



Global Information Industry Summit

9-11 September 2008 • Royal Garden Hotel • London

Regulatory, Economic, Socio-cultural & Technology Factors Impacting Content Businesses in China

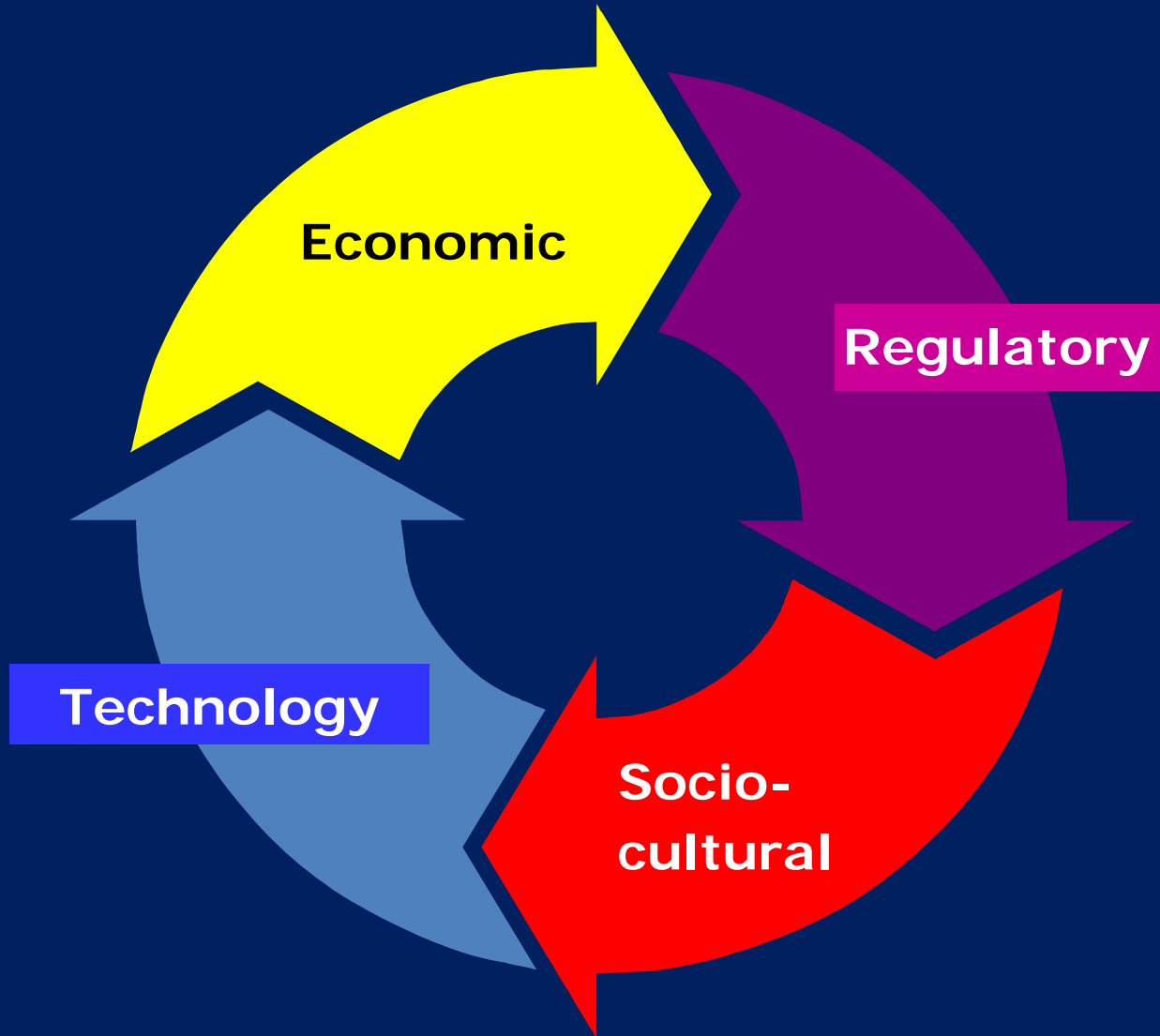
Joachim C. Bartels

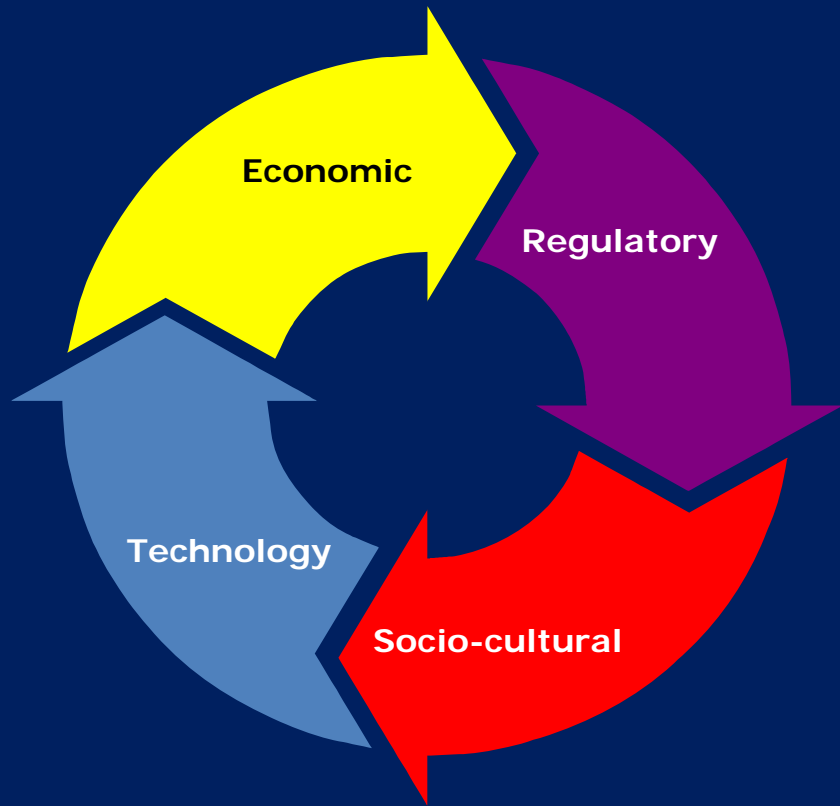
Founder and CEO of Intrepid Explorers, Inc.

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China Session SIIA GIIS 2008



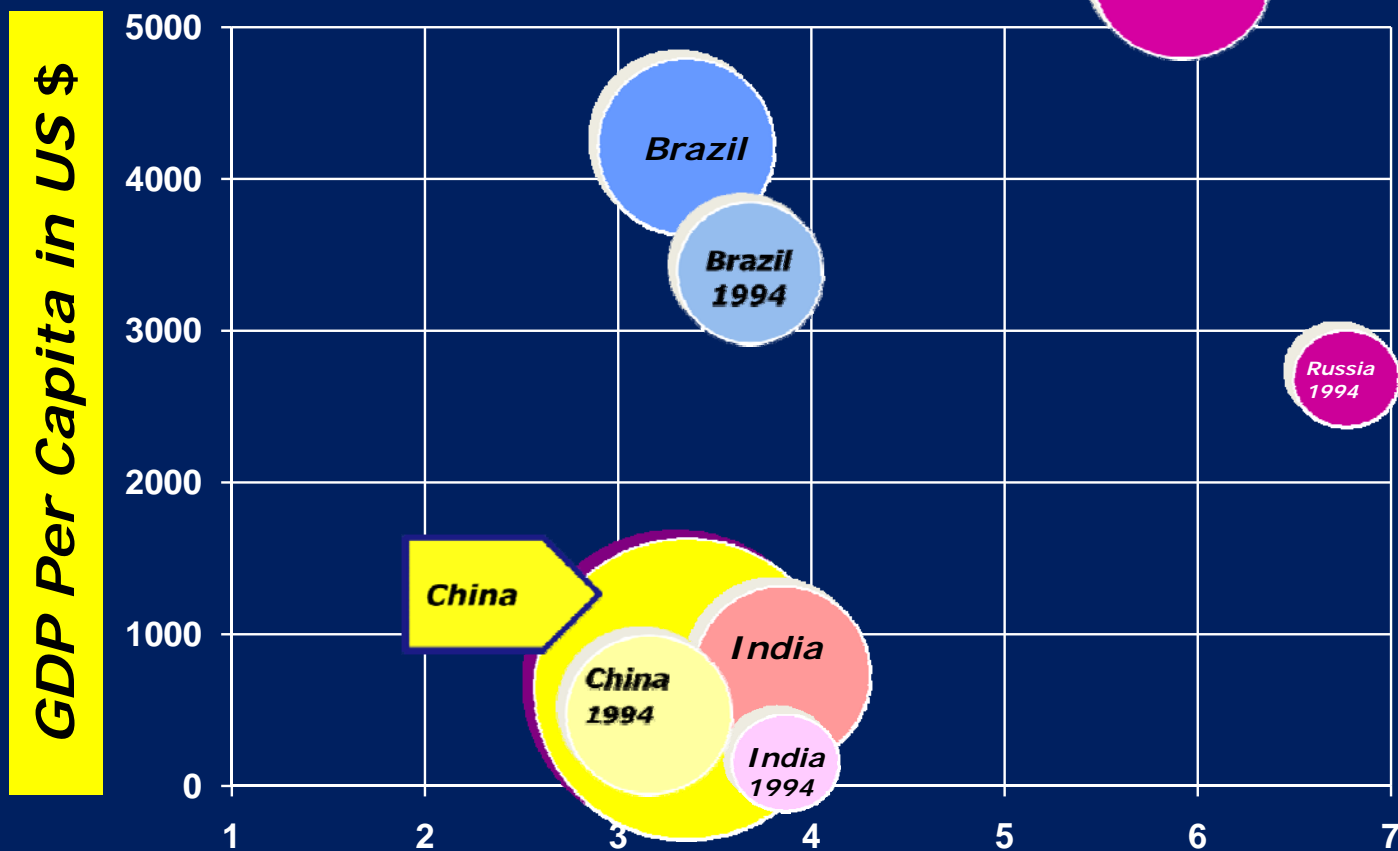


- *Economic Growth & Information: Example 1*
- *The Lure of B2B Digital Media: Example 2*
- *Ease of Doing Business*
- *The Brick Walls of China*
- *Technology: China & India*

Opportunity & Risk



BRIC COUNTRIES COMPARISON



(Approximate)

