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Talent-spotting:

Greater China Culture & Entertainment M&A spotlight

October 2012

Contents

Foreword

Ten years ago, China was known as the manufacturing powerhouse of the world. Now it is on the road to becoming the Cultural & Entertainment capital of the world as the Chinese government plans to invest billions of US dollars into the industry as it looks to sate its increasingly wealthy middle class' appetite for entertainment, as well as propel Chinese culture overseas.

And the statistics demonstrate that this push is working. According to recent figures, China surpassed Germany to become the world's third-largest Cultural & Entertainment market in 2011, with a total income of around US$109bn. And with developed economies likely to see some measure of retrenchment over 2012, China's growing influence is most likely only to grow, with the industry forecast to be worth close to US$200bn by 2016.

This growth is expected to mainly stem from stellar growth rates emanating from the internet advertising and filmed entertainment subsectors, which are forecast to expand by around 31% and 22% respectively per year.

And growth isn't just occurring within China, or simply just in the digital universe. According to research, the number of Confucius Institutes, which collectively seek to promote Chinese language and culture, support local Chinese teaching internationally, and facilitate cultural exchange, rose from 256 in March 2009 to 332 in October 2010, implying that by the end of 2012, more than 430 such institutes will have opened across the world.

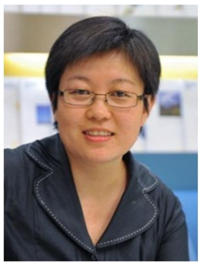
Given the frankly remarkable transformation of China's Culture & Entertainment industry of late, it gives me great pleasure to bring to you the first edition of Talent Spotting: Greater China Cultural & Entertainment M&A spotlight, which brings you a historical review of M&A activity over recent years, as well as proprietary insights from rainmakers within the industry. We hope you enjoy reading it and welcome your feedback.

William Chou

National Managing Partner

Technology, Media & Telecommunications

Deloitte China



Yan Wang

Media & Entertainment Sector Leader

Deloitte China

Methodology

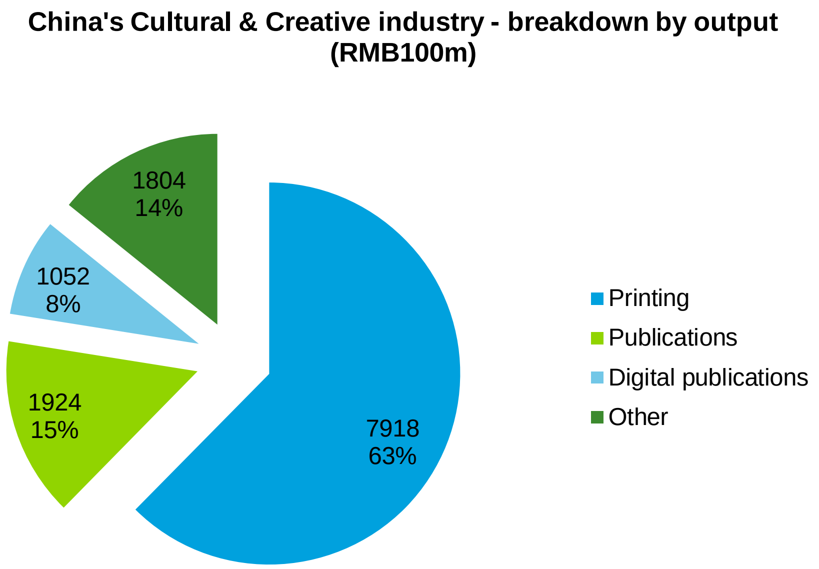
For the purposes of this report, Deloitte utilized Thomson Reuters' M&A database, which has tracked over 400,000 global M&A transactions since 1977. This report examines all announced Cultural & Entertainment-related M&A acquisitions undertaken in, or ultimately emanating from, either Mainland China or Hong Kong from 1 January 2005 to 27 June 2012.

Throughout this report, Cultural & Entertainment deals pertain to transactions that were undertaken in the following subsectors:

- Cable & Terrestrial TV
- Advertising & Publishing (including online)
- TV Advertising
- Movie/Film
- Radio
- Digital Media
- TV Broadcasting
- Animation
- Online gaming
- Movie & TV Production

The current state of play: China's Culture & Entertainment industry

Sector likely to witness rapid growth over next five years

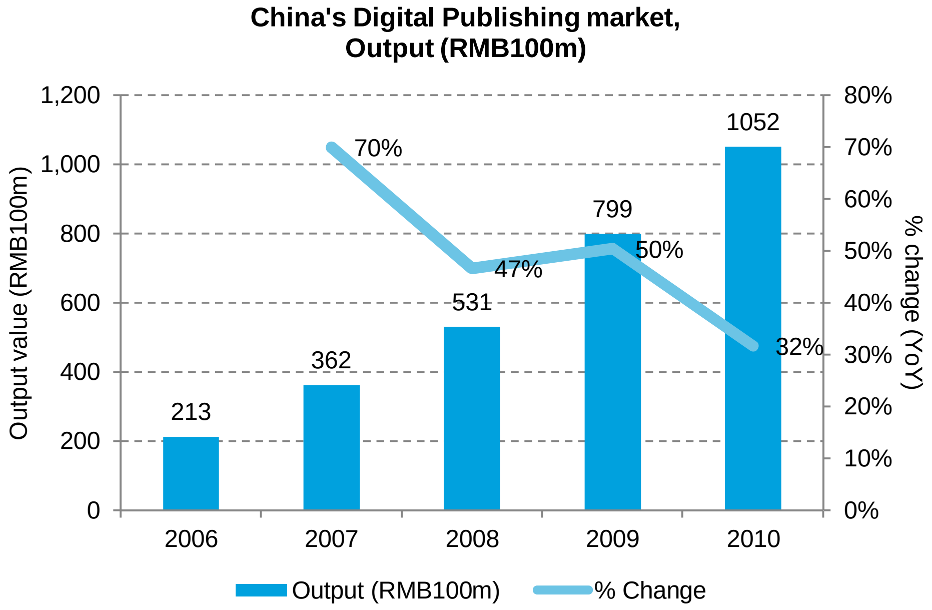


According to Deloitte research, the output of China's Culture & Entertainment industry (which includes businesses operating in the Media, Advertising, Film & Television, Performing Arts, Design, Animation Games, Printing, Publishing, Arts & Crafts, Graphic Design, Cultural Tourism and Cultural Exhibition spaces, generated an output equivalent to RMB1.27bn over 2009 and 2010, with the Printing industry being the primary industry driver behind this.

Looking forward, sector commentators remain hopeful that state-sponsored initiatives will continue to drive expansion within the sector as a whole. This will chiefly emanate from the 12th Five Year Plan, which aims to inject more vitality into China's culture industries, especially into the print media, television and film, literature, and public cultural programming sectors.

As a result, the publishing industry is forecast to grow by around 19.2% over the duration of the Five Year Plan, with a certain amount of consolidation also scheduled to take place. Ultimately, this will result in an industry that will be unrecognizable from the sector that is seen today, being more than twice as large (total output is projected to be RMB294bn in 2015), and slimmer in terms of the number of corporate entities in existence. Indeed, under the 12th Five Year Plan, the government will look to slim down the number of print publications to around 5,000.

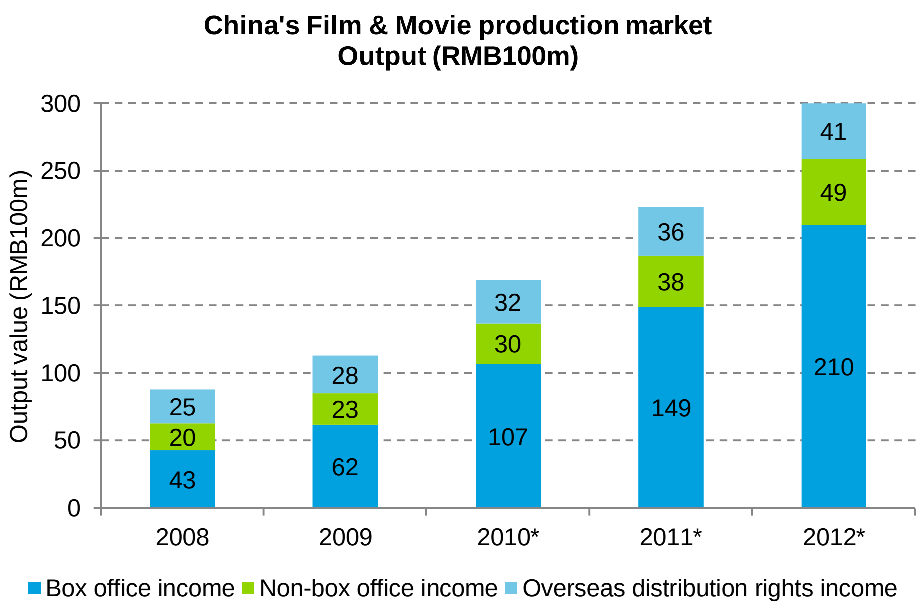
Digital publishing market to grow to make up 25% of the wider market in the near-term



One aspect of China's printing market that the authorities are keen on promoting is the digital publishing industry. Indeed, over the next five years, this particular sector is likely to expand to make up around 25% of the overall publishing sector by output. Furthermore, this target will most likely be met, especially given compound annual growth figures of 37.6% over the 2006-2010 period. The fact that total receipts from the industry grew by roughly one-third between 2010 and 2009, with sales topping RMB100m for the first time last year also adds credence to this belief.

The public's relatively positive response to the new market is likely to continue driving such impressive growth figures. A survey conducted in 2010 by the Chinese Institute of Publishing Science found that also 25% of residents between the ages of 18 and 70 used digital formats to view their reading material. Among those between 18-29 years old, this proportion rose to 50%. At the same time, an astonishing 91% of respondents said that they not bother to buy printed books if they could find a digital version.

