CONDSIDERING THE DEVELOPMENT OF INTERNET IN CHINA

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Road Map

- Briefly give a picture of the International and Chinese Internet Markets
- go over in detail the development and growth of China's Internet Market
- cover the risk and factors to be considered . The five areas are: laws and policies with comparisons to the states;difficulty attracting investment; US business model copies for China but is not appropriate;technology innovation; shortage of talent

INTERNATIONAL INTERNET MARKET

'96 Global IT meeting South Africa

- 7 developed countries control 84% of Internet market, including hardware and software
- 32 developing countries control 16% of Internet market

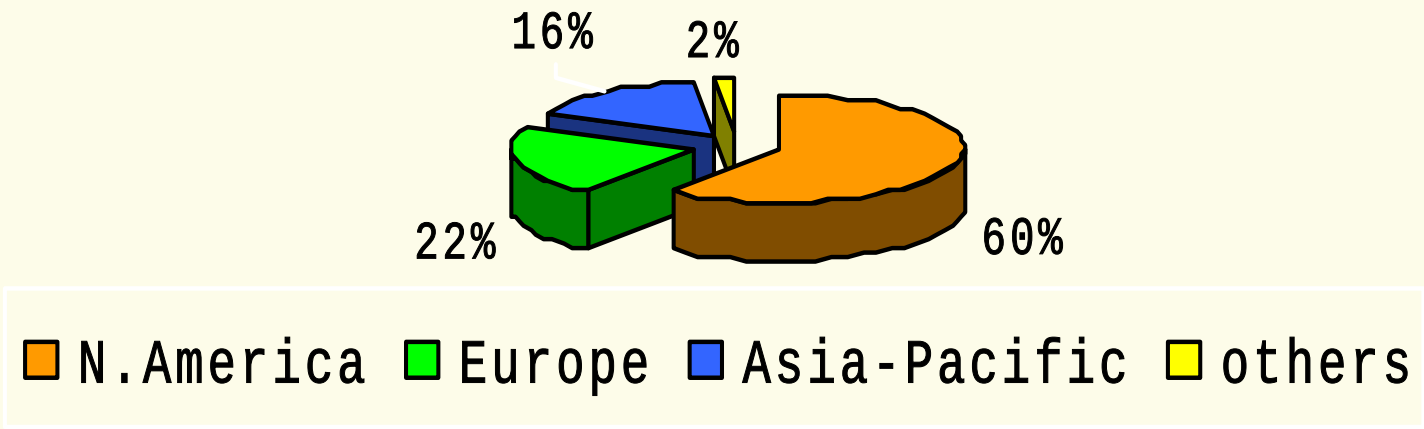
NEW MARKET TRENDS IN IT INDUSTRY AFTER '96 GLOBAL MEETING

- Telecom companies into film making business
- Chip manufacturers into launching satellites
- Software companies into culture & media