Country Risk Indicator

Scale: GDP

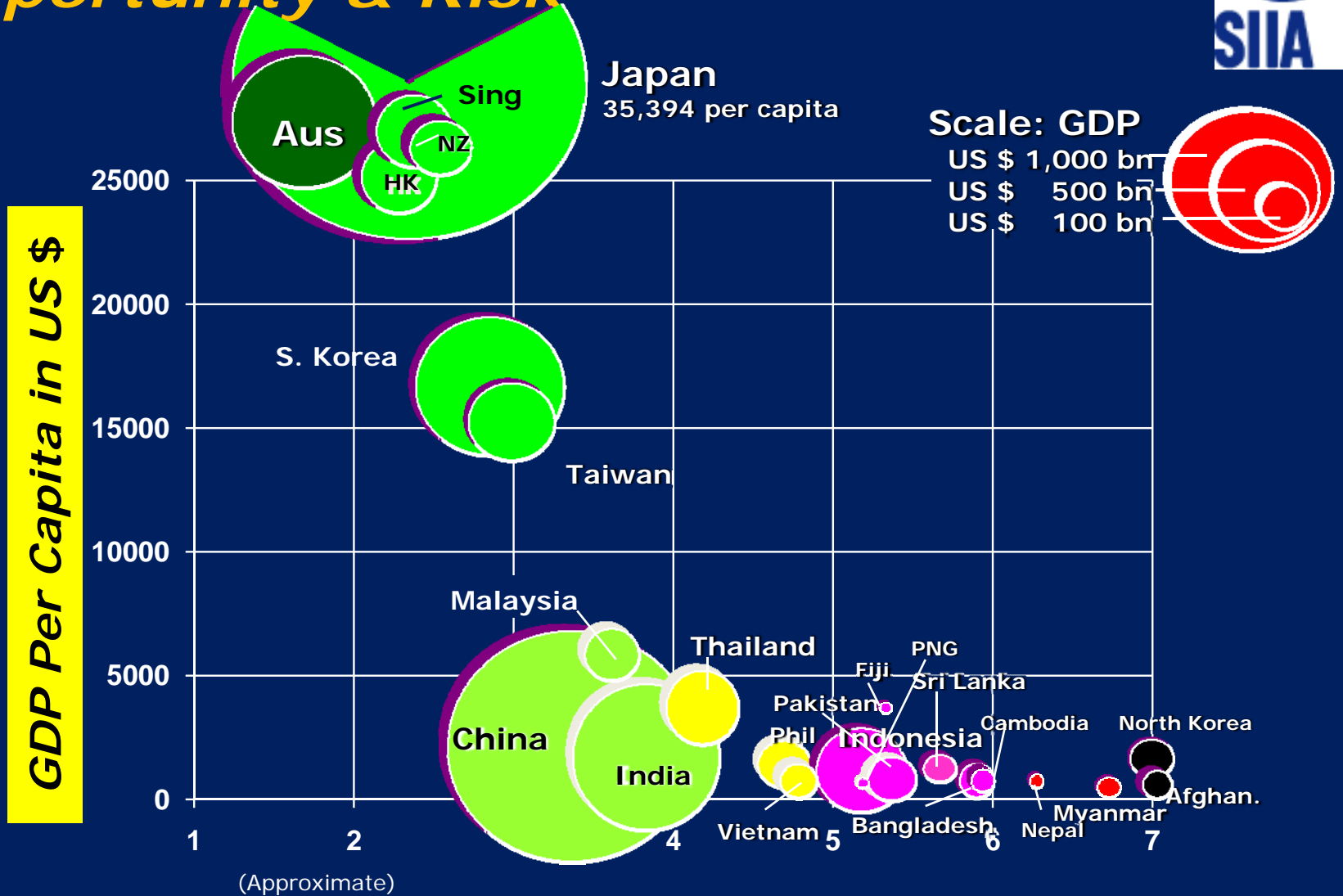
US \$ 1,000 bn

US \$ 500 bn

US \$ 100 bn



Opportunity & Risk



Country Risk Indicator

Sources:
 GDP Data: Economist 2008 Edition
 Country Risk Data: D&B IRPR
 March 2008

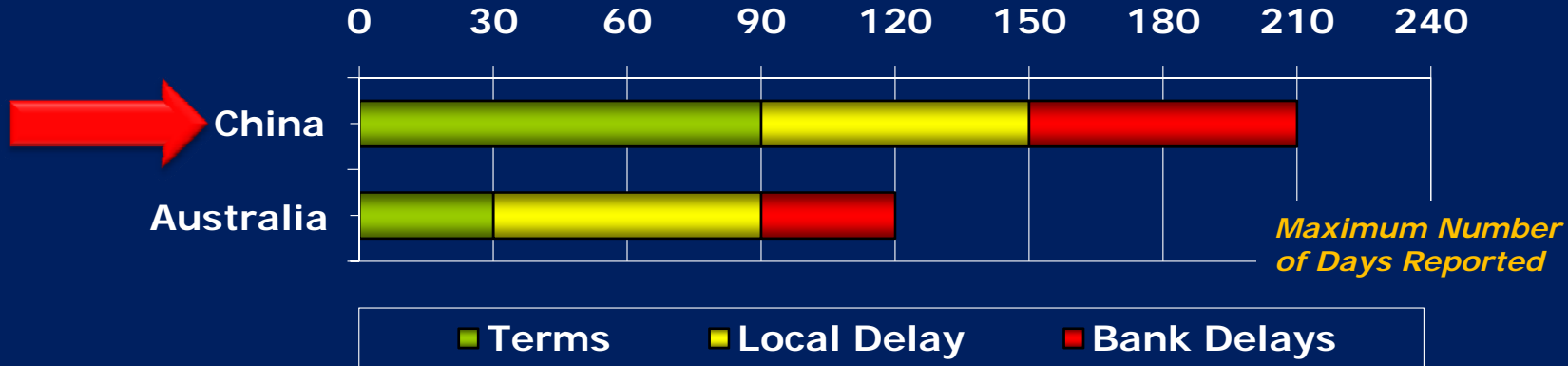


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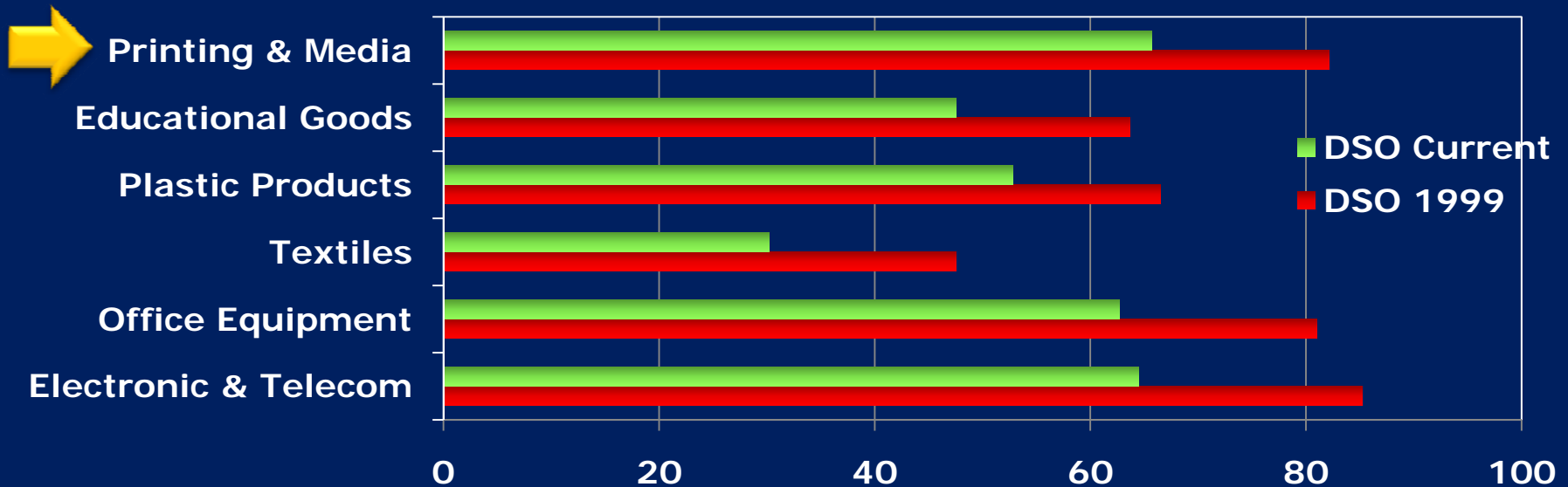
PAYMENT DELAYS IMPACT WORKING CAPITAL