Film & Movie production market to increasingly focus on domestic demand

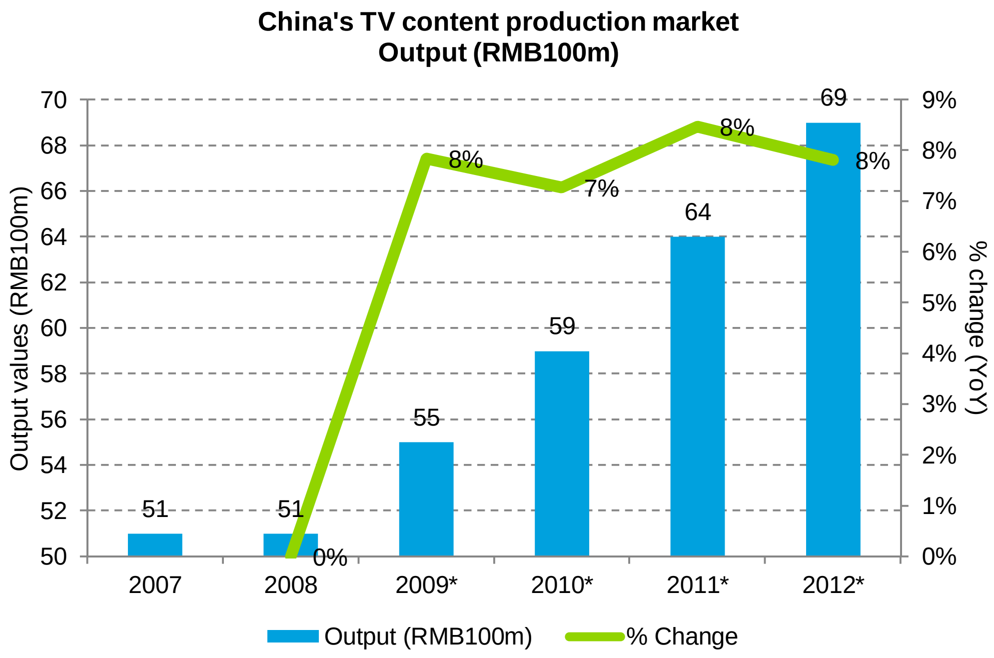


China's Film & Movie production market is also set for expansion, although not perhaps at the same rate as the country's digital publishing industry. The industry is expected to grow at around 28% per year over the foreseeable future, with an increasing proportion of this matrix being generated by domestic box offices receipts Indeed, in 2008, box office incomes totaled some RMB10.7bn, larger than takings in the UK, but only making up just 49% of the industry's total output. By 2012, this proportion is expected to hit 70%. At the same time, the proportional amount generated by overseas distribution rights will fall from accounting around 28.4% of the market in 2008 to just 13.7% in 2012.

Growth in this particular space will also result in a number of IPOs over the near-term, with 20 listing forecast over the next three years. Furthermore, cooperative efforts between US- and China-based production studios will also result in an absolute (yet not relative) increase in the amount of revenue generated by overseas distribution rights.

Another growth area to watch over the coming five years is the expansion of 3D cinemas across China. By mid-2011, 48 IMAX cinemas had been completed, with this number expected to grow to 181 by 2015.

TV content production market reaching saturation point?



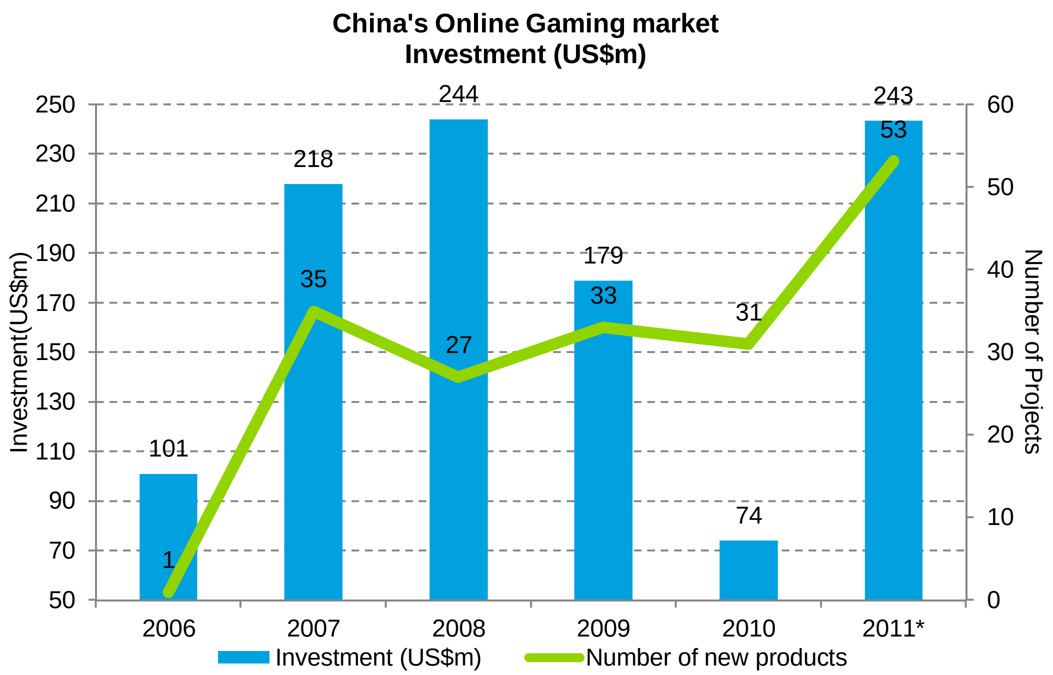
Yet while the nascent Film & Movie Production industry is moving from strength to strength, the TV content sector' monetary output is perhaps peaking, with revenues derived from the industry rising by a forecasted average of just 5.2% per year over the 2007-2012 period. Most likely due to its relative maturity compared to other creative industries, the TV content market is characterized by low profit margins and an incredibly competitive marketplace. Indeed, total value-added product within the industry is in the region of just 34% with anecdotal evidence showing that only a handful of Chinese TV producers are profitable.

Online gaming market to overtake US by 2014

Looking at output figures for the online gaming market, it would seem that this particular niche is steadily maturing, with year-on-year expansion expected to fall to the long-run average annual growth rate of around 34.3%.

Not that this means that growth in this particular sector will be hard to come by. Indeed, the Financial Times newspaper expects the industry to grow to make up around one-quarter of the wider global gaming market by 2014, overtaking the US in the process and resulting in overall sales of around US$8bn in 2014, up from the US$5bn in sales over FY 2010.

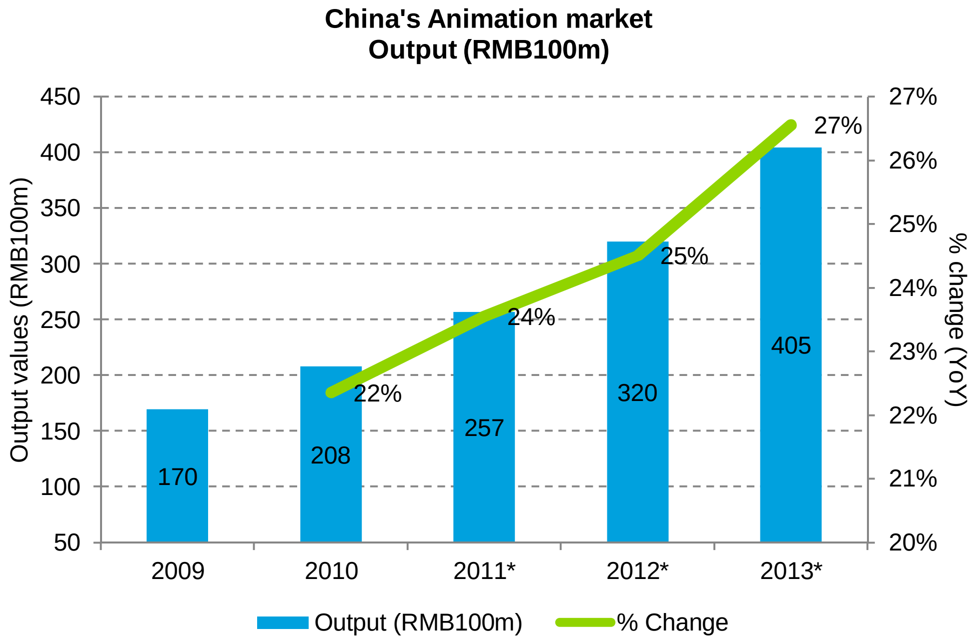
While investment into this market hit new highs in 2011



Expansion in the online gaming market will also be driven by an increasing number of investments being made into the industry. In 2006, capital injections worth a total of US$101m funded the undertaking of just one new online gaming project. Over 2011 however, it is estimated that 53 such projects were funded, with total investments worth around US$243m, giving a growth rate of around 15.8% per year in terms of actual capital invested over the 2006-2011 period.

This figure is in line with forecasts by Digi-Capital, a boutique investment bank, who recently predicted that the online gaming market will grow by 18% annually on a compounded basis until 2014, buoyed on by the current 20m gamers who play such games on the demand side, and an influx of venture capital investment from the supply side. Such growth potential means that industry players such as Tencent, Shanda and Giant Interactive are able to enjoy large gross margins in excess of 50% on their products.

Growth in the animation market assured – but at what cost?

