

Visitors to Greater China might find it hard to believe that just three years ago the Internet industry barely existed here. Today, whether in Guangzhou, Hong Kong or Taipei, billboards, bus shelters and even the hubcaps of taxis are plastered with the names of local dot-com companies.

Analysts believe that soon an industry shakeout similar to the one in the U.S. could occur in the region. The sheer size of the user base, coupled with the respective booming economies and rising disposable income, makes its remarkable growth curve difficult to ignore.

With over half of the world's population and 40% of its GDP, the Asian market is incredibly alluring. International Data Corp. (IDC) estimates that the region's e-commerce market will grow from \$720 million this year to \$32 billion by 2002. IDC forecasts that there will be more than 33 million Internet users in China by 2004. The Chinese Internet economy is expected to increase at a compound annual growth rate of over 170%, reaching \$114 billion in 2004.

What makes this region's dot-coms particularly attractive is that many have learned from the mistakes of their U.S counterparts and conducting themselves more sensibly: maintaining lower cash burn rates, capping staff levels and minimizing spending on marketing. Being based in this diverse region spares many companies the recruitment headaches suffered by Silicon Valley firms. In addition, the back-end infrastructure, which enables such tasks as online payment and overnight delivery, is improving rapidly here.

Foreign participation in Greater China's Internet revolution is growing, and dot-coms are rushing to list on markets ranging from Hong Kong's Growth Enterprise Market to Nasdaq.

Terrance Zhang, CIO for New Yorkbased Kamsky Associated Inc. in Beijing, notes that because most private businesses in China have no access to bank loans or angel networks, many Chinese Internet firms are desperate for offshore venture capital to move beyond the startup phase. Healthy opportunities for investment or partnership deals with dot-com firms abound in Hong Kong and Taiwan as well. Wherever you look in the region, entrepreneurialism dominates.

Netease

Content, Community and E-Commerce

Ask local Internet users in Beijing to name their favorite local portal, and you are sure to hear Nasdaq-listed Netease.com, Inc. (www.163.com), a company that attracts most of its traffic from mainland Chinese Internet users with more than 24 million page views per day. Netease, which recorded a registered user base of 5.9 million at the end of June, is known for pioneering the country's many popular online services,

At an early stage, Netease developed proprietary Chinese-language personalization features and other Internet applications. Because of the doublebyte characters used in the Chinese language, the barrier to entry is relatively high for companies wishing to offer Internet technology to the Chinese-speaking market. "As the number one portal in China, we truly focus on China. We have very focused local content, the largest local community online and many other popular online services developed for local users," says CFO Helen He, a former investment banker at Bear, Stearns & Co.

Netease, Which was started by Co-CTO William Ding in mid-1997 as a software development company, boasts a strong culture of innovation. For instance, the company scours highly trafficked content from its users' personal pages, as well as community forums, and repositions it for general use. "We use significant user-generated content, which tends to be 'stickier,'" says Ding.

In its early days, Netease developed such popular tools as search engines, Web-based e-mail, electronic greeting cards and newsletters. More recently, the company added the largest auction aggregation house in China.

Early on, it developed a reputation as the "Geocities of China." At the end of June 2000, the number of personal Web pages on the site totaled over 465,000. The company counts approximately 1.5 million active community members within about 22,600 community forums, where registered users share opinions, chat, participate in surveys and instant message. In addition, it broadcasts 15 content channels working with more than 150 international and domestic Chinese-language content providers, ranging from new, IT, finance, sports, entertainment, career, education, health and women's issues. Netease also enjoys the distinction of hosting what is probably the largest chat room in the world: Recently, it recorded 45,000 simultaneous users.

The company is busily adapting much of its content for use by the latest mobile phones, primarily WAP- and GPRS-enabled handsets. Netease is the first bookmark on the browser of Siemens WAP phones in China, and Motorola has named the company its first official WAP partner in China. Netease is also rolling out new technology to support the booming B2B and B2C Internet sectors.