External



Internal

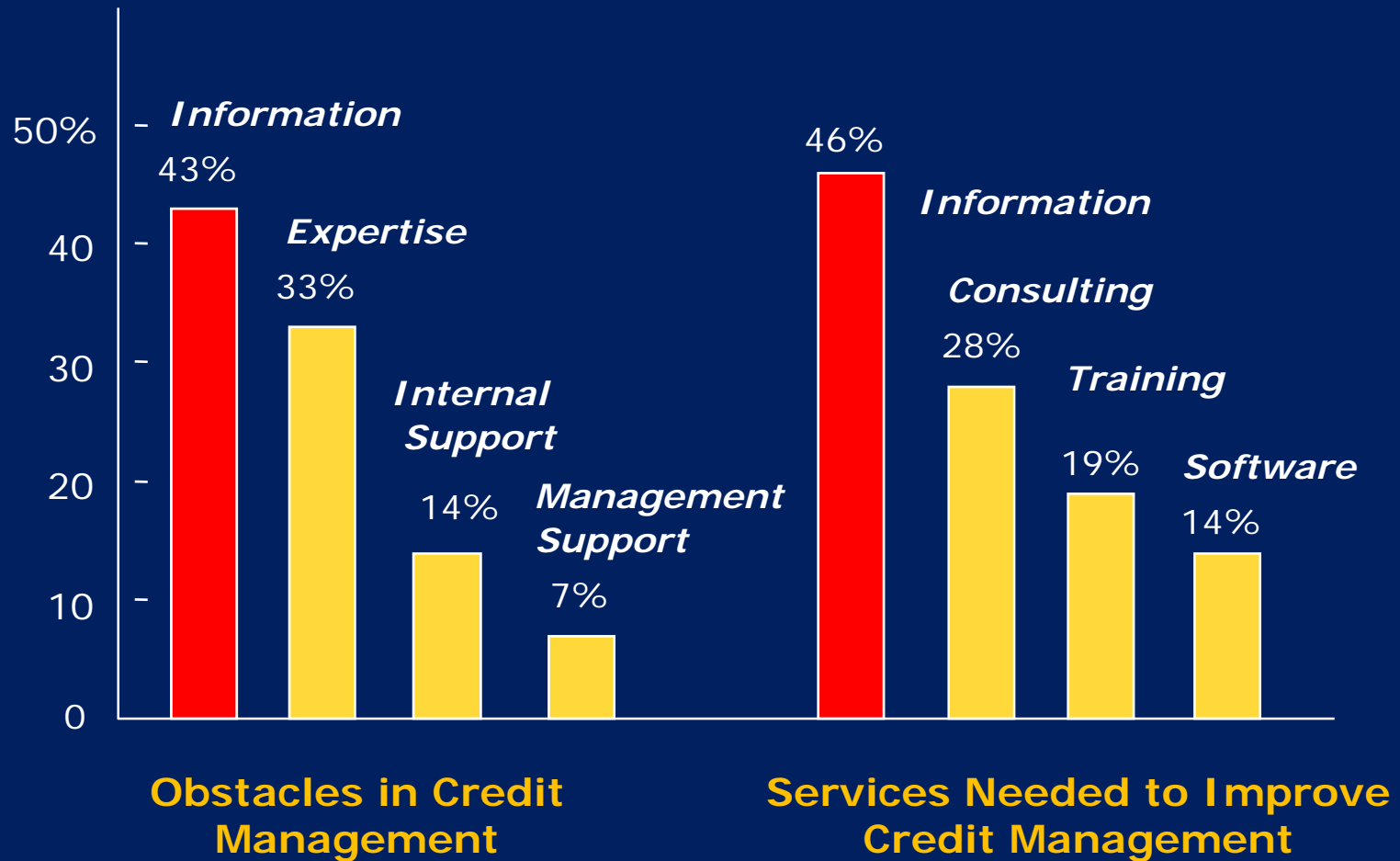


Source: D&B International Risk & Payment Review June 2008 www.dnbcountryrisk.com

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MAJOR BARRIERS TO EXTENSION OF CREDIT



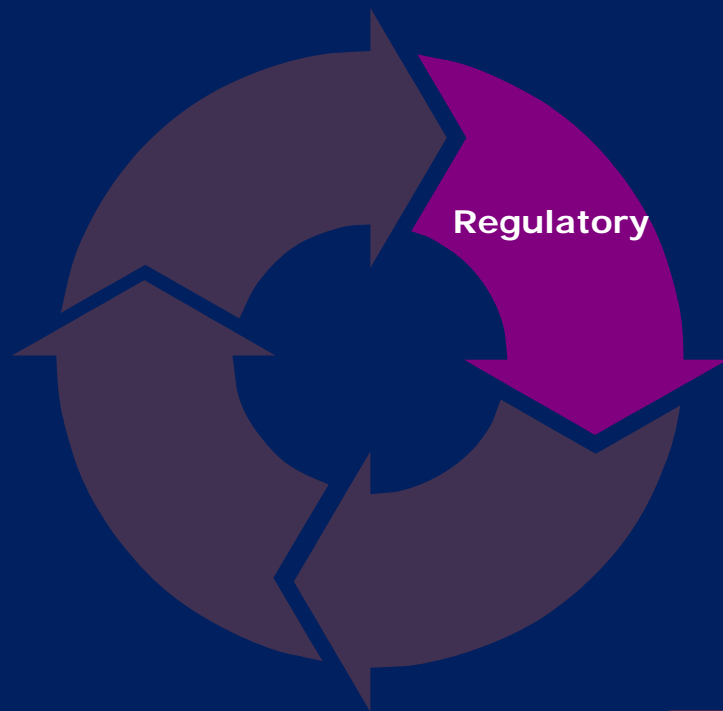
Source: D&B China Domestic Customer Survey, October 2005



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CREDIT & INFORMATION



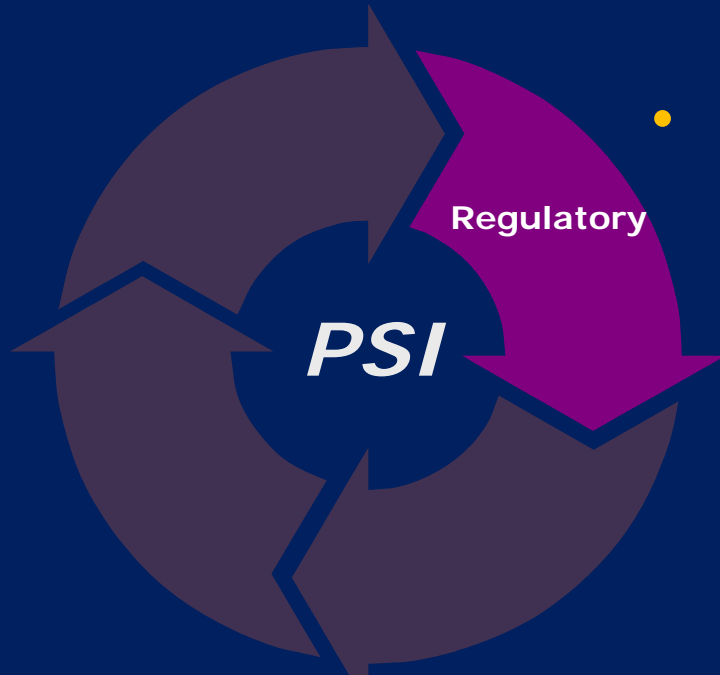
- *Imperfect PSI **
 - *Access & Quality*
- *Lack of Disclosure*
- *Pooling of Bank Information off-Limits to Private Sector*



- *No Access to Bank Information (Credit Performance) for:*
 - *Private Sector Information Companies*
 - *Private Sector Trade Credit Grantors*

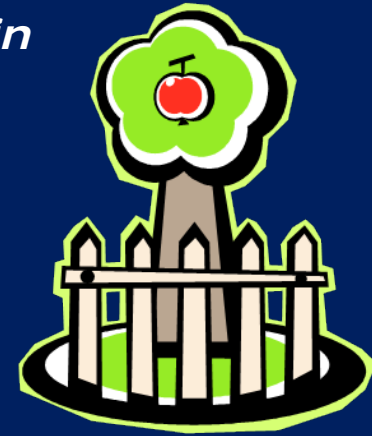
** Public Sector Information*

PUBLIC OR PRIVATE SECTOR



- **Administrator's Point of View**

- *Government Domain*
- *Government Involvement in Value Added*
- *"Plenty of Fruit to Share"*



- **Information Provider's Point of View**

- *Full Access and Reuse of PSI*
- *Participation in Information Pooling*
- *Private Sector Involvement in Value Added*



MIND SETS & ATTITUDES



- **Imperfect PSI**

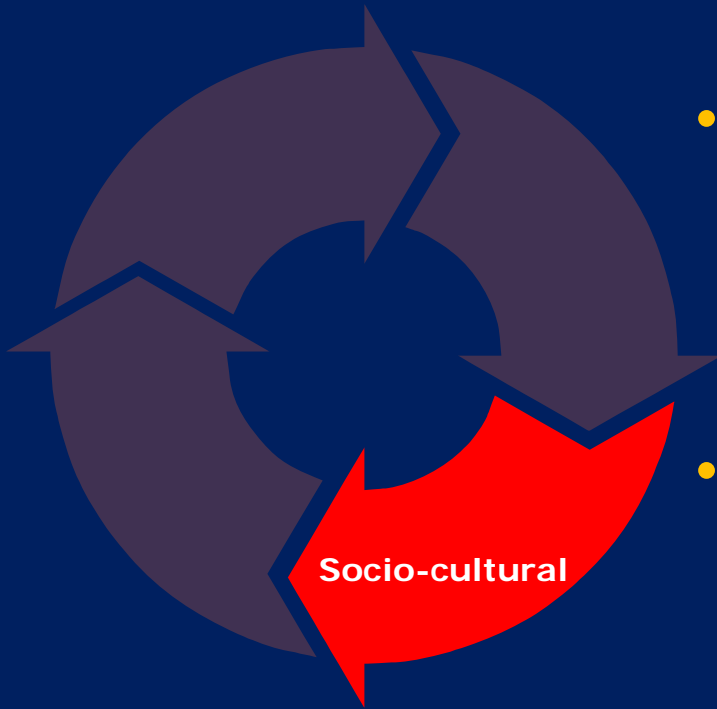
- *Conversion to Market Principles*
- *Government to Control End Use*

- **Lack of Disclosure**

- *Information is Secret*
- *Emergence of a Credit Culture*
- *Third Party Involvement in Credit Transaction not Customary*

- **Users of Information**

- *Strategic Importance of Information in Business Transactions not yet fully Recognized*

