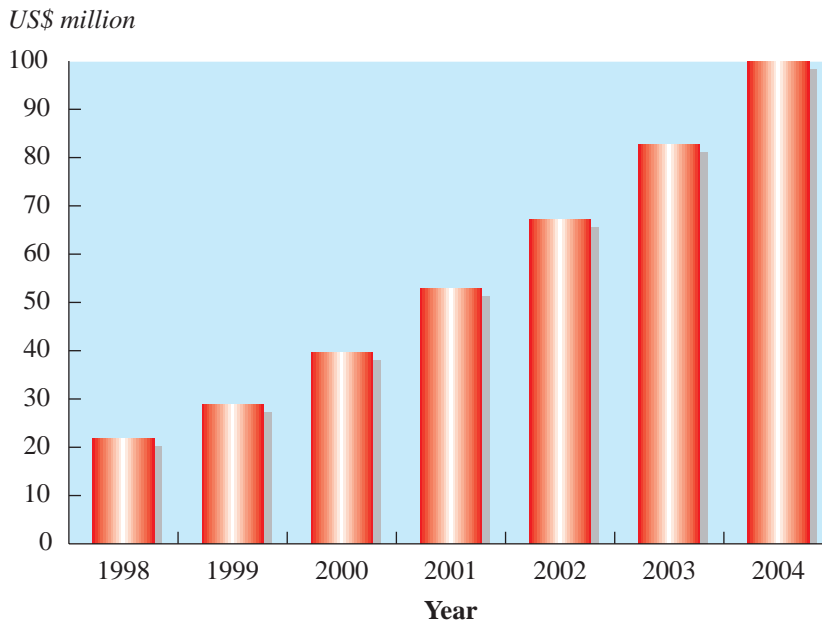
Source: IDC, 2000

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Taiwan market

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

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



Source: IDC, 2000

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

THE INTERNET

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

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

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

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

ASP BUSINESS

Business Model

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

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

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

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

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

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

Technology Brief

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

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

Potential of the ASP Market

Worldwide

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

- Shorter application cycles - These shorter cycles are resulting in technology indigestion. By the time companies get their systems implemented and tested, they find the next release is on the horizon;
- The Internet - The prevalent use of the Internet highlights the importance of time-to-market and scalable IT infrastructures;
- Demand for skilled IT staff - IT personnel are demanding higher salaries, state-of-the-art projects, and rewarding work environments — criteria that application maintenance projects cannot always deliver; and
- Network improvements - Better desktop and reporting tools, intuitive user interfaces, and select application templates that support the ASP offerings blend the best of remotely managed shared environments and locally managed individual environments.