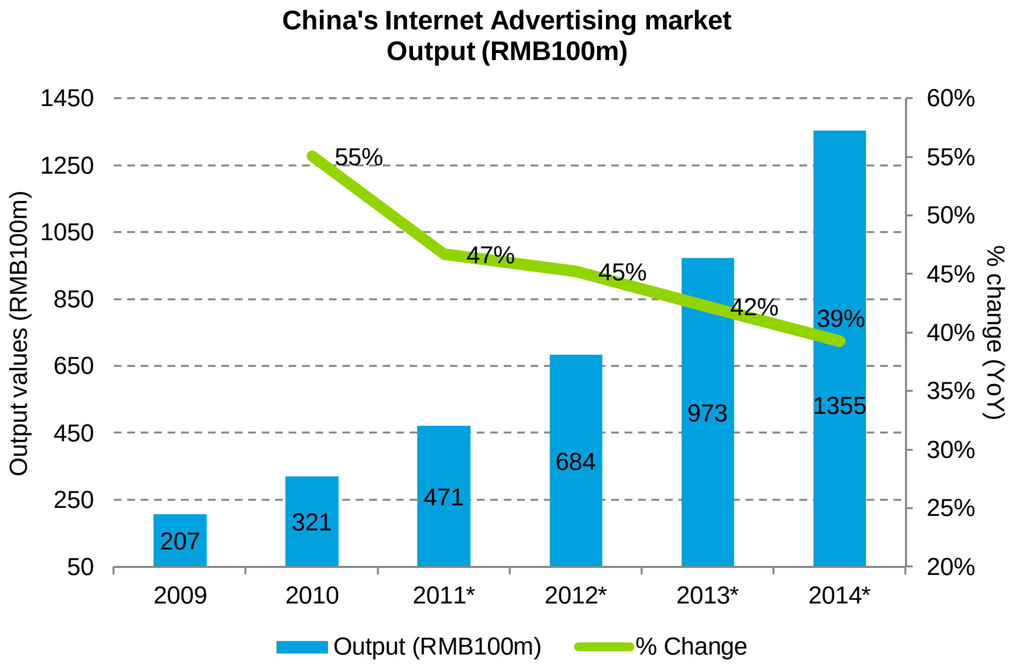


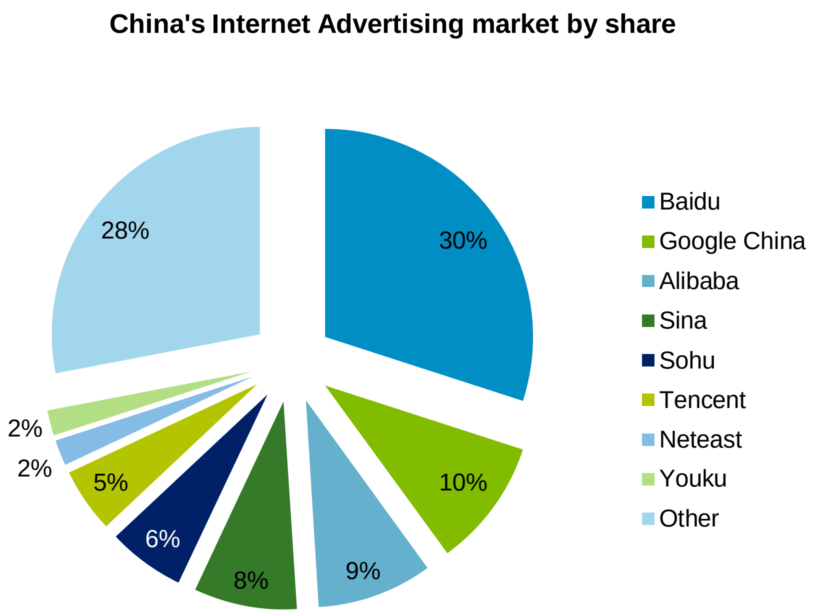
The animation market in China looks to be in the verge of a period of rapid expansion, with year-on-year growth rates heading northwards over the whole forecast timeframe. As a result, the CAGR for the industry is estimated to be around 19%, a figure that is no doubt boosted by the fact that the Chinese government has encouraging the development of the industry, meaning that China how has the world's largest number of animation professionals and production capabilities in the world.

And they have reportedly been very busy. According to the 2010 Annual Report on the Development of China's Animation Industry, domestic animators filmed 220,500 minutes of animation over the course of the year, reportedly putting china in first place for animation production.

However, the development of the industry has not been without its difficulties. The market has been plagued with quality control issues, while efforts to cultivate a truly indigenous industry is proving especially troublesome. "Private studios of about 100 employees like us do not have the ability to produce original animation. We can only take outsourcing projects from foreign companies. So employees can only learn by doing" summed up one studio manager to Xinhua, the Chinese news agency, recently. Moreover, scandals, such as the accusation that a soon-to-be-released domestic cartoon series is actually a copy of a previously-shown Japanese show, has done little to inure the industry to its supporters and critics alike.

Internet advertising to see revenues in excess of RMB10bn in 2014





The other stalwart of China's creative industry – the internet advertising market – is forecast to see output levels go through the RMB10bn mark in 2014, with steadily declining year-on-year growth over the same timeframe, showing that the market is slowly maturing. However, sales are obviously driving growth in the market, with Xinhua reporting that Q1-Q3 2011 sales metrics indicate that the industry raked in RMB13.8bn – a 22.5% quarter-on-quarter increase from Q2 2011 and a massive 83.1% rise on year-on-year metrics.

This recent jump in terms of advertising spend is primarily due to corporates investing more in the online space, said one market analyst, who went on to mention that this was primarily due to the increased efficiency of pay-per-click models of internet advertising as pioneered by iClick Interactive (see related article). He also suggested that the advent of new mediums of online advertising, including video and interactive advertising, were also driving growth.

Insights from the market: e-publishing

Mr Kai Hou, CEO & Founder, Girlbook

Do you think the e-publishing industry will see further growth in China? Do you think their products will eventually start competing against printed traditional publishers anytime soon?

I think that this shift over to digital publishing is very likely to happen over the medium- to long-term but over the near future, I think traditional publishers will continue to dominate this particular niche. It must be said that many book publishers already derive a small but growing percentage of their revenue and profits from the sale of e-books. However, I don't think a wholesale shift over to widespread e-publishing is on the cards for the next five years at least – there are a number of issues associated with e-books and e-publishing that need to be resolved before the trend takes off here in China.

Can you elaborate on what these issues are?

There are many concerns, but one specific one is the issue of IP rights. Until better legal frameworks are developed that effectively protect publishers of e-books, as well as indigenous manufacturers of e-book devices such as Amazon's Kindle, Apple's iPad and Sony's e-reader, a domestic e-book industry is unlikely to develop anytime soon. It was recently suggested that only 20% of e-book publishers actually hold the digital copyrights to the e-books that they sell, obviously a huge concern for suppliers and consumers alike.

Another problem is that local manufacturers of e-book devices were, until recently, not scaling their operations effectively. Businesses typically produced handheld electronic books but they are not marketed as e-readers as such, but more as expensive gadgets. Hence, annual production stood around the two to three thousand mark before the advent of the iPad, which – upon entering the market – severely hurt these players' market share. Even now, leading market players such as Hanvon, the developers of the first color e-ink display for an e-reader, are struggling, with the business's Q3 2011 financial figures showing a loss of US$16.3m compared to a US$15.67m profit in the same period last year.

Does culture play a part in the adven – or ultimate failure – of an indigenous e-book industry in China?

Absolutely. In China, most children love reading when they are young. However, by the time they enter university, this childhood fascination has typically faded. So the problem that traditional book publishers face is that many of our consumers now prefer short, snappy and entertaining pieces of literature as opposed to longer, more thought-provoking material. How publishers go about providing them with such reading matter is one of the main challenges facing the industry.

However, in this respect, I view e-reading devices, especially the iPad, as a force for good insofar as they are multi-faceted devices, meaning that they could inadvertently rekindle people's passion for reading again – even though they didn't know they had previously lost it!

Do you see a fair amount of private equity interest in Chinese book publishers?

Publishers always have their fair share of investors looking to inject capital into their businesses – adding credence to my belief that book publishers will be around for a long while yet! However, one issue that prospective investors need to realize about book publishing here in China is that publishers tend to be very conservative and cautious in their dealings with outside investors simply because there are so many potential pitfalls in this business. It's a regulated market with its own set of complex intricacies so North American & European VC and PE approaches and methods simply won't work here. Book publishers prefer minority stake investors who adopt a very hands-off approach in fact.

Insights from the market: TV content production

Dr. Helen Yang, President, Vivid Media

What do you think will be the most defining trend impacting the TV content provision industry over 2012?

The most important trend that is likely to define this particular space over 2012 is the new set of government regulations that will look to raise the moral standard of TV shows. Over the years, many content providers have cut costs and boosted profits by producing an increasing number of entertainment, talk and chat shows, some of which are seen to be morally dubious.

The proposed legislation will result in radical changes to the TV production industry. Reputable agencies will see their market share rise as TV channels scramble to replace their content with more cultural and educational programs. Players who previously produced a mixture of entertainment and cultural/educational programs will most likely undergo a period of readjustment before finding the right product mix. Finally, those who solely produce entertainment shows will most likely go to the wall.

Despite this large-scale shake-up, I don't see a massive amount of domestic consolidation taking place in the industry for the simple reason that these distressed assets will essentially be too toxic to touch – they are beyond rescue. However, that said, struggling assets with some measure of creditability could be acquired at fire sale prices.

Furthermore, the industry is likely to see a massive influx of foreign programs hitting the airwaves once the new regulations come into effect. The fact of the matter is that Chinese content providers don't have the requisite content to quickly fill the void, so shows like the UK's *X-Factor,* the US's *American Idol* and others of that elk are likely to be broadcast over the airwaves over the short term at least. However, I expect that, over time, locally-produced shows will eventually replace them.

A short history of TV content regulations in China

2007	China's TV regulator, the state administration of Radio, Film & Television (SARFT) issues regulatory guidelines, stating that some talent show programs were 'vulgar' and did not conform to the healthy and positive stereotypes that TV programs should propagate.
2010	SARFT issues further regulations, this time covering dating shows in order to curb media hype surrounding the contestants.
Oct 2011	SARFT issues its most wide-ranging set of regulations to date. Aimed at curbing TV shows of 'low taste and excessive entertainment,' SARFT limits each of the country's 34 satellite channels to just two entertainment programs per week, with more news, moral education and documentaries being encouraged.
Nov 2011	TV broadcasters are left reeling when SARFT issued a further communiqué stating that running adverts during any TV drama programs and movies over 45 minutes in length is to be banned from January 1 2012.
May 2012	Since the regulation took effect this year, the total number of weekly entertainment programs scheduled for prime-time broadcast dropped to 38 from 126 according to a statement from the State Administration of Radio, Film and Television.

Source: China Daily

A view from the PE window: Bertelsmann Asia Investments

Arguably one of the most important media groups in the world, Bertelsmann AG currently employs more than 100,000 staff across 63 countries. The company also manages the RTL Group, Europe's biggest radio and television broadcaster, Random House, the world's largest trade book publisher, Gruner + Jahr, the biggest magazine publisher in Europe, and BMG Rights Management a leading global music rights management company among other interests.

As Bertelsmann's strategic investment arm in Asia, Bertelsmann Asia Investments (BAI), is a strategic venture investor focused on early-to-growth stage investments, particularly in the new media, education and Business Process Outsourcing sectors. The fund is headquartered in Beijing, China, where Douglas Robinson, Deloitte China's M&A Research Manager, spoke with Annabelle Long, CEO of BAI & Theresa Yu, the fund's Director for Business Development.

Ms. Annabelle Yu Long is the Managing Director of Bertelsmann Asia Investments and is also the Chief Executive of Bertelsmann China Corporate Center, based in Beijing, where she is responsible for Bertelsmann's strategic development in China. Ms. Long has been with Bertelsmann for several years and was previously a Principal at Bertelsmann Digital Media Investments. Prior to that, Ms. Long worked in the Corporate Development team for Random House in New York where she assisted in developing the new media strategy for Fremantle Media. She also helped to establish Bertelsmann's China Corporate Center.

Ms. Long started her career as a TV anchor and then became a producer for a variety of highly rated, award-winning television and radio programs in China. Ms. Long sits on the Board of Directors of several companies including China Distance Education Holdings Limited and is also a Board Member of the World Economic Forum's Media, Entertainment and Information Steering Committee. She holds an M.B.A. from the Stanford Graduate School of Business and a B.S.E.E. from the University of Electronic Science and Technology in China.

Bertelsmann Asia Investments (BAI) is a strategic venture investor focused on early-to-growth stage investments particularly in the new media, education and BPO sectors. As Bertelsmann's strategic investment arm in Asia, BAI actively seeks investment and strategic partners in China. The fund is headquartered in Beijing, China. BAI is a wholly owned subsidiary of Bertelsmann AG.

What industry opportunities are you currently interested in?

Annabelle Long: We are currently excited about opportunities in three particular sectors, the first of these being in the technology, media, and telecommunications (TMT) spaces. At BAI, we don't believe that TMT opportunities necessarily can, or should be, rigidly divided into their three component categories. Instead, the fund tends to view them as being closely intermeshed with one another. So much so in fact, that BAI prefers to call such opportunities 'technological solutions'.