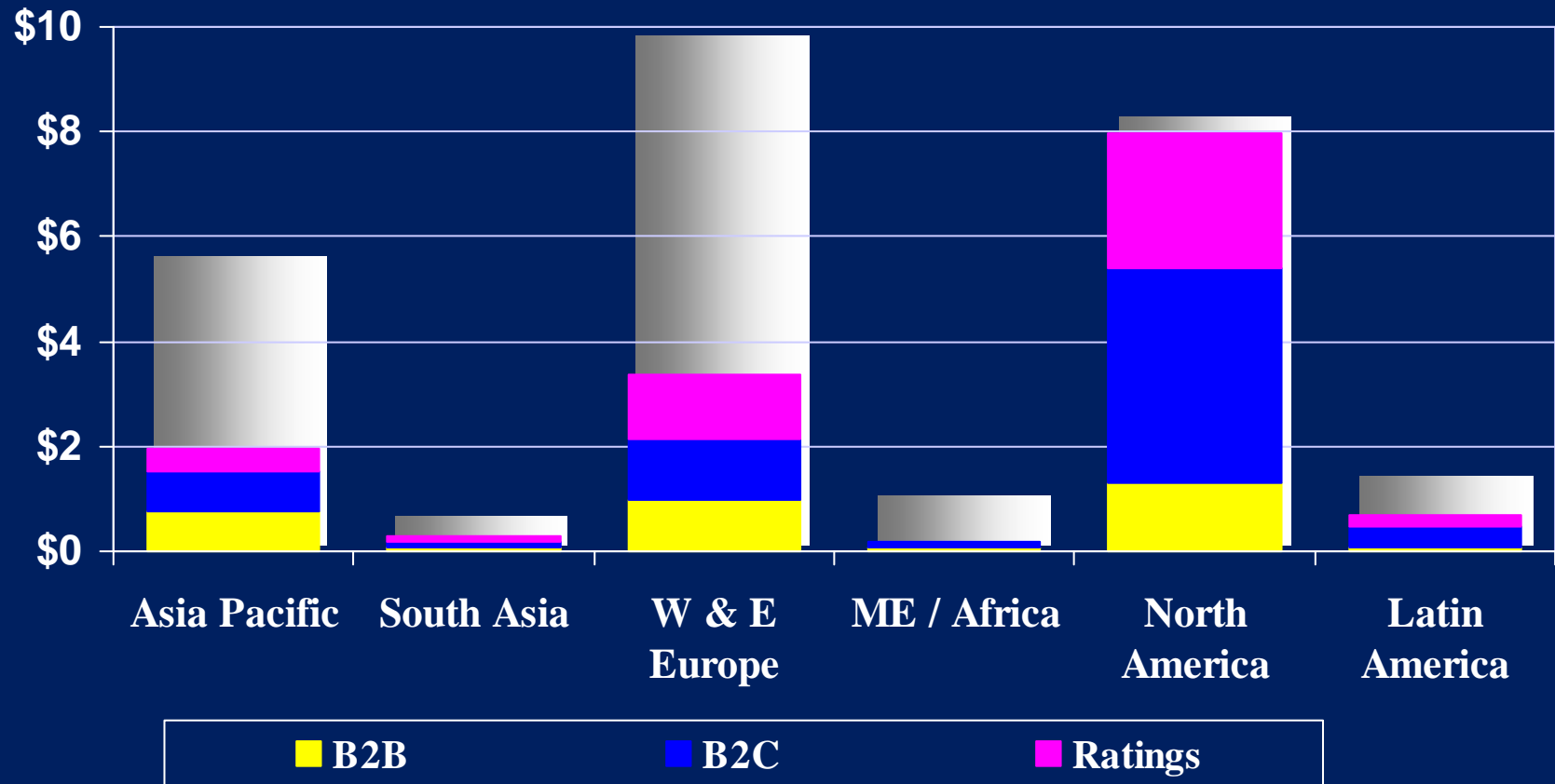


ASYMMETRIES IN INFORMATION



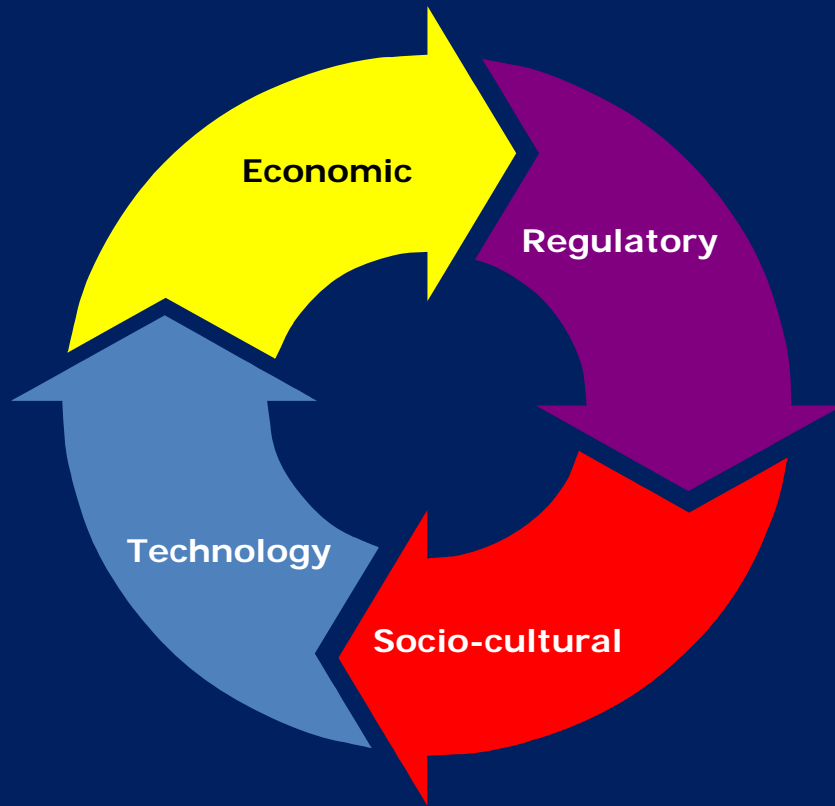
Projected Consumption Based on GDP – US\$ 25bn – 30bn
(Benchmark North America)

US\$ bn



Source: BIIA – World Bank Survey 2006



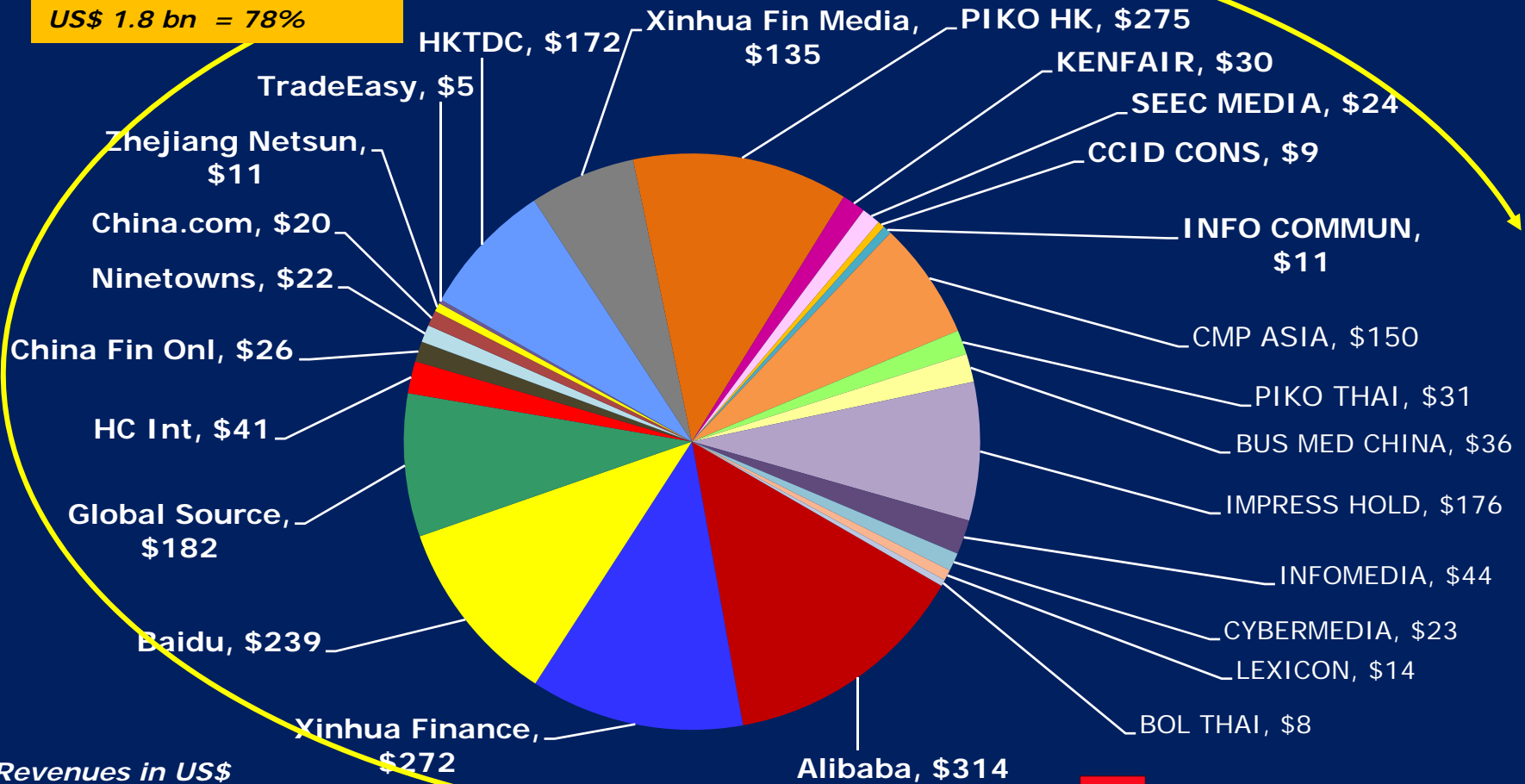


- *Economic Growth & Information: Example 1*
- *The Lure of B2B Digital Media: Example 2*