The financial backers of Netease, including Japan's Softbank, News Corp. and Goldman Sachs, attest to the sustainability of the company's business model. The company has also assembled a very strong management team, including CEO King Lai, former CEO of Saatchi & Saatchi, China, and COO Susan Chen, a former senior executive at FarEasTone. Because the company maintains a low cash burn rate, shuns excessive advertising campaigns and keeps staff levels within reasonable limits, its customer acquisition costs are lower than those of its key rivals, says He. Recent new rounds of funding have allowed the company to overcome bandwidth constraints and add more server capacity. The future certainly looks bright for Netease.

iAsiaWorks

Digital Bridge Between Asia and the U.S.

With feet firmly planted on both sides of the Pacific, iAsiaWorks (www.iasiaworks.com) is well-positioned to take advantage of the Internet revolution sweeping the Greater China region. The company delivers co-location, Web hosting and other e-commerce and professional services to companies targeting the Asian market or Asian firms targeting the U.S. market. By maintaining a presence in both Asia-Pacific and Silicon Valley, it can keep abreast of cutting-edge developments, source high-quality talent and conduct serious business development.

"We want to be a one-stop shop, a true single source," says JoAnn Patrick-Ezzell, chairman and CEO of iAsiaWorks. "We offer turnkey solutions from connectivity to Web hosting."

iAsiaWorks excels at penetrating difficult-to-access Asian markets. Aside from its best-of-breed technology products, the company offers services ranging from translation and currency exchange to regulatory consulting and local technical support. "We offer a holistic approach," says Patrick Ezzell, "and this really differentiates us from our competitors."

iAsiaWorks was formed in 1997 as AUNET, and in mid-1999, the company changed its focus to offer Internet services and solutions, primarily in Asia, but also in North America. Through an extensive network of carrier-grade data centers across Asia and Silicon Valley, iAsiaWorks serves companies on both sides of the Pacific. "One of our biggest challenges is just keeping up with demand," says Patrick-Ezzell.

Since joining iAsiaWorks, Patrick-Ezzell, who previously served as CEO of AT&T Asia-Pacific, has raised \$100 million in funding, purchased the Hong Kong Internet operations of her former employer and embarked on an aggressive hiring spree and expansion plan.

iAsiaWorks' top-notch technical staff is divided among the world headquarters in Silicon Valley, the regional headquarters in Hong Kong, key operations in Australia, Taiwan and Korea, and seven other Asia-Pacific countries to offer local customer support and expertise in the respective markets. The company's diverse customer portfolio includes more than 3,000 companies, ranging from Hong Kong-based Outblaze and the Hong Kong Stock Exchange to Microsoft Corp. in Taiwan, Skylove (the largest chat service in Seoul), Double-Click, Inc., Adero and Lycos Asia.

In late 1999, iAsiaWorks secured \$85 million from top-tier Asian and U.S. investors, including Morgan Stanley Dean Witter, Pacific Century Cyberworks, Newbridge Capital Group, Institutional Venture Partners and Bechtel Enterprises.

Looking toward the future, iAsiaWorks plans to focus on high-growth markets, which entails securing further strategic alliances and acquisitions, broadening its geographic foot-print and constructing next-generation, large-scale data facilities.

"iAsiaWorks has the vision, leadership, global technology and local presence to deliver a real competitive edge in the e-commerce arena," says Dan Carroll, managing partner of New-bridge Asia. Keith Geeslin, general partner of the Sprout Group, shares Carroll's enthusiasm: "This is a company on the move, and we're delighted to back it."

ETWebs

The Leading Chinese Broadband Internet Conglomerate

With his Eastern Multimedia Group (EMG) and ETWebs Inc. (www.etwebs.com), Edward Wang, an ex-banker currently serving as CEO of EMG, has a finger in seemingly every pie: fixedline telephone, cable TV, direct satellite TV, broadband highway construction, newspaper publishing, Internet and TV content development, and even TV shopping and a mail-order warehouse. The only area EMG isn't involved in is wireless-yet. Wang plans to bid for a third-generation (3G) license that would clear the way for a push into that promising sector.

Taiwan-based EMG regards itself as operator of the largest broadband Internet platform in Asia. Through its own CATV network, it offers highspeed broadband Internet access to 3.6 million households. Wang plans a rollout to global audiences, eventually tapping into the 1.7 billion Chinese-speaking worldwide market, including the relatively untapped China market.

