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## INDUSTRY OVERVIEW

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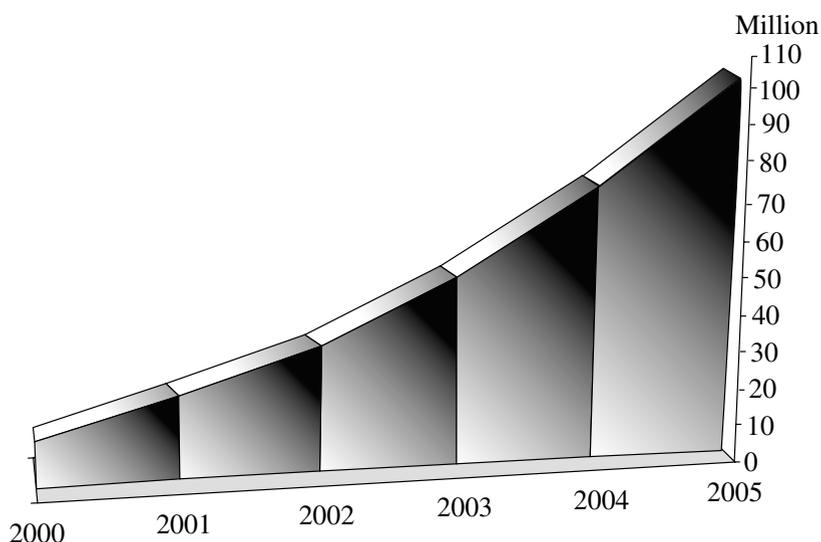
### THE INTERNET

The Internet is a global network of interconnected, separately administered public and private computer networks that enables commercial organisations, educational institutions, government agencies and individuals to communicate, access and share information, provide entertainment and conduct business remotely.

The Internet is changing the lives of individuals, as it has made a lot of information more accessible. The Internet is in fact fundamentally changing the way people communicate and live. This development has increasingly led businesses to explore opportunities of providing Internet-based applications and services both within their own organisations and also to customers and business partners.

### Internet in the PRC

**Internet users in the PRC**



Source: International Data Corporation ("IDC"), February 2001

Since the PRC introduced the Internet, the sector has witnessed a remarkable development. According to IDC, a global market research company, of the 1.3 billion population in the PRC, there were over 27.3 million Internet users, the third-highest number in the world. IDC estimates that this number will increase to more than 100 million by 2005, thus laying a solid foundation for the development of e-commerce in the country. Such growth is expected to be further supported by the PRC government's concerted effort to upgrade and modernise the existing telecom infrastructure. The Directors believe that the increasing population of Internet users in the PRC and its improving economic environment constitute a large potential market and hence a bright future for PRC's e-commerce development.

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The legal framework with respect to the Internet in the PRC is still developing. The PRC government adopts a system whereby only providers with approval or permission from the relevant government authorities are permitted to provide those Internet-related services.

### **E-COMMERCE**

The Internet is creating a method of facilitating completion of transactions between business parties on the Internet. This is categorised as e-commerce. The buyer can collect information, make orders and settle invoices online simply by “clicking” buttons and/or sending electronic messages. The process can significantly increase the efficiency of transacting business. The seller also can reach the global audience with reduced overheads, lower promotion expenses and greater economies of scale.

According to IDC, the worldwide B2C e-commerce market amounted to approximately US\$71.6 billion in 2000 and will reach approximately US\$706 billion by 2005. IDC estimated, however, that the worldwide B2B e-commerce market amounted to approximately US\$282 billion in 2000 and forecast that it would reach approximately US\$4.3 trillion by 2005.

IDC also estimated that the total e-commerce revenue from the Asia Pacific region in 2000 amounted to approximately US\$18.4 billion and forecast that it will reach approximately US\$599 billion in 2005, representing a compound annual growth rate of approximately 100.7%.

### **E-commerce in the PRC**

IDC estimated that the PRC e-commerce revenue totalled US\$2.2 billion in 2000, and projected that by 2005, the PRC e-commerce revenue would grow to approximately US\$150 billion, representing a compound annual growth rate of approximately 132.7%. B2C transactions in the PRC for the year 2000 amounted to approximately US\$522 million. This is forecast to reach approximately US\$16.9 billion in 2005, representing a compound annual growth rate of approximately 100.4%. Furthermore, B2B transactions in the PRC for the year 2000 amounted to approximately US\$1.6 billion and these are expected to reach approximately US\$133 billion in 2005, representing a compound annual growth rate of approximately 142.1%.

In addition, according to a survey published on CCIDnet.com in 2000, approximately two-thirds of the Internet population in the PRC have engaged in online e-commerce transactions and are generally concerned with online settlement and logistics issues. The Directors believe that these issues are the two major factors impeding the development of the PRC e-commerce market and thus provide organisations such as the Group with tremendous business opportunities.

It was reported recently that the PRC is investing heavily in information infrastructure construction to remove bottlenecks in e-commerce development. The Directors believe that enormous investment in establishing the underground fibre-optic network and the satellite system will do much to help create an economically efficient e-commerce market in the PRC, which will in turn constitute a major driving force in the economic development of the PRC.

### **PAYMENT SOLUTIONS IN THE PRC**

In order to accept cards from multiple banks, enterprises were required to connect to each individual bank’s payment system. This is costly, time-consuming and requires enormous effort. The recent developments in payment technologies have, however, enabled customers in the PRC to choose from a variety of bank card payment options offered at a single site using a single payment gateway.