25 LARGEST LISTED B2B MEDIA COMPANIES IN ASIA



Total: US\$ 2.2 bn
China & HK Based:
US\$ 1.8 bn = 78%



Revenues in US\$ Millions

Source: Business Strategies Group, Hong Kong www.bsgasia.com



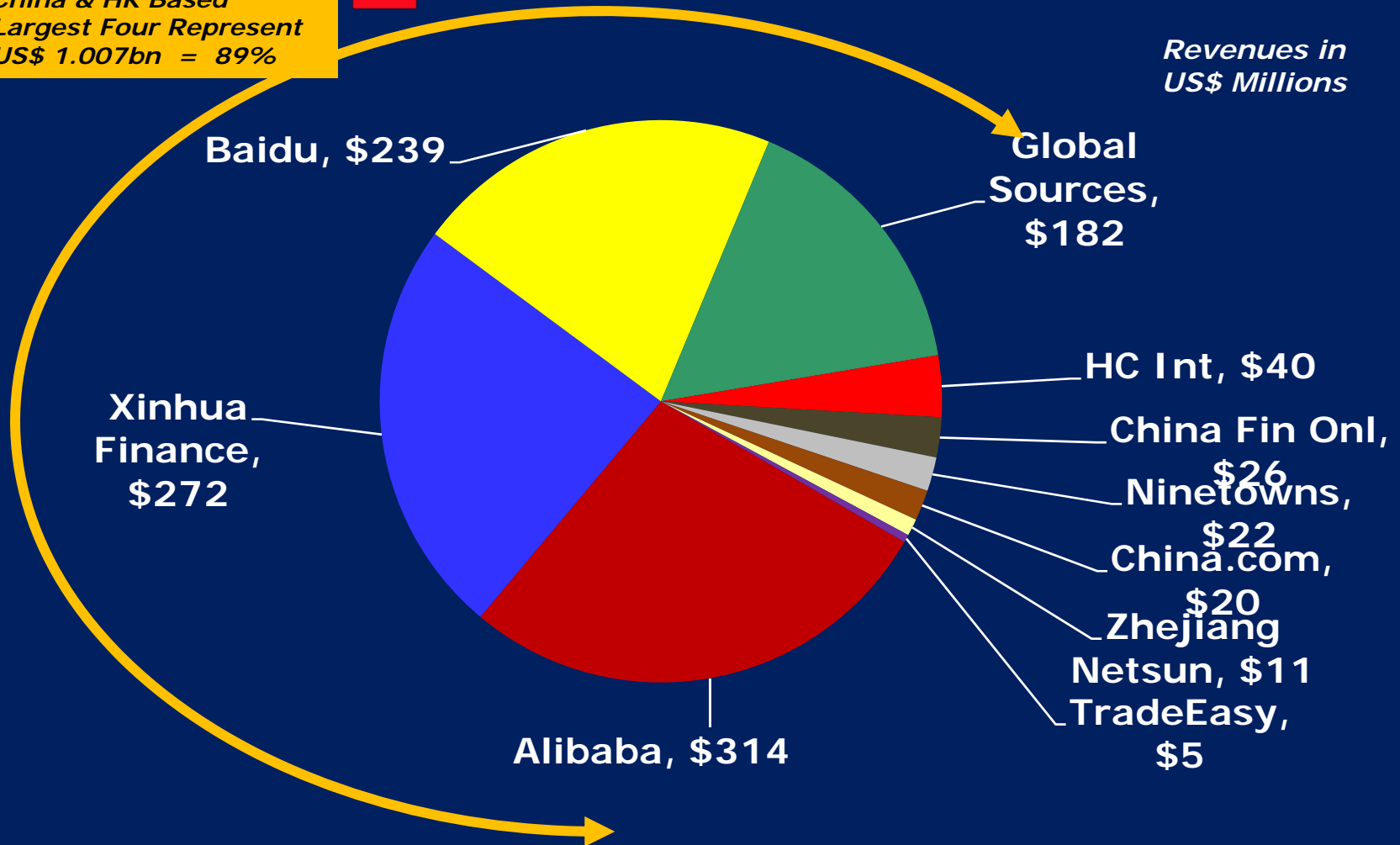
THE LURE OF B2B ONLINE MEDIA



Total: US\$ 1.131bn
China & HK Based
Largest Four Represent
US\$ 1.007bn = 89%



Revenues in US\$ Millions



Source: Business Strategies Group, Hong Kong www.bsgasia.com

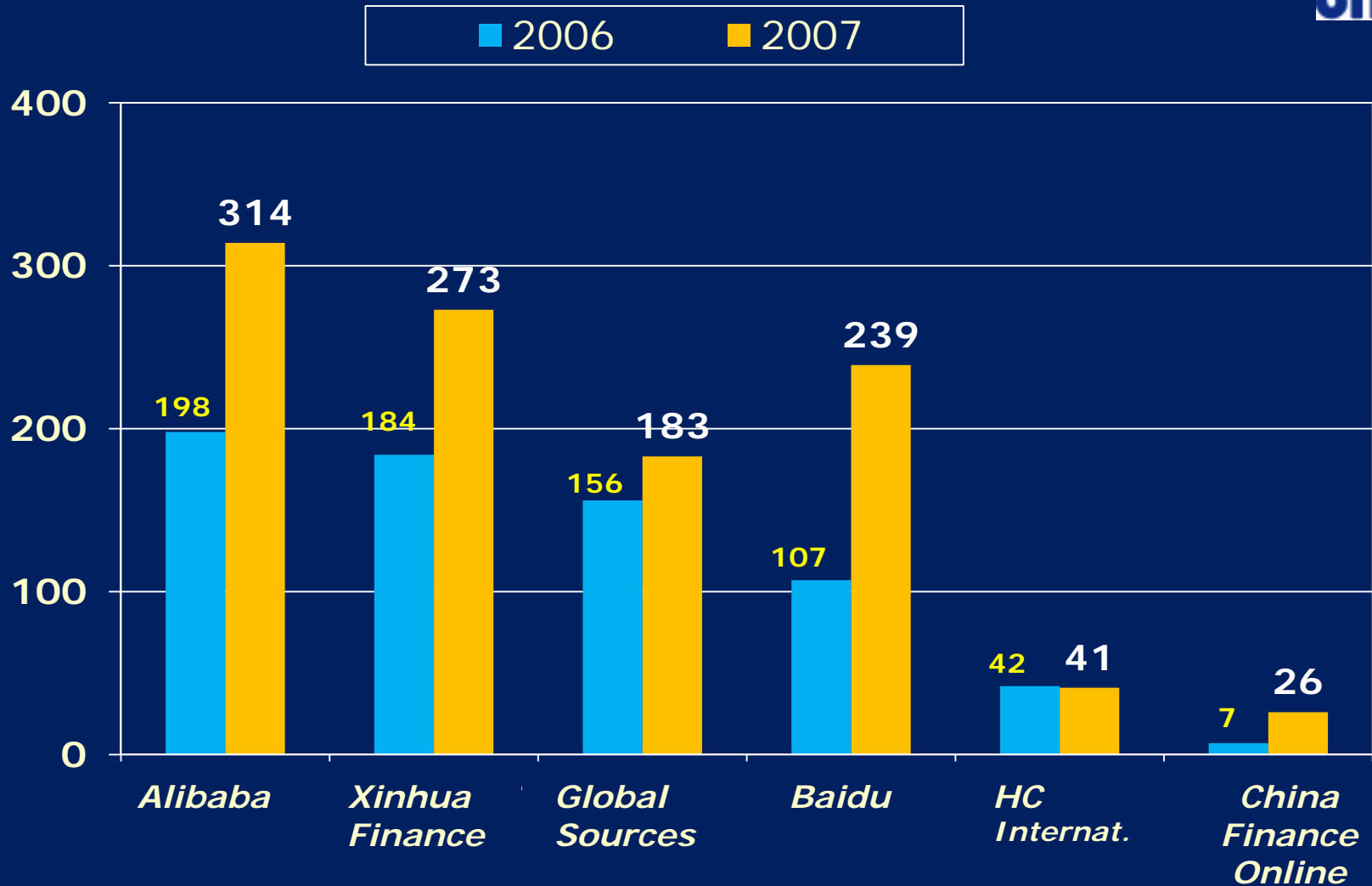
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THE LURE OF B2B ONLINE MEDIA

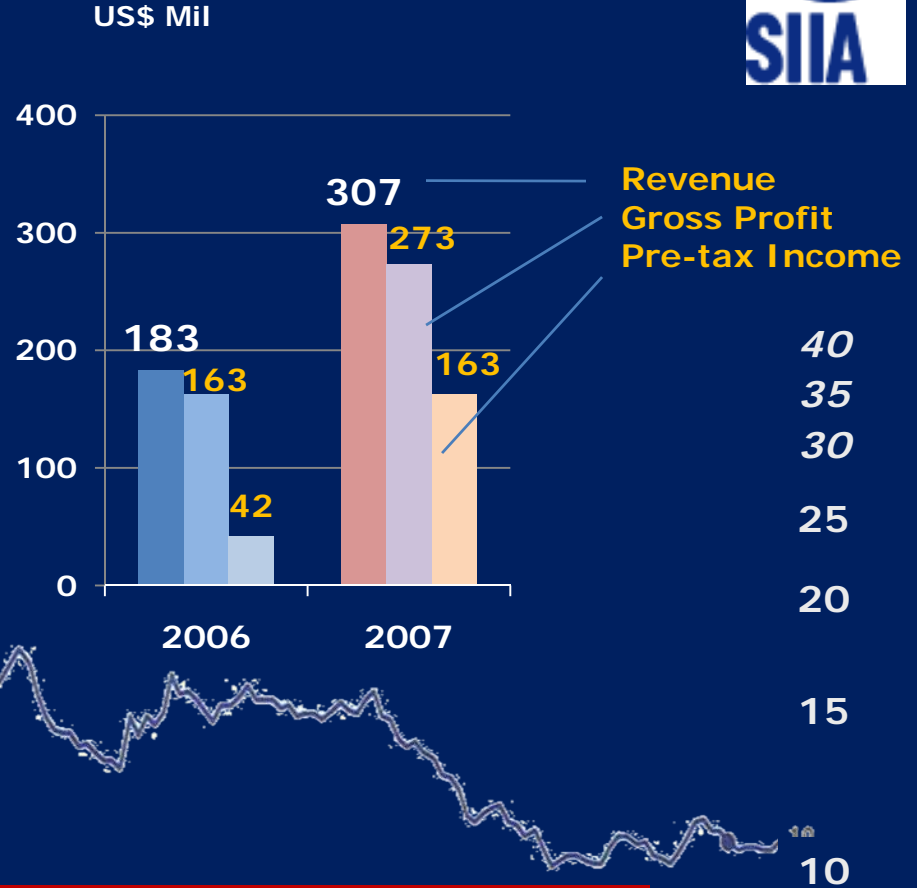
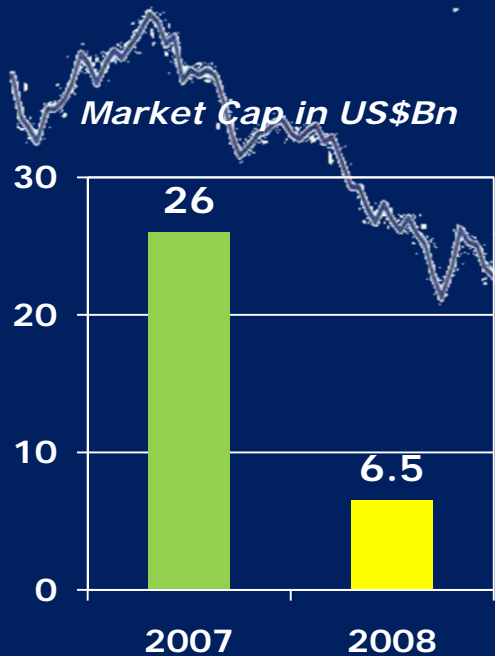


Source: Business Strategies Group, Hong Kong B2B Online Media Report April 2008 - www.bsgasia.com