The second sector on which BAI is currently focused is the Education industry, especially in regards to the role technology plays in supporting the provision of educational services across Greater China. It is the fund's view that the emphasis placed on children's' education by modern-day Chinese parents is unrivalled anywhere in the world – an emphasis that has partly been shaped by China's one-child policy, and fueled by rising incomes and living standards, and improved access to economic opportunities.

Lastly, we are also actively examining opportunities in the BPO sector – this simply being a logical progression from the current Consumer Business sector play. As China continues to shift from a model of export-led growth to one more reliant on domestic consumption, the provision of business services at home will need to be upgraded and overhauled, as consumers begin to demand full service capability and world-class service.

Could you give us a potted history of investments made in China's Tech and Media sectors?

Theresa Yu: A decade ago, the industry was playing catch-up with the rest of the world and trying to imitate trends in the West and Japan. However, in line with China's recent rapid economic development, a strengthening domestic industry has begun to germinate as local entrepreneurs fuse local customs and cultures with foreign ideas and technical expertise from abroad.

And as these seeds are sown, the industry began to witness the emergence of a multi-tiered approach to the creation of local Tech and Media products – namely that any such offerings are Social, Local, Mobile, perhaps better known by its catchier buzzword 'SoLoMo'. The emergence of this particular ideology is especially strong across the mainland – so strong, in fact, that BAI decided to capitalize on it, recently investing into a Chinese social commerce site, www.mogujie.com, a creative new model unseen elsewhere else across the globe and one that highlights the country's growing ability to bring unique applications successfully to market in China.

Annabelle Long: I'm particularly proud of the investment mentioned above. It's cutting edge, from both a technological and cultural perspective, and I believe that this new way of marketing goods and services will spawn a whole new paradigm in terms of being able to use the internet to sell products and services.

Talking of investments, what differentiates you from the rest of the pack?

Annabelle Long: Well, Bertelsmann Asia Investments is different to other private equity and venture capital investors insofar as we are our own LP as well as GP – meaning that we can focus 100% of our attention on making value-enhancing investments as well as nurturing our current portfolio businesses. We were created in 2008 with a multi-hundred-million dollar capital injection from our parent company Bertelsmann AG. So far, we have invested in 12 businesses, utilizing Bertelsmann's global reach, economies of scale and world-class investment expertise in order to add significant value to every one of these companies.

As a result of this unwavering attention to detail – and to the fact that we do not have external partners who expect a return on their capital regardless of the wider economic climate – we are able to undertake acquisitions with a much lower exposure to risk than our competitors, ultimately meaning that we are able to offer better deal terms to our potential portfolio companies than our competitors.

You just mentioned synergy creation via Bertelsmann AG – could you give an example?

Annabelle Long: The best way to illustrate this is by looking at a recent case. In early 2011, BAI, along with SSG Capital Management and Sumitomo Corporation Private Equity, led an investment into a Hong Kong based company called iClick Interactive – a startup that had successfully developed an advanced cross-media advertising optimization platform. The fund was initially hesitant to invest, given iClick's lack of presence in Mainland China, as well as our own relative inexperience in the space (the deal was BAI's first investment outside of mainland China). However, we changed our minds once we recognized the projected synergies and the ways in which Bertelsmann AG would be able to assist iClick Interactive in achieving its growth goals. For example, Arvato, Bertelsmann's BPO division, was able to assist iClick in overhauling their service provisions, while other arms of Bertelsmann were also able to provide solutions and create partnerships which ultimately resulted in the creation of large-scale efficiencies. These synergistic ties truly brought iClick one step closer to realizing its strategic goal of expanding across the region.

What do you look for when considering whether to invest in a company?

Annabelle Long: Our investment philosophy obviously revolves around transparency, honesty, passion, vision and integrity. Obviously, we are not going to invest unless we are satisfied that the venture will succeed – and this includes looking at the ability of the counterparty to execute the deal effectively. Unfortunately, we've seen some investment opportunities slip away on occasion because the counterparties were not fully committed to the transaction process.

Furthermore, with early-stage investments, there is much more of an element of partnership than with later-stage fundings. At these junctures, we are much more likely to examine our partners' ability to interact - not only with our own teams – but also with other investors and stakeholders. This ability is not as crucial in later-stage investments where we adopt a much more passive stance towards our portfolio companies.

So in summary, we are looking for a set of qualities defined by ethical corporate behavior, as well as a determined, and persistent approach to doing business successfully, including, an unwavering commitment to the deal and – dependent on the deal type – a proven ability to interact with a wide range of interested parties.

To examine the private equity side of your business, what are the main differences that you can see between local and foreign PE investors – and more importantly – their styles of investing?

Annabelle Long: A lot has been made of the upcoming clash between local and overseas private equity firms in China, with many market practitioners believing that overseas investors will ultimately lose out to their domestic counterparts. However, I don't believe that this will happen anytime soon. It's an incredibly young industry in this geography and as a result, many private equity houses haven't yet carved out their niches and started to overlap their service offerings quite yet.

At the same time, private equity investment opportunities in China are proving to be incredibly numerous, so I don't actually think that competition between foreign and local private equity firms is going to be rife over the coming months and years. In most sectors, there seem to be more than enough deal-making opportunities to go around, given current capacity. In fact the main competition I foresee occurring between local and overseas investors is over scarce human capital resources, with both camps needing to hire GP teams on the ground in China in order to undertake their investment strategies.

And how do you see the relationship between China-based GPs and local LPs developing over the next couple of years?

Annabelle Long: Actually, my perception is that the indigenous private equity industry in China is relatively immature so it's somewhat too early to say how these all-important relationships are likely to develop. Many of the LPs here are first-generation players so to speak – they are young, relatively inexperienced, and unlikely to get involved in aggressive acquisitions.

Nonetheless, most of us accept that it is only a matter of time before things begin to change. The advent of RMB funds – currently large in terms of volumes but small in terms of actual capital raised compared to US$-denominated funds – is a prime example of this. At the same time, China-focused players are exploring more equitable alternatives to the typical '2 and 20' deal structure that is commonplace in US-style private equity arrangements and which have been shown to be less than ideal in terms of aligning all the relevant parties' interests.

What are your thoughts on the widely-rumored privatization of Shanda?

Annabelle Long: I think the upcoming privatization of Shanda highlights the growing maturity of Chinese TMT executives. Shanda's CEO obviously realizes that the US capital markets may not be maximizing the company's value and is exploring his options – a far-sighted move in my opinion. And if the privatization is completed successfully, it could also galvanize other first-generation US-based Tech and Media entrepreneurs to return to China.

To wrap up, what do you think will be the main trend governing growth in the Tech and Media industries over the next two years?

Annabelle Long: Firstly, I know that e-commerce may sound like a cliché nowadays – but I believe it's still a subsector with a great deal of creative potential and growth opportunity. Media companies will increasingly use e-commerce marketing methods to build their brands, diversify their revenue streams and improve the bottom line in ways that their traditional counterparts aren't able to do.

A view from the PE window: iClick Interactive

Established in 2009 by a group of internet veterans and technology experts, iClick Interactive (iClick) manages and connects internet marketing strategies across channels in a way that provides marketers with maximum efficiency and returns on investment. Marrying iClick's self-invented cross-marketplace optimization platform (XMO) which utilizes optimization algorithms, as well as historical advertising and business data, iClick is able to predict online campaign performance and formulate optimization instructions to deliver superior results that meet customer objectives.

iClick offers a comprehensive range of services that covers strategic planning, market and segment analysis, advertising campaign setup, data tracking, on-going optimization and analytics on media effectiveness as well as ROI. They have a strong and growing presence across the region with offices in Beijing, Shanghai, Shenzhen, Taiwan, Singapore Korea and Hong Kong, where Douglas Robinson, Deloitte China's M&A Research Manager, spoke with Sammy over coffee.

Sammy Hsieh, CEO of iClick Interactive, worked in various senior positions in different internet multinationals prior to starting up iClick. An Internet veteran with a stellar track-record in evolving and transforming Internet ideas into profitable business from the ground up, Sammy played a pivotal role in driving a number of Internet models, one of which was the successful launch of an Asian-focused pay-for-performance search marketing solution back in 2004, where Sammy was the key driver responsible for strategy, product development, marketing and sales. Currently, backed by various investors, Sammy recently established a Research and Development Centre in Beijing, where over 50 engineers and technology experts are exclusively focused on building the next-generation ad optimization and exchange platform which will provide the highest advertising return and unmatched value to marketers across the Greater China region and beyond.

iClick is no stranger to venture capital (VC) or private equity investment having previously received funding from two different PE/VC funds. How did the two differ in their approach to deal-making?

iClick was set up in 2009 and was already well-established by the time the Global Financial Crisis started to have a serious impact on global markets. Counter-intuitively, this, probably helped iClick during its infancy as online advertisers increasingly wanted to ensure that their advertising dollars were spent in a targeted manner. After a period of rapid expansion, Sumitomo Corporation Equity, the PE arm of Sumitomo Corporation, approached iClick with an offer to invest US$2.5m in the business via a deal which came with relatively few strings attached. As a result, the transaction was completed very quickly and Sumitomo PE undertook only a modest amount of due diligence prior to the signing of the agreement.

It was a well-suited match however. The investor had previously decided that they simply wanted to take a minority stake in a China-focused business that was also at the cutting edge of the technological curve. iClick fitted that set of requirements and crucially, Sumitomo were happy to take a passive role within the company for their troubles.

A year later, iClick had opened up a number of branch offices in China as well as an R&D center in Beijing. This, a need to increase its HR footprint (finding top-notch talent is difficult as well as time-consuming), as well as a desire to maintain a healthy distance ahead of its competitors also operating in the field, all meant that the business needed to find further 2nd round funding in order to replenish its working capital.

Sumitomo PE, along with two others, BAI and a strategic investor Otto, were ultimately the investors who saw the most value in iClick, allowing the business to expand its research capabilities in Beijing & Shenzhen and also giving it leeway to hire some of the world's leading experts on algorithmic development – the crux of iClick's whole business model.

Nonetheless, the 2nd round of funding was a different game the second time around, with iClick's reputation seemingly preceding it at certain critical points during the process. However, as a business, we decided that having BAI onboard as a strategic partner was the best choice of action despite the fact that the fund offered iClick the least attractive terms from a financial viewpoint. What BAI *did* offer iClick was a true understanding of our business model, and a fairly convincing plan in which BAI could back iClick as it moved into 2012 and beyond.

What advice would you give a Chinese Tech & Media startup which is looking for funding for the first time?

Firstly, don't worry about absolute amounts of capital. From iClick's experience, cornerstone investors are primarily there to be used as mentors, not as cash cows. My own personal view is that any founder who is looking for VC or PE capital in order to partially exit the business will undoubtedly suffer as a result of any forthcoming transaction.