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With these advances in technology together with the developments in the inter-region, inter-bank ATM cash withdrawal systems, and the point-of-sale purchasing and inter-bank settlement functions, which facilitate online inter-bank and inter-regional transactions, online shopping in the PRC has become more convenient in recent years. Further, connections made with ATM and point-of-sale machines as well as international organisations such as VISA and MasterCard have provided the means for cross-bank point-of-sale and ATM transactions. The interlinking of regional banks also enabled payment card transactions to reach almost 10% of the PRC's total retail sales in 1999. By August 2000, over 350,000 enterprises and 130,000 banking outlets were linked to regional card centers, with 27,000 ATMs and 240,000 point-of-sale terminals adapted for compatibility at both the city and provincial level. The Directors believe that, given the fact that the current connection between banks in the PRC is relatively scattered and that it would be costly for enterprises to build connections with each payment service provider, the demand for well connected payment gateways should be immense.

A recent survey by the China Ministry of Information Industry also indicates that although Internet users are concerned about the security of e-commerce, the outlook for the e-commerce market in the PRC is in fact positive. The majority of the respondents surveyed showed themselves willing to purchase online in the future. The PRC has at the moment more than 600 online shops, accounting for 60% of the total number of PRC-related e-commerce websites. Most of these online shops serve consumers in large cities such as Beijing, Shanghai and Guangzhou. The emergence of mobile devices and alternative access devices is also moving the domain of e-commerce beyond the desktop and creating the need for alternative means of payment. Further, the People's Bank of China and 11 commercial banks have also jointly established a financial authentication system in their efforts to ensure safe online trade and payment. The Directors conclude that, in view of the present progress, the general acceptance of the payment technologies, and the size of population equipped with Internet access and bank cards, the business of online payment services provision has enormous potential.

### LOGISTICS SOLUTIONS

Logistics is defined as the broad range of activities concerned with effective and efficient movement of semi-finished/finished goods from one business to another and from manufacturers/distributors/retailers to the end customers. The activities include freight transportation, warehousing, material handling, protective packaging, inventory control, order processing, marketing and customer service. The logistics market is enormous. It amounts to 10% to 15% of value of every product produced and is estimated to be at approximately US\$2 trillion worldwide.

One of the reasons for the development of the logistics market is the Internet, which has fueled the growth of e-commerce and has revolutionised the front-end systems of order placement, sales, and marketing. Fast and easy ordering of customised goods over the Internet has raised the expectations of fast, reliable and convenient delivery among customers. Furthermore, the Internet and the emergence of the e-marketplace has had a widespread impact on supply chain execution by offering easy and convenient access to business partners across the world.

In addition, the growth of e-commerce activities worldwide, which is facilitating increased outsourcing of logistical functions and the growth of third party logistics, has provided the greatest opportunities for the logistics industry today. The logistics market relating to e-commerce in 2000 was around US\$42 billion and is expected to increase to around US\$274 billion in 2004, with third party outsourced expenditures of approximately US\$11.8 billion in 2000 rising to approximately US\$150 billion in 2004, representing a compound annual growth rate of more than 70%. Such

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growth in outsourcing and third party logistics has been supported by Internet companies which wish to acquire fulfillment capabilities with minimal time and money investment, and also by traditional manufacturing companies which wish to cut down on expenditure on non-core activities.

Given the rapid pace of change in business paradigms and the potential of the e-commerce related logistics market, the Directors consider that the implications and the emerging trends of logistics solutions are critical for logistics companies to benefit fully from the new opportunities. Moreover, the emerging Internet technologies will soon be playing a pivotal role in driving growth and the transformation of logistics companies into new economy firms.

### **Logistics market in the PRC**

The logistics market in the PRC has recently started and already plays an important role in the development of the PRC e-commerce market, as such services are important tools for enterprises in reducing costs and increasing their competitive edge. As the research conducted by Andersen Consulting at the end of 1999 shows, approximately 40% of the Internet users surveyed perceived fulfillment to be a concern and also that the associated costs might be excessively high. As compared to countries with more advanced technology such as the United States, the Directors believe that, although the quality of logistics related services in the PRC still has plenty of room to improve, its growth potential is nevertheless substantial.

In addition to the above, in line with the PRC government policy of opening the distribution sector to the outside world, foreign investors are encouraged to invest in logistics facilities in the PRC. Such encouragement and support to logistics services and commodity distribution provided by the PRC government are aimed at speeding up the reform and modernisation of the circulation system. This, the Directors believe, will in turn create a huge demand for logistics enterprise solutions throughout the PRC.

### **The PRC's entry into the WTO**

The PRC entered into an agreement with the United States in November 1999 and with the European Union in May 2000 regarding the entry of the PRC into the WTO and has accordingly agreed to lift the ban on foreign investment in the Internet.

To this end, the PRC's WTO accession will certainly attract more foreign investment to the region. For large enterprises and multinational companies establishing their production bases in the PRC and developing their own distribution networks, the establishment and smooth operation of a logistics system is indispensable. Along with the relaxation of the PRC's restrictions on distribution, the demand for better logistics services is clearly set to increase. Further opening up of the market can be expected and this will create a host of opportunities for logistics enterprises providing third parties' logistics services in the PRC.

It is expected that the PRC's entry into the WTO will do much to boost domestic and foreign trade and commerce. The boost provided by the PRC's entry into the WTO, along with the swift development of e-commerce, will also expedite the growth of modern logistics services. At present, most Internet companies rely on courier and postal services to make their deliveries. This simply cannot meet the demand of e-commerce for logistics services. The growth in e-commerce should open up vast areas for the development of logistics services.