Alibaba.com

Ecstasy and Reality



**Opened with P/E Ratio of 300
September 8th, 2008 P/E 42.2**

© 2006 Yahoo! Inc

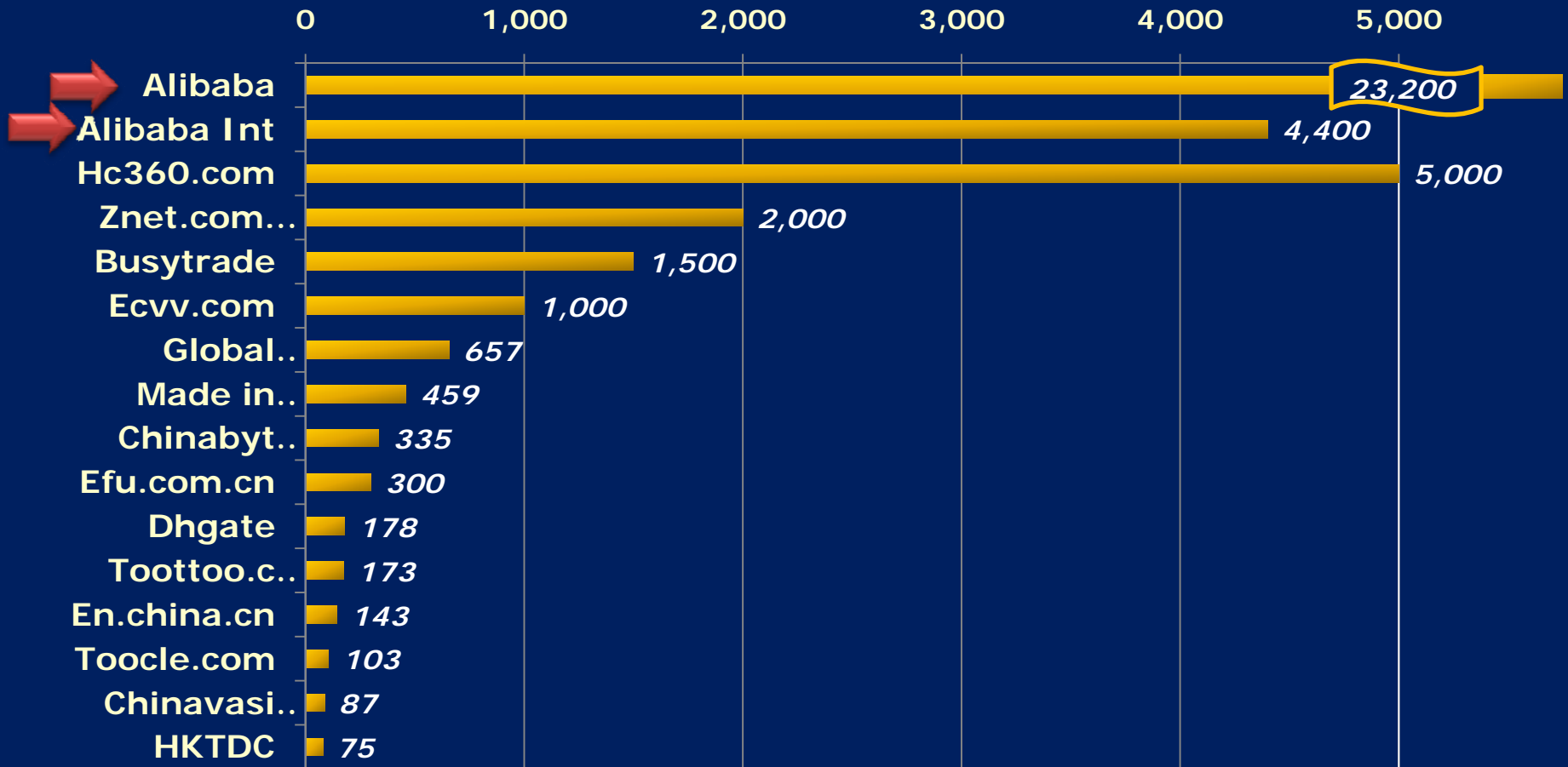
Nov Dec 2008 Feb Mar Apr May June July Aug



THE LURE OF B2B ONLINE MEDIA



Claimed Users (000)



Source: BSG Rankings www.bsgasia.com (based on Alexa.com Rankings)



Alibaba Group is one of the largest e-commerce company in China (1999)

- [Alibaba.com](#) - Alibaba.com (1688.HK) is the Alibaba Group's flagship company and the leading B2B e-commerce sourcing platform for SMEs
- [Taobao](#) - Online shopping marketplace for consumers
- [Alipay](#) - China's online payment service
- [China Yahoo!](#) - A search engine and lifestyle portal, acquired from Yahoo! Inc. in October 2005
- [Alisoft](#) - An Internet-based business management software company targeting SMEs in China
- [Alimama](#) - An online advertising exchange for web publishers and advertisers

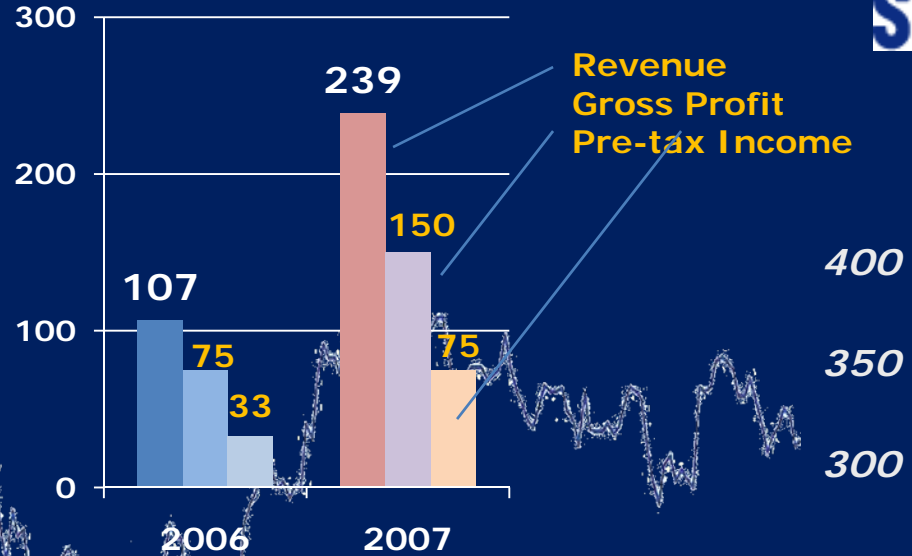
- **Ranks # 1 in Revenue**
- **Revenue Growth 59% (2006 vs. 2007)**
- **Diversification through Acquisitions**
- **Large User Base**
- **International Expansion**

BAIDU.com

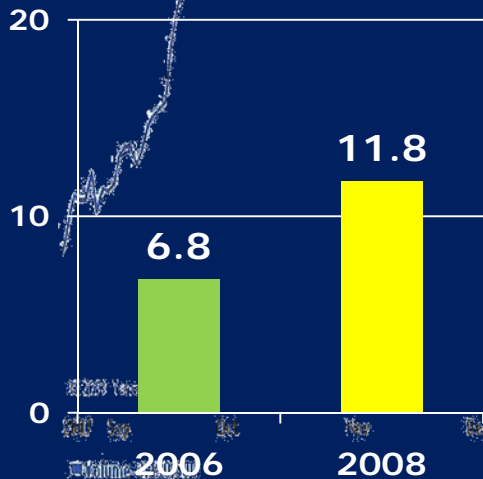
- Formed in 2000
- China's largest Chinese Language Search Engine
- NASDAQ Listing 2005
- Employs 6000



US\$ Mil



Market Cap in US\$Bn



P/E Ratio 95

Sept Oct Nov Dec 2008 Feb Mar Apr May June July Aug



BAIDU.com



- Formed in 2000
- China's largest Chinese Language Search Engine
- NASDAQ Listing 2005
- Employs 6000
- 60% Market Share (China)

Organic Growth

- Revenue Source:
 - Online Marketing Services / paid search Advertising
- Alliances
- Internal Development / Less Acquisitions
- International Expansion

- 214,000 Customers
 - Direct Sales Model

Agreements with:

- HP
- China Netcom
- Microsoft
- eBay
- EMI
- Intel

Launched Baidu Finance in 2007

- In Competition to:
 - Xinhua Finance
 - China Finance Online

- Baidu Hi
Instant Messaging Service 2008

- C2C Platform (Auctions)
Targeting Alibaba C2C
Auction Site Taobao

- Entered Japan in 2008



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Key Trends in B2B – Online Media

- *Online Sourcing: Focus on China Domestic Market*
- *Emphasis on Verification Services*
- *Vertical Sourcing Websites Potential Unclear*
- *Diversification into Content*
- *International Expansion*
- *Brand Development*

Source: Business Strategies Group, Hong Kong B2B Online Media Report April 2008 - www.bsgasia.com



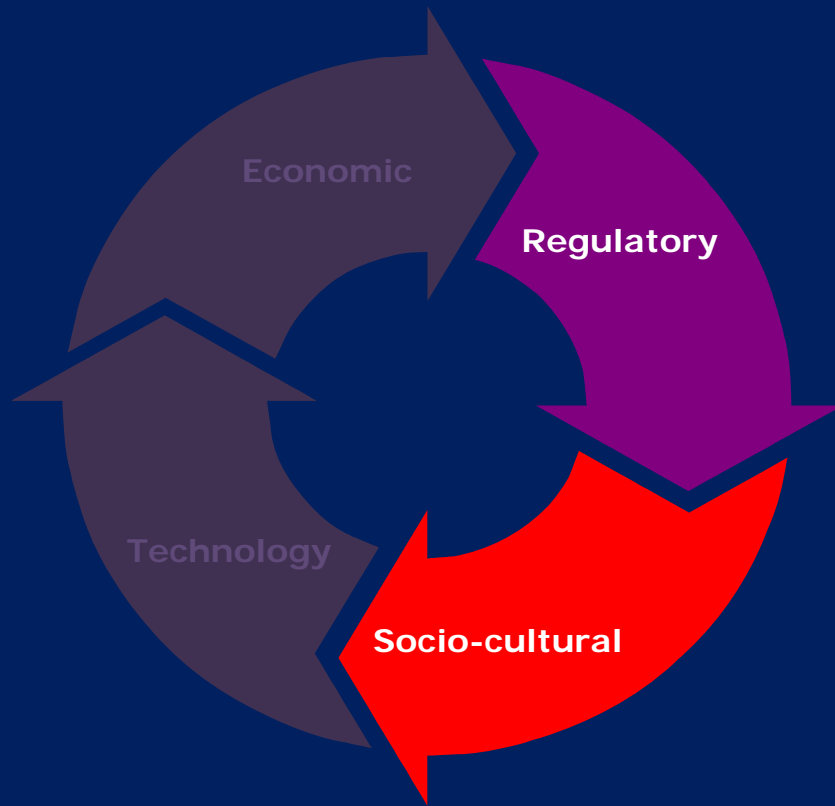
ONLINE MEDIA REGULATIONS



- ***Government Fully in Charge of Media***
 - *Telecommunications Regulations*
 - *Foreign Ownership Restriction (50%)*