Secondly, developing a strong rapport with the investor's management team is also very important – there's no point in seeking funding from an investor that doesn't see eye-to-eye with the startup's senior management. The same can be said about internal employees as well. Angel investors – especially in the TMT space – like to see potential portfolio companies operating right up at the cutting edge so hiring the best talent affordable is a strategy that is likely to pay off in the end.

Finally, be adaptable. In today's volatile markets, Flexibility is key. A potential investor might suddenly not be able to commit the amount initially stated, wants to change the terms of their involvement or pull-out altogether. Adopting a flexible and pragmatic approach to such challenges is the name of the game if the circumstances change – ultimately, the business will be better for it, whatever the outcome.

What drove your merger with DMG?

We completed a share-swap with DMG, a Hong Kong-based online marketing company in 2010, the tie-up allowing iClick to marry its cross-marketplace optimization technology with DMG's client servicing expertise hence, ultimately meaning that together, the two firms can now offer the market an integrated online marketing solution unmatched elsewhere.

The key to achieving this is due to the fact that iClick and DMG were able to merge seamlessly and without the loss of any talent, from either bidder or target – actually, this was a crucial pre-condition from the outset as iClick needed to merge with DMG 'whole', so to speak, or risk not successfully fulfilling its post-merger integration plans. As a result, senior management teams on both sides worked hard to achieve this outcome and both companies were very lucky to retain all existing staff.

However, that's not to say that the merger didn't encounter any difficulties at all. The online market service provision space is incredibly specialized, meaning that the processes and procedures that govern the operations of iClick and DMG respectively – especially from a technical and financial viewpoint – were very different. Therefore, intensive employee retraining on iClick products was required for all DMG staff – an aspect that was considered in its entirety during the planning stage of the merger. At the same time, DMG's previous business operations were almost exclusively focused on the Hong Kong market, meaning that their employees had to quickly switch over to handling a much wider – and therefore differentiated – marketplace.

What do you think will be the three online Media trends that will define the industry during 2012?

I foresee three trends taking the markets by storm over 2012. They are:

1) Performance-driven marketing. In today's financially-constrained climate, advertisers are increasingly moving away from traditional forms of online advertising, which were not cost-efficient, towards more streamlined pay-per-click models, which has been proven to have a better impact on their returns on investment.

2) Data mining. Data mining exercises will play an increasingly important role as advertisers seek more bang-for-their-buck. Recent transactions, such as IBM's acquisition of Unica for US$480m in 2010, primarily so that IBM could expand to help clients analyze and predict customer preferences and develop more targeted marketing campaigns, are portents of the growing power of data-miners.

3) The monetization of mobile social networks. The likes of Facebook and Weibo are all getting the attention of advertisers as such networks have every strong inferencing powers – meaning that their ability to persuade people to make one choice over another is relatively high compared to other online mediums. A business model which effectively monetizes this product, and –perhaps more importantly – transfers this model over into the mobile space – could end up being the industry success story of the 2010s.

The new e-commerce environment

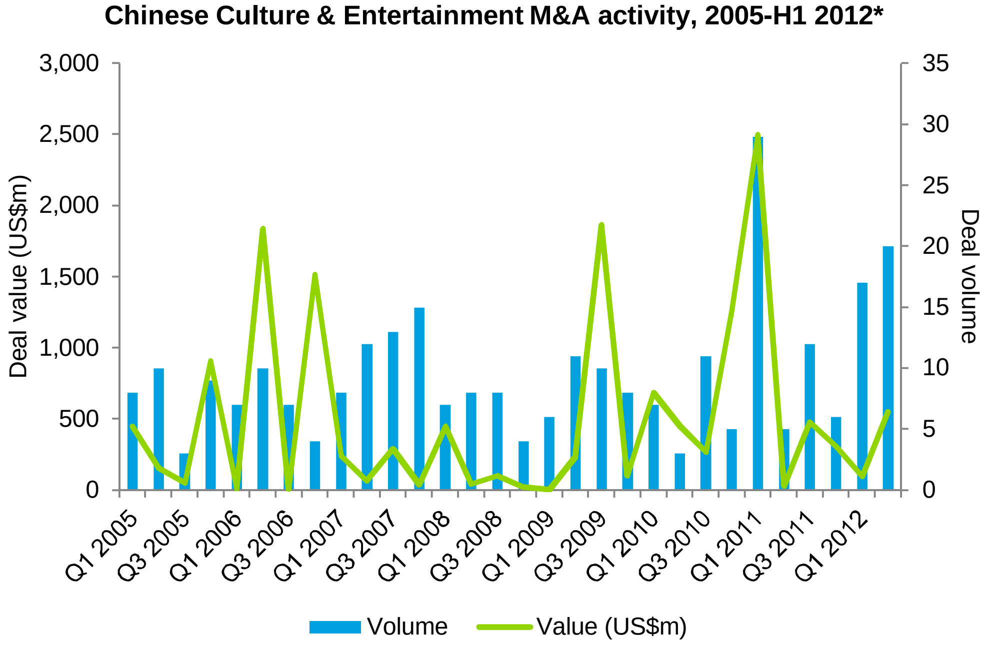
It's not just new businesses like iClick that are challenging existing online advertising markets. Technology giants such as IBM have also taken an acute interest in this niche arena, with IBM in particular, making the most of its size and stature to break into the market. The company has been on the M&A warpath of late, having undertaken some 80 acquisitions since the beginning of 2005 and spending some US$20.4bn in the process according to M&A intelligence provider mergermarket. With 22 purchases under their belt in the last 24 months alone, IBM's buy of Unica in August 2010 marked just one such example of Big Blue's ongoing shift away from hardware sales and into providing additional revenue-generating services for its customers.

The acquisition of Unica, as well as IBM's more recent purchase of Emptoris, another US-based producer of supply and contract management software, are the latest additions to IBM's *Smarter Commerce* initiative, launched in March 2011, which aims to assist companies respond to shifting customer buying patterns.

IBM estimates that the initiative is a US$20bn market opportunity in software alone. Smarter Commerce helps organizations that are struggling to meet the demands of rapidly shifting customer buying patterns in the era of mobile and social networks. This new digital marketplace requires companies to respond rapidly to customer demands by automating their buying, marketing, selling and service processes. Developing the right procurement strategy and an adaptive supply chain are keys to success in this evolving environment.

And IBM are more than happy to pay to secure such assets – their acquisition of publicly-listed Unica was conducted at a deal premium of 120% to the target's share price one day prior to the announcement. In fact, over 2010 and 2011, IBM paid a deal premium of less than 50% on only one occasion – a strong indicator that the company truly believes this is a space they should be investing in.

Chinese Culture & Entertainment M&A activity



Since the beginning of 2005 to the end of H1 2012*, Chinese Culture & Entertainment sector M&A activity has witnessed some 283 transactions, worth a total of US$15bn take place, meaning that deal flow in this particular industry accounts for a small but otherwise meaningful amount of M&A activity across the whole of Greater China.

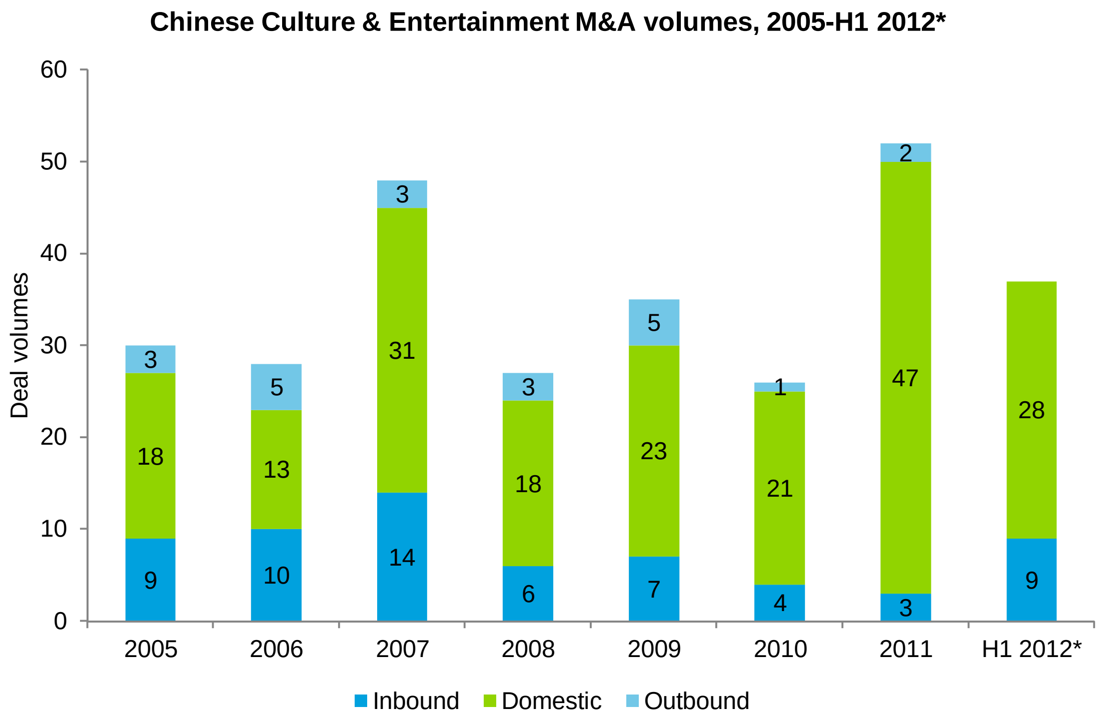
This point is neatly encapsulated by the fact that the compound annual growth rate (CAGR) of such deals coming to market over the past seven years (2005-2011) was just under 8.2% (8.17%). In comparison, overall Chinese M&A deal growth over the same timeframe rose by a CAGR of just 7.11% in terms of volumes – indicating that by one measure at least, the sector is outperforming the wider market.

Furthermore, an additional indicator of growth is the fact that deal volumes hit new heights over 2011, with volume figures indicating that 52 Culture & Entertainment deals were announced over the course of the year, with 29 of them coming to market over the first quarter. Furthermore, deal flow over the first half of 2012* saw 37 transactions take place, the largest number of M&A deals to be announced in any given six-month period.

Culture & Entertainment M&A valuations also tracked upwards over the period in question, with total investments into the sector more than doubling from around US$1.56bn in 2005 to US$3.31bn in 2011. As a result, the CAGR of M&A valuations in this particular industry rose by around 11.36% per year, just under the 12.8% rate for the overall Chinese M&A market.

However, looking at valuations towards the end of 2011, total Culture & Entertainment deal values started to tail off with values in H2 2011 totaling just US$786m, compared to US$2.53bn in the first half of the year – possibly an indication that there may be a continued cooling off in terms of Culture & Entertainment M&A activity over 2012 and beyond.