INTERNATIONAL INTERNET MARKET

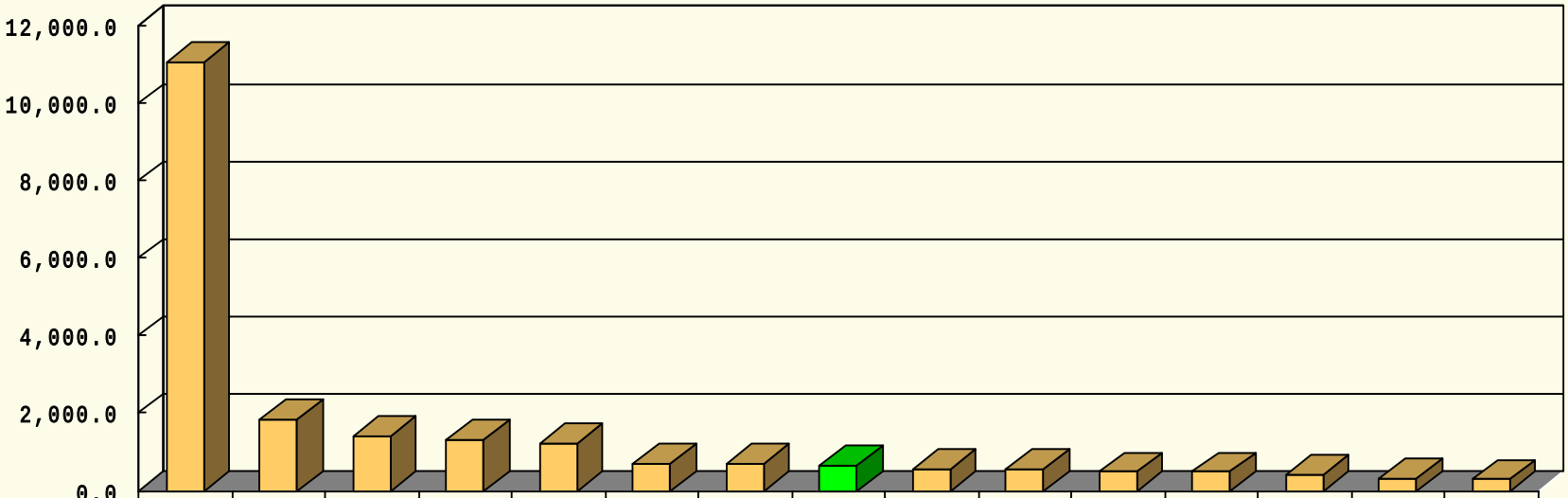
WORLD PROFILE OF HOSTS ON LINE

- Developed nations 82%
- Developing nations 16%



INTERNATIONAL INTERNET MARKET

COUNTRY DISTRIBUTION OF INTERNET USERS



	USA	Japan	UK	Canada	Germany	Australia	Brazil	China	France	Korea	Taiwan	Italy	Sweden	Netherlands	Spain
users	11,082.0	1,815.6	1,397.5	1,327.7	1,228.5	683.7	679.0	630.8	569.6	568.8	479.0	479.0	395.0	293.3	290.5

China is number 8

Rapid user growth

China Internet Network and Information Center figures (CNNIC)

1995

- 400 computers with Net access
- 7000 Internet users

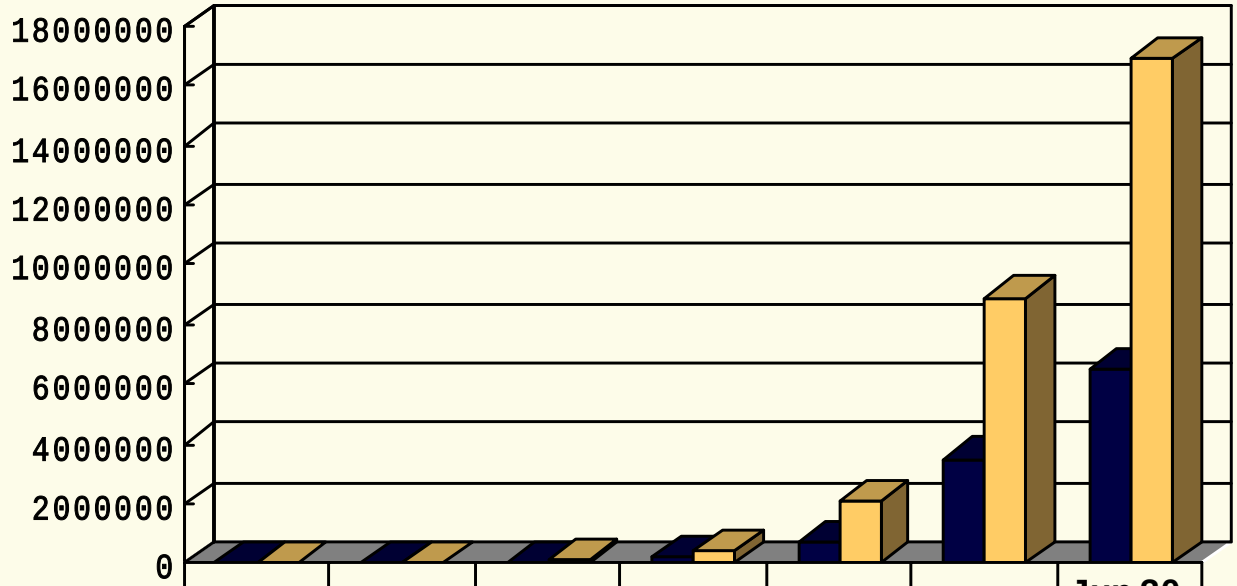
1999

- 3.5 million computers with Net access
- 8.9 million Internet users

6/30/2000

- 6.5 million computers with Net access
- 16.9 million Internet users

CHINA INTERNET MARKET



	Feb. 95	July, 96	Dec. 96	Dec. 97	Dec. 98	Dec. 99	Jun.30, 2000
online Computer	400	6,000	24,000	213,000	747,000	3,500,00	6,500,00
users	7,000	40,000	100,000	425,000	2,100,00	8,900,00	16,900,0

CNNIC Report

Rapid user growth

SURVEY OF INTERNET USERS

Research entities

- China Internet Network Information Center (CNNIC) non-profit
- International Data Corporation
- BDA China