- ***Requirement:***
 - *Internet Content Providers License (IPC)*
 - *Ministry of Information*



- *Economic Growth & Information*
- *Ease of Doing Business*
- *The (Regulatory) Brick Walls of China*
- *Factors to Consider in Partner Search*
- *The 'Media Control' Factor*

CHINA – EASE OF DOING BUSINESS



Source: *Doing Business 2007* IFC World Bank Group

<http://www.doingbusiness.org/>



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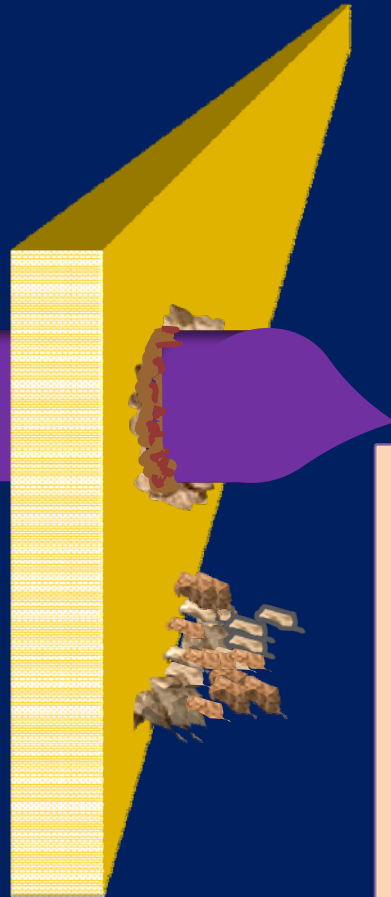
The 'Brick' Walls of China



Regulatory

Socio-cultural

Political



- **Party Politics Fully in Charge of Media**
 - *Government Policy*
 - *Foreign Investment Policy (MOFCOM)*

- **Multi-regulatory Structure involving a multitude of Ministries**
 - *General Administration of Press and Publications (GAAP)*
 - *Ministry of Industry and Information Technology (MIIT)*
 - *Ministry of Culture (MOC)*
 - *Ministry of Commerce (MOFCOM)*
 - *Ministry of Public Security (MPS)*
 - *Propaganda Department of China Communist Party (PDCCP)*
 - *State Administration For Industry & Commerce (SAIC)*
 - *State Administration for Industry & Commerce (SARFT)*
 - *State Council Information Office (SCIO)*

MEDIA REGULATIONS IN CHINA



• Know the Law



- Content & Trademark Licensing***
- Foreign Ownership of Advertising Company***
- Foreign Ownership of Publications Distribution***



- Foreign Ownership of Titles***
- Foreign Ownership of Editorial Staff***

MEDIA REGULATIONS IN CHINA



• *Business Model & Partners*

Permissible Activities

The Gray Area

Absolutely Forbidden

- *Content & Trademark Licensing*
- *Foreign Ownership of Advertising Company*
- *Foreign Ownership of Publications Distribution*
- *Import to Select Customer Group*



• *Select Partner*

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PARTNER / AGENT SEARCH

• **Contract**

- *Specificity is Key*
- *Right of Access to Information*
- *Breach of Contract*
- *Copy Right & Piracy*

• **Due Diligence**

- *Company*
- *Shareholders*
- *Management*

• **Consult:**

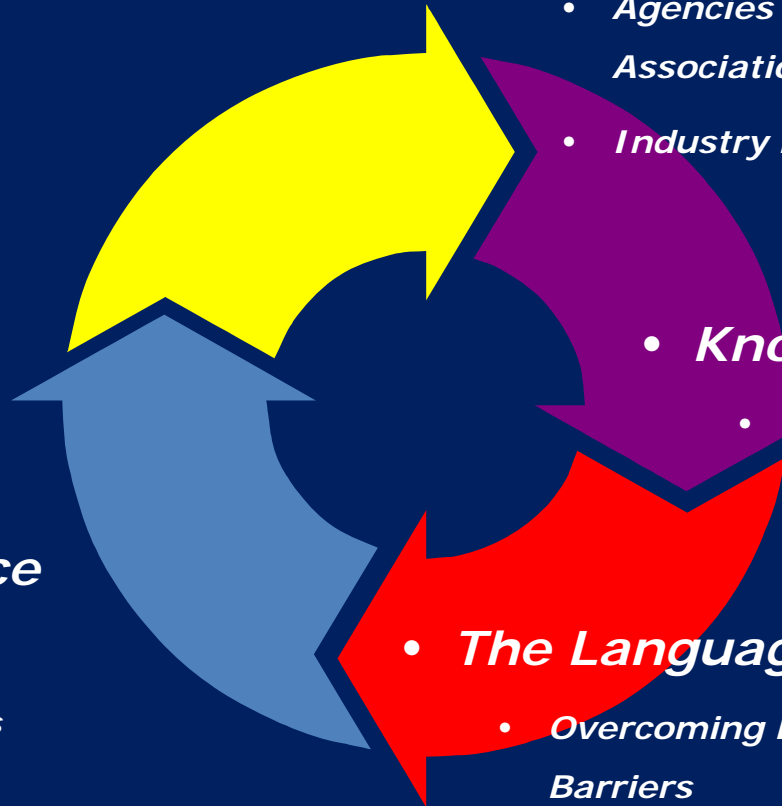
- *Agencies & Industry Associations*
- *Industry Experts*