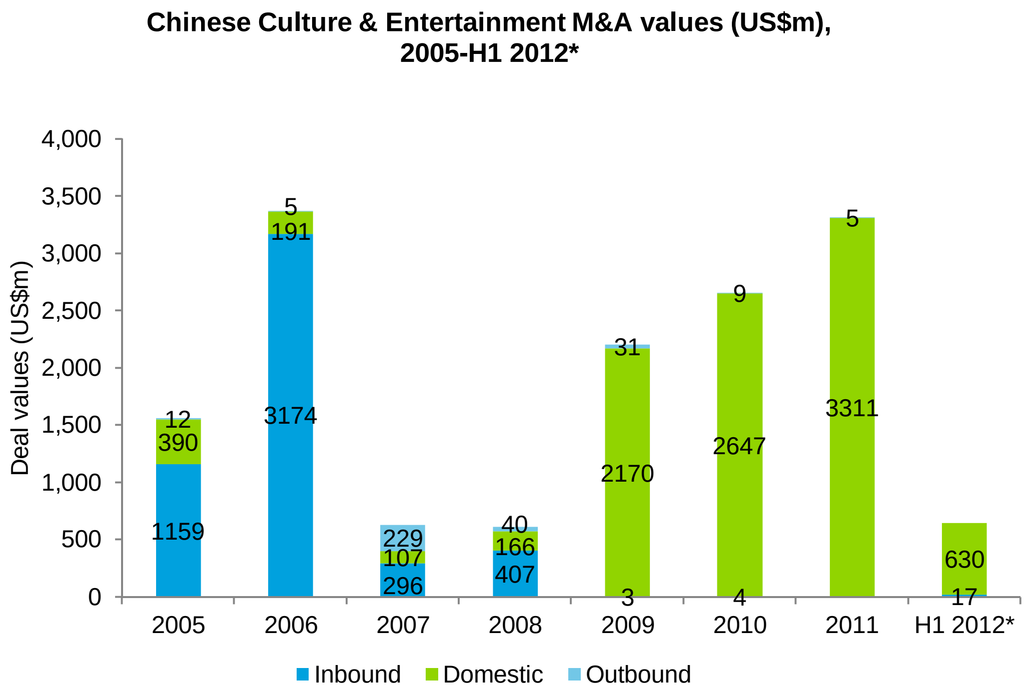
* H1 2012 includes all M&A data up to the 27 June 2012



Since the beginning of 2005, Chinese Culture & Entertainment M&A deals have mainly taken place in the domestic arena, with 70% of all transactions by volume being consolidation tie-ups. Inbound purchases make up a further 22% of deal flows while outbound buys account for the remainder – some 8%.

Nonetheless, these metrics hide some interesting variations in the data. For example, over the third quarter of 2007, just under half (46%) of all transactions were inbound deals, while at the height of the Global Financial Crisis (GFC) – Q4 2008 –all Culture & Entertainment M&A transactions were domestic plays. In fact this figure has remained relatively high and stable since then, with domestic deals making up approximately 80% of all transactions over the 2009-H1 2012* period. Prior to this (2005-2008), they accounted for just 60% of the total number of transactions undertaken.

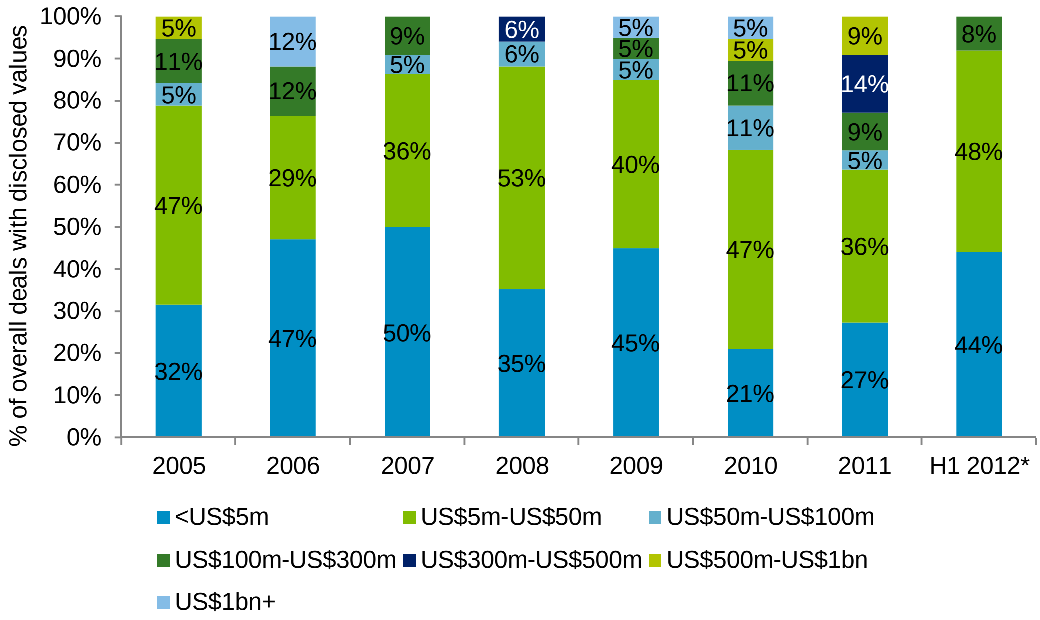
At the same time, inbound deal flow by volume dropped precipitously over the 2009-2011 period, accounting for just 12% of overall M&A activity. Just three inbound transactions were announced in 2011, presumably a direct corollary of the onset of the Eurozone sovereign debt crisis, a line of reasoning that is reinforced by the fact that no inbound deals came to market in the second half of the year at all. Nonetheless, the market has recovered somewhat since then, with nine such deals taking place over the first half of 2012, accounting for just under one-quarter of the total number of transactions undertaken.



The full impact of the GFC are clear to see from the above chart, with domestic M&A investments into China's Culture & Entertainment industry primarily being driven by foreign players up until Q3 2008, with their domestic counterparts taking over from thereon in.

From a quantitative perspective, between 2005 and the end of H1 2008, fully 83% of the total amount invested within the sector ultimately emanated from foreign investors, with just 12% stemming from domestic players and 5% of which was focused on outbound investments. However, over the subsequent three-and-a-half years, this mix changed completely – by the end of 2011, 99% of the capital being employed via M&A in the sector originated from domestic players, with overseas interest being relegated to a small number of insubstantial transactions.

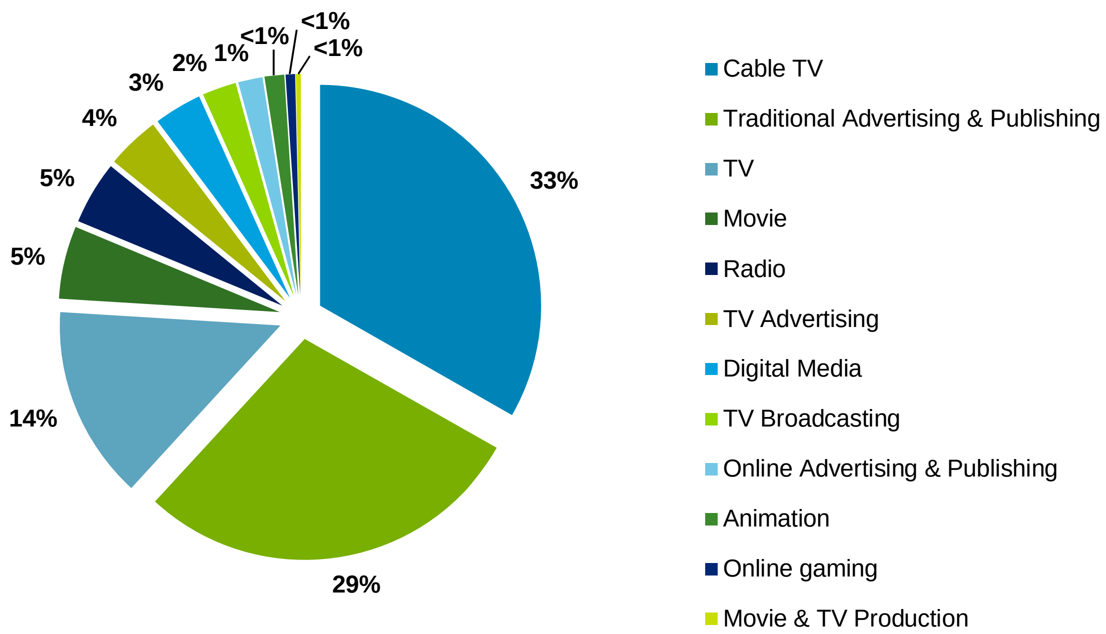
Chinese Culture & Entertainment M&A deal sizes, 2005-H1 2012*



It's perhaps unsurprising that Culture & Entertainment M&A transactions overwhelmingly fall into the small-cap (<US$50m) space, with four-fifths (80%) of all deals announced since the beginning of 2005 being categorized as such.

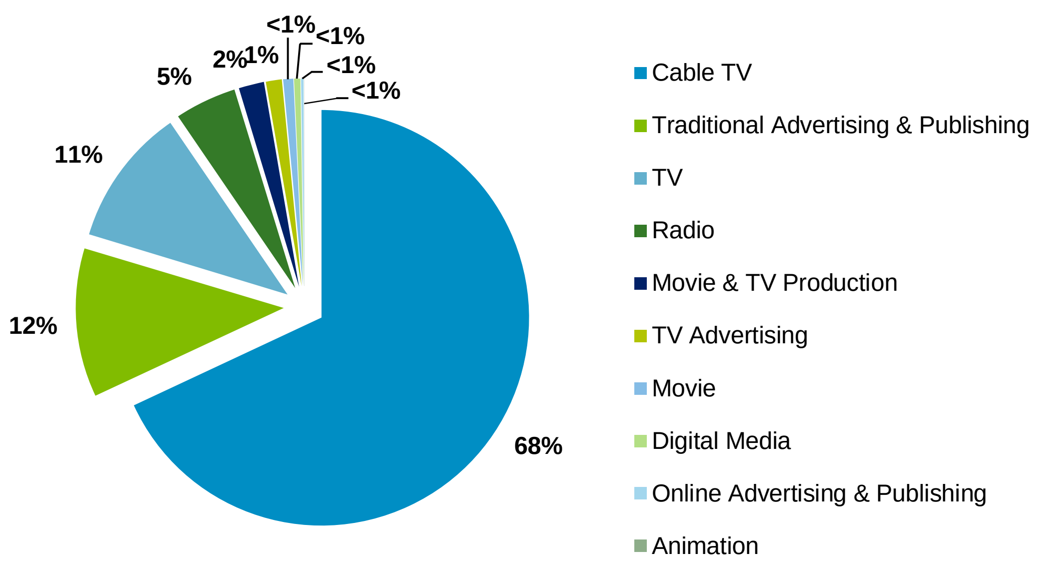
However, there seems to be a growing trend shaping toward undertaking larger transactions, with close to one-quarter of all deals over 2011 being worth more than US$300m. This rise in deal valuations has chiefly been driven by domestic factors, with the average domestic consolidation play in 2011 being valued at US$70m – up from the US$22m metric in 2005.