CHINA INTERNET MARKET

Rapid user growth(end of 1999)

CNNIC	IDC	BDA China
8.9 million	3.79 million	6.7 million
	forecast	**forecast**
	by 2001 exceeding Australia	by 2003 33 million
	by 2002 exceeding Japan	by 2005 passing the U.S

Table shows:

- Differening 1999 user totals
- Similar forecasts--3-5 years, China will have largest pool of Internet users in the world

CHINA INTERNET MARKET

Rapid user growth

Special Note

Internet users in terms of population penetration forecast Year 2005

- China--6.58% of population expected to be online. Market is still very young
- Japan--60 % of population expected to be online

Periods media and communications tools become widespread USA /China Comparison

	USA	CHINA	Difference in Years
Internet	1994	1997	3
Computers	1985	1995	10
TV	1950	1985	35
Telephone	1920	1985	60

Internet shows fastest user growth over other communications and media tools

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Law states

- Internet area off-limits to foreign investment until China joins WTO
- Foreign Internet companies are not allowed to operate in China

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Situation

- Law not enforced
- Foreign investors have already invested in China's ISP/ICPs.
  - Grey area
- Foreign ISP/ ICPs already operating in China.
  - Grey area

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Law states

Chinese companies need permission from Chinese Securities Regulatory Commission (CSRC) to be listed on NASDAQ

Internet businesses should be licensed by Ministry of Information Industry (MII)

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Situation

- Policy not enforced
- Some Chinese companies already listed on NASDAQ without clearance from (CSRC).
  - Grey area
- Some NASDAQ listed companies have not yet started operations in China.
  - Some use NASDAQ to get funds to start business
  - Others use NASDQ just to make money

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Companies listed on NASDAQ OTCBB without CSRC clearance & MII license create danger

- Could cause negative image abroad by using NASDAQ only as means to make money
- Overseas audience may believe that these companies represent the majority of China's ISP/ICPs. Definitely not the case

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Companies listed on NASDAQ OTCBB without CSRC clearance & MII license

Cathay Online (CAOL)	ISP
Intermost. (IMOT)	ICP
Forlink Corp (FRLK)	ICP
Xin Net Corp (XNET)	ISP

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Policy states

- Policy does not allow national secrets to be discussed online
- Internet companies required to watch BBS and chat rooms to make sure secrets are not discussed online

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Law vague
and cannot be followed

- Information considered national secret not clearly defined
- Impossible for ISPs to monitor all BBS and chat room discussions

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Situation

- MII official stated Nov. '99 stated --laws regarding foreign investment in China's ISP/ICPs to be issued March 2000
- To date laws have not come out
- Beijing--two new Web sites launched with foreign investment daily.
  More foreign investment risking the grey area
- More Chinese companies IPO on NASDAQ
- Govt. intensions are not clear

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Result

- Market cannot wait on policy
- Companies are forced to carry out short-term development schemes
- Executing short-term development plans prove costly

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Policy allows China Telecom (CT) to compete unfairly with ISP/ICPs

Situation

- CT is ISP/ICP
- CT is the only telephone service provider
- CT provides 50% discount on their special 163 Internet dial up line to users
- Other ISP/ICPs relying on CT for telephone service cannot give their clients discounts

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

China & USA Net and phone rate comparison

China	USA
Phone use 5 hrs per day@	Net and phone $30 US
Monthly cost of (540RMB) $67 US	per month

RISKS AND FACTORS TO BE CONSIDERED

Laws & Policies

Comparison of China's Internet phone rates

	1996	1999
Internet	(20 RMB) 2.4 US per hour	(3RMB) $0.36 US per hour
Telephone	(3.6 RMB) $0.4 US per hour	same

Special note

-Intense competition causes Net rates to drop 85%

-CT still has monopoly of phone services. Rates stay the same

RISKS AND FACTORS TO BE CONSIDERED

Difficulty attracting local investment

- ISP/ICPs seen as long-term, high risk venture
- Pioneer ISP/ICPs investors expected fast returns on their investment.
  - Dissatisfied with prospects investors re-channeled funds to other areas
  - Many ISPs folded
  - Others got funds from abroad
- Difficult for ISP/ICPs to get local funding to carry out long-term development Plans.