• **Know the Law:**

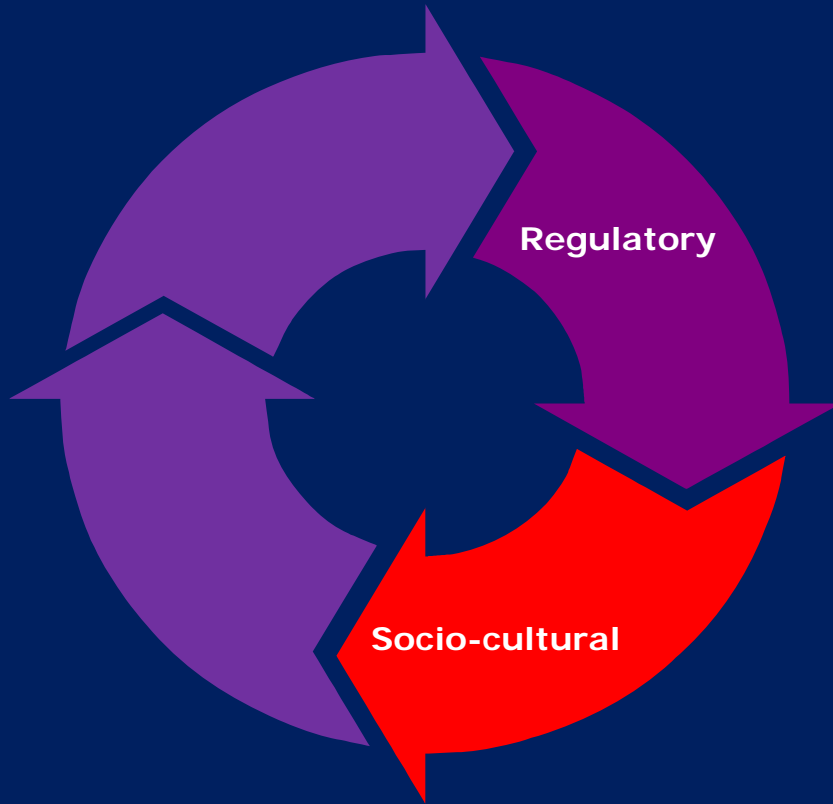
- *Mainland China*

• **The Language Factor**

- *Overcoming Language Barriers*
- *"Chicken & Duck"*



CONTROL OVER MEDIA



*"A single spark
can light a
prairie fire ..."*

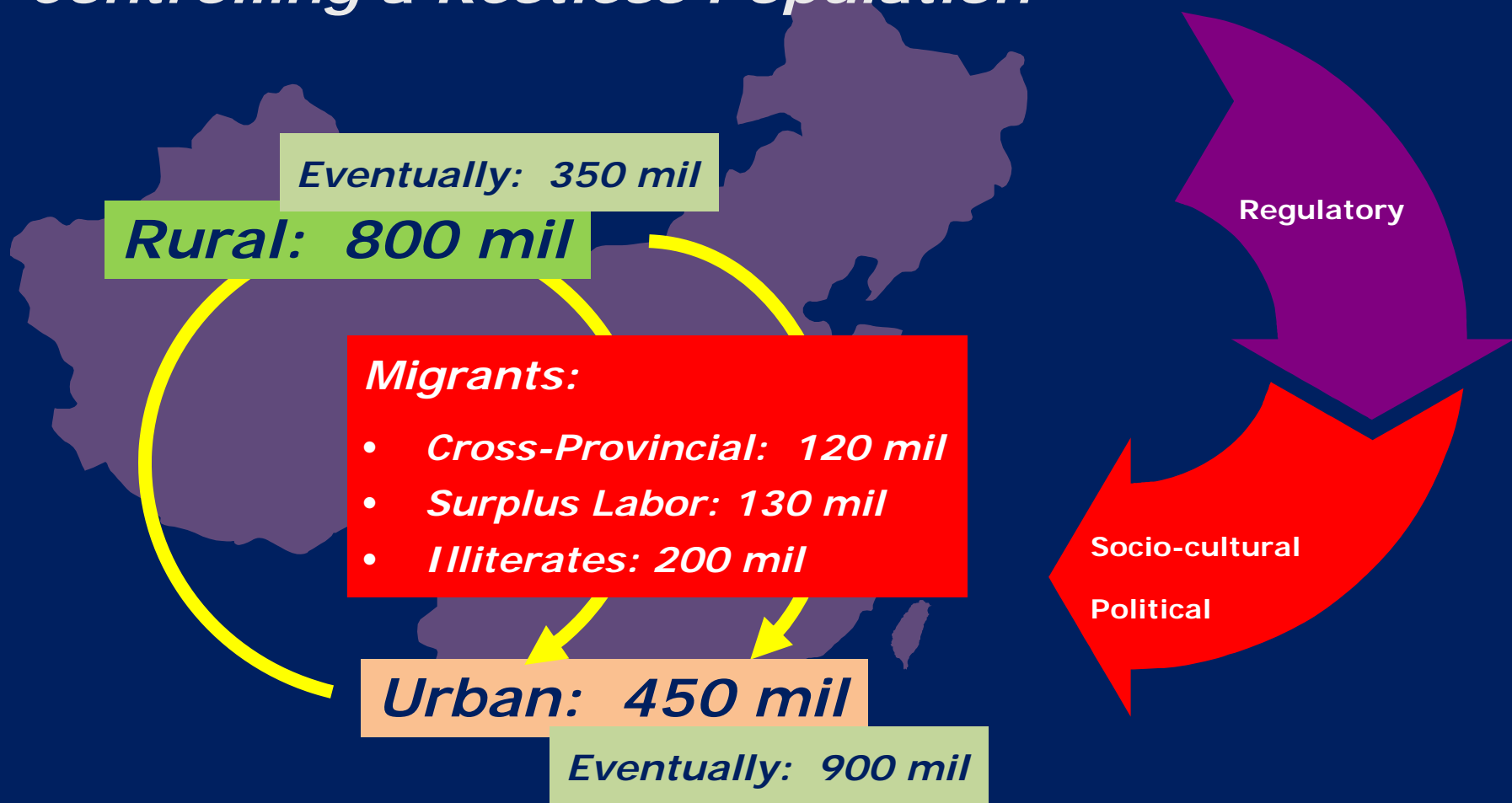
MAO ZEDONG



The Roots of Censorship



Controlling a Restless Population



Source: Ministry of Education 2005 – Long Distance Learning



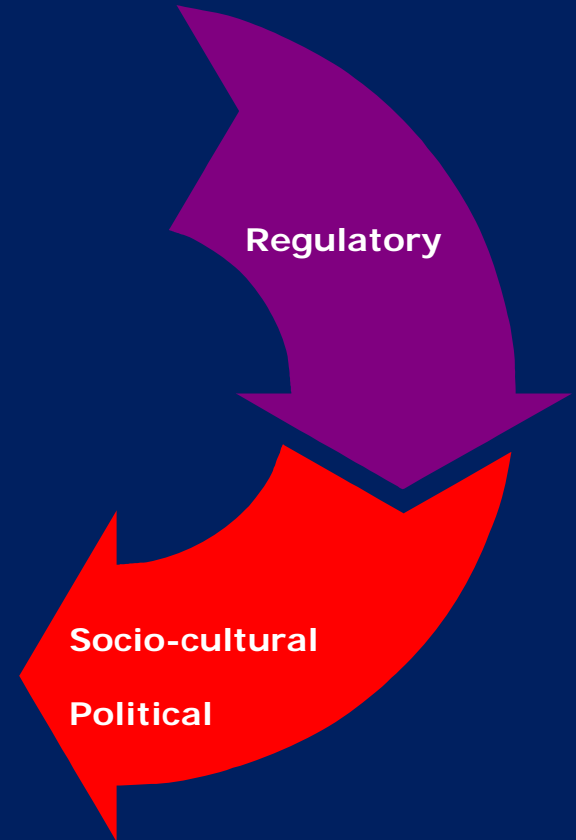
Navigating between Legality, Illegality and Practicality



- *Media Regulations*
- *IPR Compliance*
- *Bankruptcy*
- *Antitrust*



- *Dealing with an Imperfect Legal System*
 - *Local Bias*
 - *Qualifications of Legal Profession*
 - *Qualification and Experience of Judges*



IMPORTANCE OF HISTORICAL PERSPECTIVE



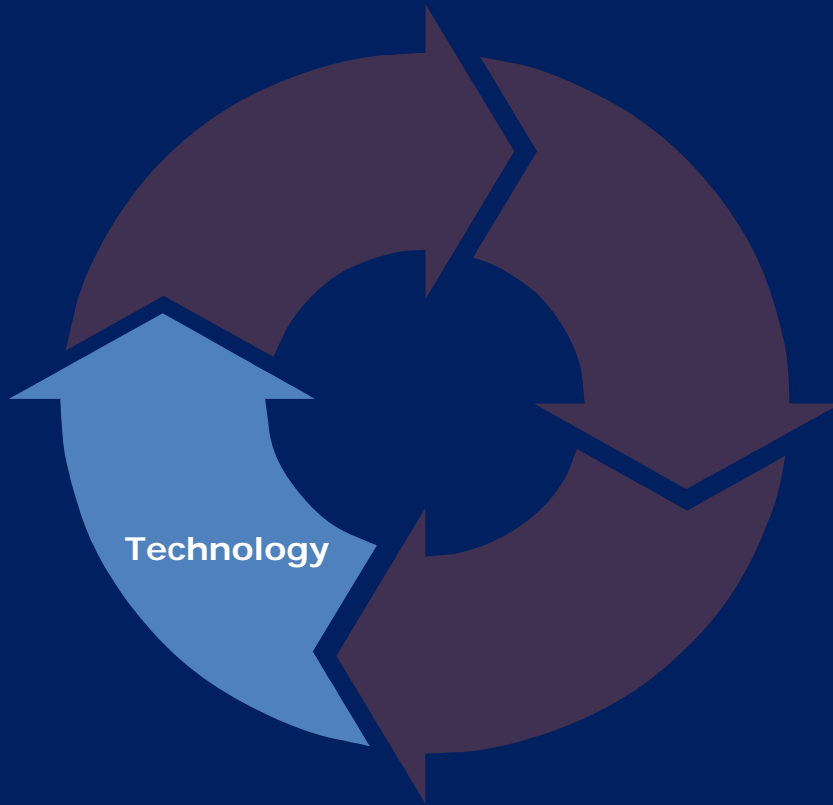
"The British burned the Summer Palace and the Chinese still fret about it"



"The British burned the White House"

" ... Some wished they could do it again ..."





- *Economic Growth & Information: Example 1*
- *The Lore of B2B Digital Media: Example 2*
- *Ease of Doing Business*
- *The Brick Walls of China*
- ***Technology: China & India***

China's Targets Indian Software and BPO Market:

- *Technology Drives Productivity and Economic Development*
- *Indian Software and BPO Outperform China in Export Intensity*

Technology

How to Compete with India in Software and BPO?*

CHINA / INDIA ICT CAPACITY COMPARISON



Chinese Point of View



Teledensity	57 per 100 persons	11 per 100 persons
Total Subscribers	750 million	123.85 million
Bandwidth	43 GBps	1 GBps
Broadband Conn	64.3 million	300,000
Internet Subscr	210 million*	60 million*
Host Computers	45.6 million	10 million
IT Workers	2.368 million	830,000

Export of IT and related Services

US\$ 1.98 bn

US\$ 17.2 bn

2005 Figures
* 2007 Figures

ICT = Information & Communications Technology



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CHINA'S ICT STRATEGY



Investment in Education and Software Parks

- *Increased investment in education (ITC)*
- *Promote e-commerce value chain*
- *Construction of e-government infrastructure*
- *Development of media and network resources providing population with digitized information*
- *Closing the digital divide between developed and under-developed regions and rural areas*
- *Investment key information technology –integrated circuits, software, develop new generation of digital network technology*

Source: "China Informatization Strategy" <http://www.biaa.com/library.php#69>

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- *Question:*
- *Will China be an Innovator Copycat*

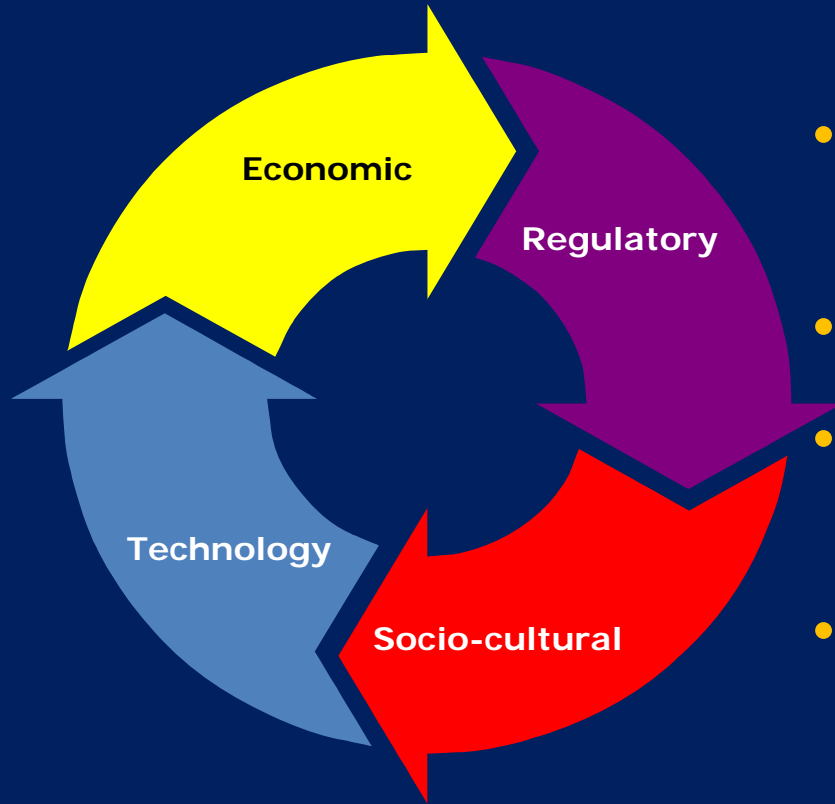
An Informed Opinion:

"China's younger generation is extremely creative, but overall China's high tech is built on copycats, lacking any sort of innovation."

Vivek Wadhawa, Harvard & Duke University

Technology

SUMMARY



- *Economic Growth through Information and ICT*
- *Plenty Opportunities – Not Easy to Grasp*
- *Highly Competitive Market*
- *Play the Regulatory Game – No Choice*
- *Partner Selection Key Aspect*
- *Digital Conversion on the Horizon*



Thank You

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