Chinese Culture & Entertainment M&A volumes, 2005-H1 2012*



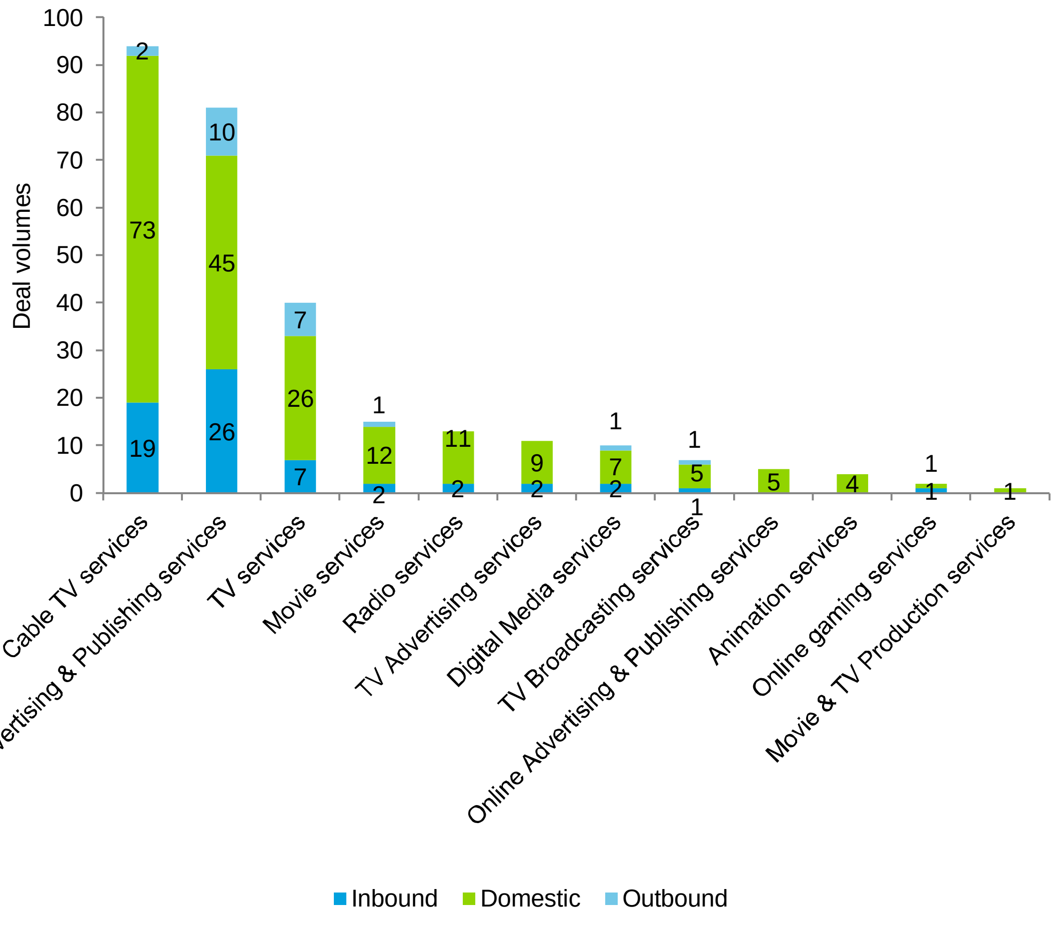
Deals in the Cable TV and Advertising & Publishing subspaces accounted for the bulk of activity by volume over the whole 2005-2011 period, making up 62% of overall volumes. Meanwhile, roughly one-in-seven transactions took place in the TV industry. The remaining 23% of deals outstanding were evenly spread across the remaining subsectors comprising the Culture & Entertainment industry.

Chinese Culture & Entertainment M&A values, 2005-H1 2012*



Looking at Culture & Entertainment M&A activity by values, again, it was the Cable TV and TV sectors that saw the bulk of activity over the 2005-Q3 2011 period, together comprising just under 80% of the total amount spent on making acquisitions within the sector. While comprising a sizable proportion of deal flow by volume, Advertising & Publishing M&A only accounted for a further 12% of deal flow by value (US$1.74bn), while Radio transactions made up a further US$722m of investments.

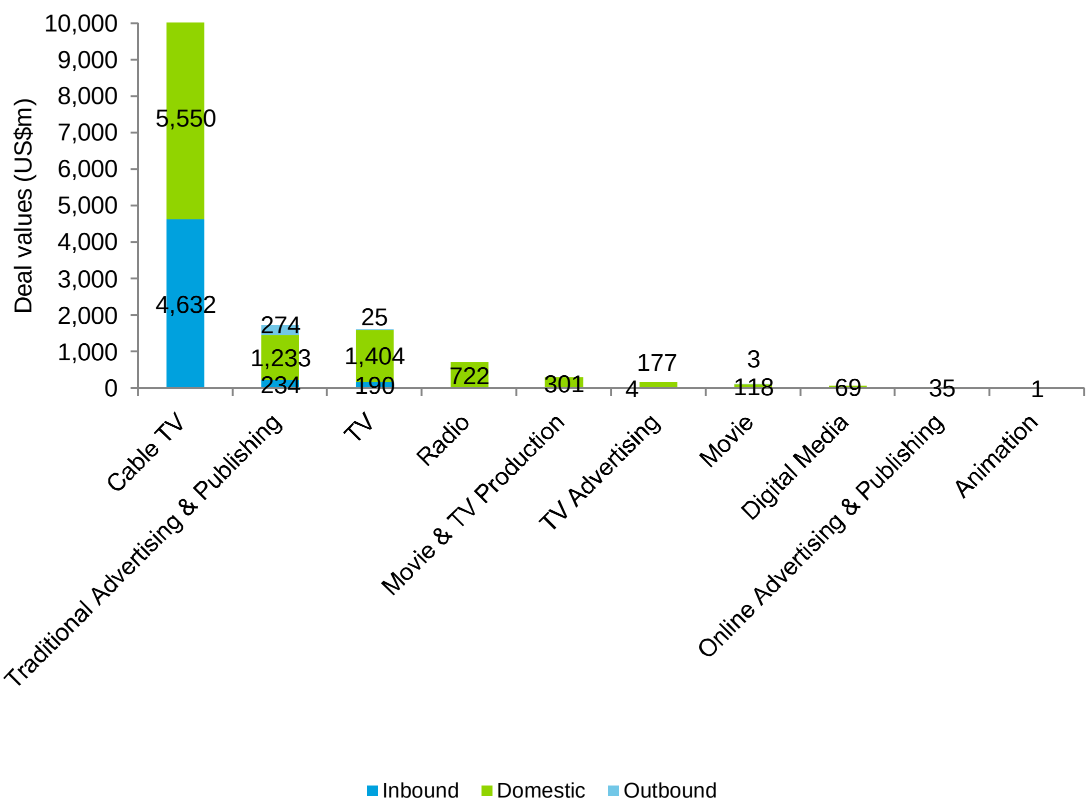
Chinese Culture & Entertainment M&A volumes, 2005-H1 2012*



Moving over to look at Culture & Entertainment M&A volumes by subsector/deal type, it is interesting to note that the two subsectors that were most likely to witness a *cross-border* M&A transaction over the past seven years were the Advertising & Publishing and TV industries, presumably due to the large number of prospective & latent cross-overs that were available to both indigenous and international specialists to translate into profitable business ventures. Overseas investors were also interested in Cable TV opportunities, with 19 deals having been consummated over the period in question.

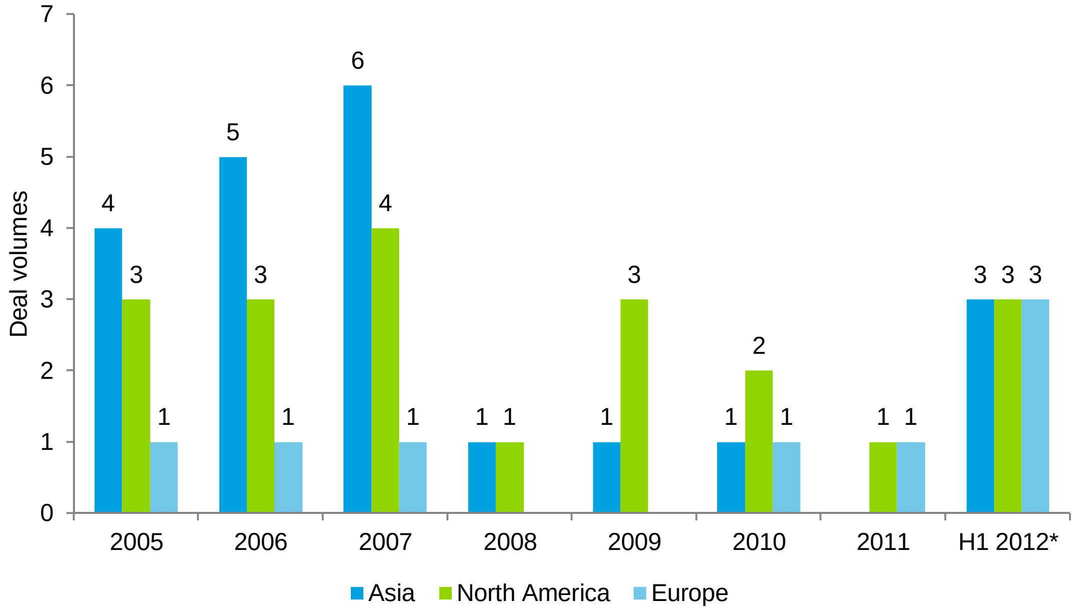
On the flip side, Radio and TV Advertising M&A has almost entirely been undertaken by *domestic* players, with more than four-fifths of all deals in these two subsectors being domestic in nature – a not unsurprising finding given the large role that local culture must play in generating the right content mix for these two industries.