EMG's cast collection of businesses allows for unprecedented synergy. For example, subscribers to its broadband EHome service can access video-on-demand serviced that feature popular cable programs produced by the group. For this and other reasons, foreign investors, including AIDEC (the direct investors arm of the Asian Development Bank), Capital International, Citicorp (Asia) and Dell Computer have poured significant financing into EMG.

In a package called "4C" (Content, Commerce, Community and Communication), general content on the ETWebs site includes news, finance, entertainment, video and audio and e-commerce. "We offer top-of-the-line streaming online audio/video local content. My job is to leverage EMG's various media assets, build a strong brand, reach economies of scale, generate a B2B business model and create the company's value," says Wang, who in recent months has been working a private placement through its financial adviser, Morgan Stanley Dean Witter, to develop strategic partnerships with Internet industry leaders for content development and distribution, as well as other types of equity partnerships.

CETRA

Linking Taiwan With the World

The Internet has become a crucial trade tool in bustling markets like Taiwan, enabling companies to keep pace with conditions in rapidly changing foreign markets. As the largest content provider of trade information in Taiwan and an organization with substantial expertise in trade promotion, the China External Trade Development Council (CETRA) is ideally positioned to operate its Web site, CetraNet (www.cetra.org.tw), for the domestic and foreign business communities.

"CetraNet offers not only the very latest in trade-related information and value-added database services, but also an 'e-Marketplace' platform that provides a variety of online trade mechanisms to facilitate e-trading," explains Melody Lin, deputy executive director of CetraNet Center.

CetraNet's e-Marketplace platform helps international businesses link to potential partners, buyers or sellers. Users can ease into the market via a number of components, including the Virtual Trade Mart, an Inquiry Services, a Biz Exchange, Online Industry Showcases and Value-Added Trade Databases.

ASIA ONLINE Ltd.

General Contractor for the Internet

Originally founded as a Hong Kong-based ISP, Asia Online today works in seven different languages, delivering its four core competencies of Internet access, Web hosting, Web development and systems integration. Recently it entered the applications service provider (ASP) business, allowing it to rent or sell online access to software programs. The ASP launch, the first of its kind in Asia aimed at small and medium-size enterprises (SMEs), is being offered with Microsoft Office, Lotus and others. It also has a hardware option through a thin-client offering.

President and CEO Kevin Randolph sees the company as a general contractor for the Internet. "We want to show SMEs how to use the Internet as a strategic tool," he says. "We want to show them how to do business with a fraction of the overhead – to save time and money, no matter where they do business."

Asia Online services not only U.S. firms wishing to access the booming market in Asia – catchment area of some 100 million people – but also Asian firms eager to expand their presence within the region as well as into the North American market. Through an agreement made with Concentric Network of California earlier this year, Asia Online has expanded its global reach to include more than 450 points of presence across the U.S. and Canada. Already, Asia Online has put the power of the Internet to work in such places as Hong Kong, the Philippines, Malaysia, Singapore, India, Australia, New Zealand, Canada, China and the U.S.

Today, the company's range of services spans dial-up, leased lines, ISDN, roaming, Web design, colocation, unified messaging, portal management, advertising and e-commerce. It also offers Internet-based communications solutions such as voice over IP (VoIP), Internet fax and Web-based intranets/extranets to domestic and international customers. A network of data centers in Hong Kong, Australia and New Zealand, coupled with an advanced Internet backbone linked to the U.S., gives Asia Online incredible reach.

One recent beneficiary of that reach is Ayala Corp. of the Philippines, whose site, www.ayalaecenter.com, was developed by Asia Online's global Web Development Resource Center. Ayala's site enables overseas Filipinos to buy gifts and have them delivered to family and friends in the Philippines. Asia Online also provided e-business consulting and on-the-ground marketing support.

Not surprisingly, Asia Online has first-rate leaders and backers. Executive Vice President of Strategic Services Stoddard Vandersteel previously served as head of support services for Lotus Notes, and the company's investors include Softbank Technology Ventures, J.P. Morgan International Capital, GE Capital Finance, Interliant and Concentric network. The company has attracted \$143 million in three rounds of funding, and as Randolph points out, many of the backers do more than just invest money; they also offer strategic relationships that help the company pursue new deals.

To keep up with the growing demands, Randolph, like other Internet executives in the region, is eager to recruit qualified staff, and to that end, the firm is establishing the Asia Online Academy in the Philippines to train potential recruits.