RISKS AND FACTORS TO BE CONSIDERED

Attracting foreign investment and possible outcome

- Invite foreign investment in

  ("Invite the wolf in")
- Chinese investors compete with foreign investors

  ("Dance with the wolf")
- Long-term Chinese market will be monopolized by foreign investment

  ("Be eaten by the wolf")

RISKS AND FACTORS TO BE CONSIDERED

Business Trends

China's ISP/ICPs simply follow trends in the US

Development Trends

1996-1997

ISPs aim at becoming a China AOL

1998

ICPs aim at becoming China portal

1999

Movements toward e-commerce

2000

ICPs aim at IPO on NASDAQ

Business Trends

Top Chinese companies simply following the Americans

Chinese	American
NetEasy.com	Hotmail
Sohoo.com	Yahoo
SRSnet.com	Sina.net
(sina.com)	

RISKS AND FACTORS TO BE CONSIDERED

Business Trends

Brand promotions

- Lots of page view branding
  Does not attract a loyal following
- Service, production and quality brands not developed enough

Special note

One famous ICP revenues over three years was only $150,000 US

RISKS AND FACTORS TO BE CONSIDERED

Business Trends

Web site promotions

- Contests
- No set standards

Result

Conflicting results

RISKS AND FACTORS TO BE CONSIDERED

Business Trends

Conflicting survey results
CNNIC and Atweb published profiles ISP/ICPs

1999 top 10 ISP/ICPs

RISKS AND FACTORS TO BE CONSIDERED

Business Trends

	CNNIC report	Atweb.com Test Evaluating sites using technology standards
6029	www.netease.com	www.china.com
5289	www.sohoo.com.cn	readchina.com (www.rol.cn.net)
5019	www.163.net	www.ihw.com.cn
4883	www.263.net	www.263.net
1469	www.sina.com.cn (www.srsnet.com)	www.sohoo.com.cn (www.sohu.com)
1416	www.online.sh.cn	www.netease.com
1287	www.yeah.net	www.online.sh.cn
1075	www.cpcw.com	ww.east.com.cn
1059	www.chiabyte.com	www.chinabyte.com
1002	www.szonline.net	www.sina.com.cn (www.srsnet.com)

RISKS AND FACTORS TO BE CONSIDERED

Business Model

American e-commerce Model Unsuitable for current China

USA

- Credit is available for online shopping
- Distribution and delivery channels established
- Catalogue shopping a big part of culture
- Americans accustomed using keyboard and compute for shopping online

RISKS AND FACTORS TO BE CONSIDERED

Business Model

China

- No credit cards available, only debit cards
- Distribution and delivery channels not in place
- Chinese accustomed to direct store purchases
- Catalogue shopping not a part of culture
- 1. Using computers as tool to make purchases unfamiliar to Chinese. 2. Western computer keyboard concept with letters unfamiliar to Chinese, making it difficult for the majority of Chinese to use
- Chinese are accustomed to picture and sound components in their language, instead of words and letters

RISKS AND FACTORS TO BE CONSIDERED

Business Model

Note:

Success requires suitable model for the country, not simply transferring US model to China

Joke:

China leader often said:US policy system unsuitable for the current China; so that we got the result the US business model can't simply transfer to China

RISKS AND FACTORS TO BE CONSIDERED

Technical innovation

Local investors do not have enough money for RD

Result

- Obsolete equipment
- Search engines unable to execute effective searches
- Users unhappy with service

Additional note

Many advertisements placed on buses, billboards

RISKS AND FACTORS TO BE CONSIDERED

Shortage of talents

- IT profession understaffed, overworked, under-skilled
- Experienced talents move from local companies to foreign companies

Factors influencing moves to foreign companies

- Foreign enterprises offer higher salary and stock options
- Chinese Internet companies unable to match compensation package
- China's stock system not fully developed to give good stock options
- Talents able to change jobs easily without reference letter

CONCLUSION

From the outside, China may seem like a very large open Internet market, but in fact, there are a number of problems that one needs to think about.

- First, we saw the application of laws leaves grey areas. In addition, certain laws and absence of laws make it difficult for the development of the Internet.
- Second, it's difficult for ISP/ICPs to attract the necessary local funds for their development because the business is seen as a high- risk long-term investment. Chinese investors do not have much experience with long-term investments.

CONCLUSION

- Third, in terms of business model, China ISP/ICPs need to set a model that is suitable for China's situation. Copying the American model is not a good idea

- Fourth, China's ISP/ICPs need to find more ways to be technically innovative.

- And last, internets are facing a talent shortage in a number of areas. And good talents often leave local companies for higher salaries with foreign ventures.

CONCLUSION

Overall, the China Internet situation is very different from the situation in the United States. If Chinese Internet companies are to succeed, they will have to take into account that their market is different from that of the United States. Therefore, they cannot simply copy the American business model, they will have to make an appropriate one for China.

Thank you