Chinese Culture & Entertainment M&A values, 2005-H1 2012

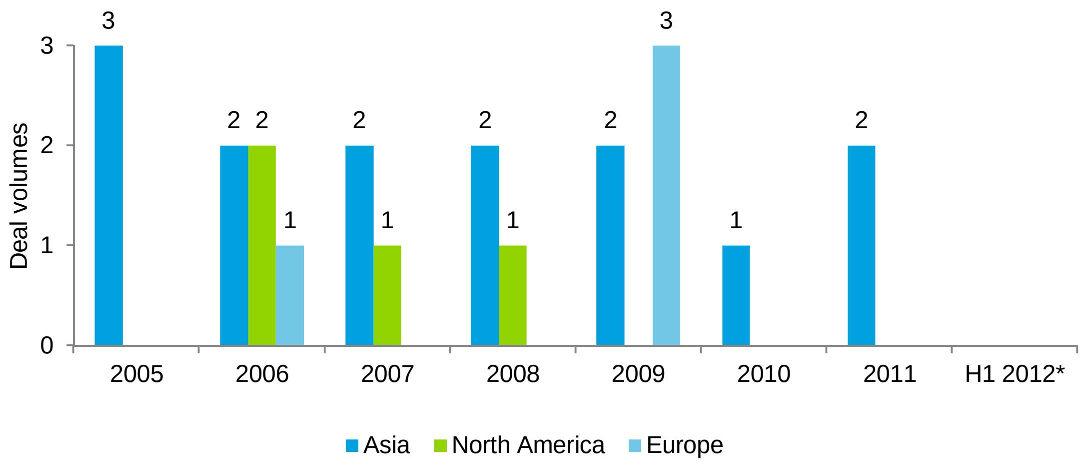


M&A valuations by subsector/deal type also indicate that the sector where cross-border investors are likely to put their money is within the Cable TV space, with overseas buyers spending a total of US$4.66bn snapping up Chinese Cable TV targets over the past seven years. Indeed, one of the largest such deals saw MBK Partners, the South Korean-based private equity firm, spend a total of US$1.5bn acquiring a 60% stake in China Network Systems, a Taiwanese TV network, from a local Financial Services company and a Hong Kong-based television broadcasting company in 2006.

Chinese Culture & Entertainment Inbound M&A volumes, 2005-H1 2012*

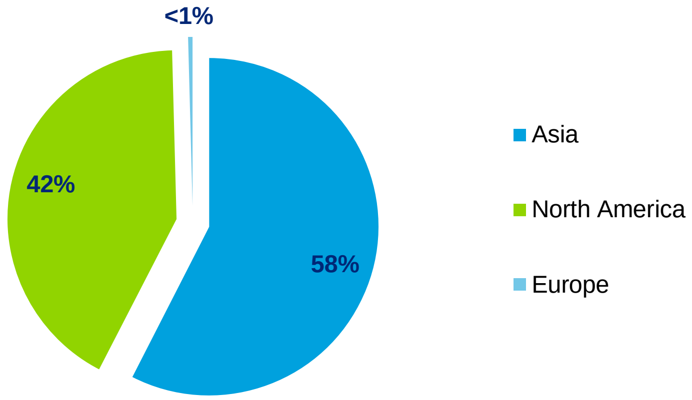


Chinese Culture & Entertainment Outbound M&A volumes, 2005-H1 2012*

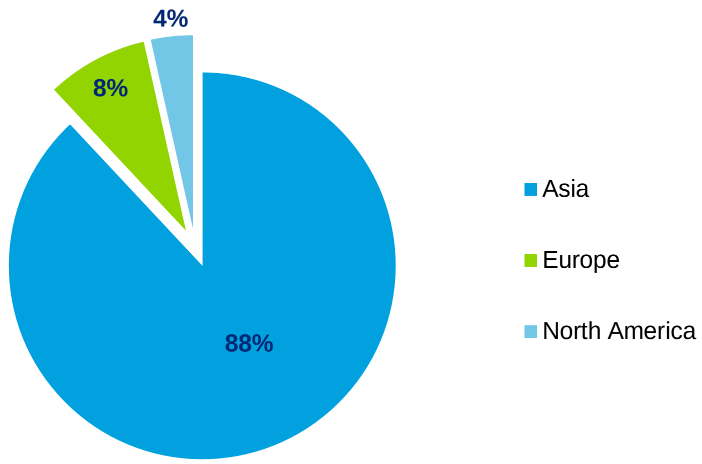


Looking at cross-border volumes by bidder & target geography, it is interesting to note that the bulk of such deal flow tended to be focused within Asia, with inbound deal flows stemming from Asian entities accounting for roughly 43% of the overall number of foreign Culture & Entertainment investments in China, and 64% of all outbound acquisitions over the period in question. At the same time, purchases stemming from North America accounted for 41% of all inbound deals while buys emanating from Europe made up the remaining 16%. Similarly, from an outbound perspective, 18% of all Chinese bidders ended up targeting either North American or European assets over the 2005-H1 2012* timeframe.

Chinese Culture & Entertainment inbound M&A values, 2005-H1 2012*



Chinese Culture & Entertainment outbound M&A values, 2005-H1 2012*



From a cross-border valuations viewpoint, the bulk of activity has also stemmed from the Asia-Pacific region, with inbound players spending a total of US$2.9bn on Chinese Culture & Entertainment assets, with Chinese bidders reciprocating to the tune of US$290m. North American bidders spent a further US$2.1bn while European acquirers either didn't either disclose how much they paid for Chinese targets, or spent a very small amount – The total spent by such players amounted to just US$22.1m over the whole seven-year period.

Rank	Quarter of deal announcement	Deal type	Target	Target territory	Target sector	Bidder	Bidder territory	Value (US$m)
1	Q3 2009	Domestic	Kbro	Taiwan	Cable TV services	Taiwan Mobile	Taiwan	1814
2	Q4 2006	Inbound	China Network Systems	Taiwan	Cable TV services	MBK Partners	South Korea	1503
3	Q2 2006	Inbound	Eastern Multimedia	Taiwan	Cable TV services	The Carlyle Group LLC	United States	1500
4	Q4 2010	Domestic	Kbro	Taiwan	Cable TV services	Daniel & Richard Tsai	Taiwan	1182
5	Q4 2005	Inbound	Taiwan Broadband Communications	Taiwan	Cable TV services	Macquarie Group; Southern Cross Media Group	Australia	879
6	Q1 2011	Domestic	TVB	Hong Kong	TV services	Providence Equity Partners; Chan Kwok Keung; Cher Wang	Hong Kong	805
7	Q1 2011	Domestic	BesTV Network TV Tech Development	China	Cable TV services	SVA Information	China	643
8	Q1 2011	Domestic	Hubei-Publishing Asts	China	Traditional Advertising & Publishing services	Shanghai Worldbest Industrial Development	China	545
9	Q1 2008	Inbound	Taiwan Broadband Communications	Taiwan	Cable TV services	Macquarie Korean Opportunities Fund	South Korea	365
10	Q4 2011	Domestic	China Entertainment Media Group	China	Movie & TV Production services	ChinaVision Media Group	Hong Kong	301

The largest Culture & Entertainment deal to be announced over the past seven years saw the Taiwan Mobile Company, the Taiwanese telecommunications group, look to acquire a 60% stake in capital bro, the local cable TV operator, from Carlyle, the US private equity firm, for a total of US$1.8bn in September 2009. The deal would have represented a 39% return-on-investment for Carlyle, who snapped up the stake, along with a involvement in Eastern Multimedia, another domestic cable TV operator, for a reported US$1.3bn in 2006. However, due to restrictions on ownership, the deal lapsed in 2010 as Taiwanese regulations prohibit government ownership of media companies. This meant that Fubon Financial Holdings, the parent company of Taiwan Mobile which is also partially owned by the Taipei City Government, fell foul of this ruling.

Nonetheless, this didn't dissuade the parties involved, with Taiwan Mobile's owners – Daniel & Richard Tsai – quickly returning to the table to discuss a subsequent tie-up. The result was a US$1.182bn transaction which saw the two bidders take an 80% stake in the firm.

Another acquirer within the Chinese Culture & Entertainment sphere is SVA Information, which, following a restructuring in Q1 2011 which saw the Shanghai Media Group take a 36.6% stake in the electronics manufacturer for US$301m, undertook the acquisition, of BesTV, IPTV, the Chinese firm that is engaged in developing IPTV technology for US$650m.

Looking forward

Most recently, Hunan TV and Broadcast, the Changsha-based, state-owned media company, announced that it has plans to form a JV with Sohu, the Chinese Internet company, according to Beijing Business Today. The article cited an unidentified source who said Sohu will take a larger portion of stake in the JV, which will subsequently go on to produce a talent show.

In the private placement market, Changjiang Publishing Media recently publicized that it is looking to raise up to US$186.8m via a private placement. The listed publishing company intends to issue up to 160.08 million new shares at no lower than US$1.17 apiece to a maximum of 10 investors. The lock-up period for the new shares is understood to be no more than 12 months. The company will use the expected proceeds to fund various working projects covering the cultural, entertainment, and education sector, as well as replenish its working capital.

In other news, the board of Advision Media the Shanghai-based LED media company is reportedly considering takeover offers. According to reports, Advision's management team, as well as SAIF Partners, who own a 30% stake in the company, planned to conduct an overseas listing of the business in 2011 but given the current weak IPO market, it has been speculated that an exit via a takeover sale would be more logical for all shareholders.

The rumor mill continues with Fortune Star Entertainment, a privately-owned Beijing-based entertainment company and TV-program maker, announcing plans to raise US$4.7m via a 20% stake sale by the end of this year in order to secure funding to develop new TV programs. The company is reportedly now receptive to approaches, especially from domestic or international private equity funds

Beijing HualuBaina Film is also interested in foreign media partnerships, with the China-based producer of TV dramas and films wanting to join forces with an overseas partner in order to enhance its overseas distribution channels and obtain expertise in filmmaking via these partnerships.

With the outlook for the global, as well as the Chinese, economy softening, non-core asset disposals of Media & Entertainment subsidiaries could also rise as businesses look to refocus their attentions on core-operations. Anhui Expressway Company is one such business, having recently made it public that they are looking to divest a 38% stake in their media subsidiary, Anhui Expressway Media. According to reports, the company has total assets worth US$240m, and reported net profits of US$33.5m in 2011.

Another company that is looking to divest its holdings in a local media business is Shanghai Xinhuawen Investment, which is looking to sell out of its stake in Huawen Media Investment. The move, if consummated, would follow in the footsteps of PICC Investment, who sold a 55% holding in Huawen previously.

However, one acquisitive local player is China Publishing Group, which is reportedly seeking acquisition targets in Europe. The company has already held preliminary talks with certain companies and is expecting to buy editing, printing and distribution assets, as well as form JVs, across the continent.

Another potential acquirer is Clear Media, the Hong Kong-based outdoor media company which is looking to expand into alternative outdoor advertising platforms across China. With over 35,000 bus shelter advertising locations spread across 28 of China's major cities, Clear Media holds a dominant position within China's outdoor advertising space, and a 13% share of the entire Chinese ad market. Furthermore, it has an M&A war chest of around US$200m to spend and is looking to acquire targets with annual revenues of between US$16-65m.

Stop Press

Dalian Wanda/AMC Entertainment

As this report went into publication, Chinese developer of commercial properties Dalian Wanda Group, announced that it had agreed to an acquisition of the US-based AMC Entertainment, the owner and operator of movie theatres, in a deal that was worth US$2.6bn, a figure which included US$1.94bn of AMC's debt. Furthermore, post completion, Wanda intends to invest up to an additional US$500m in AMC to fund AMC's strategic and operating initiatives.

The deal also represents an exit for AMC's private equity owners Carlyle, Weston Presidio Capital, Apollo Global Management, Bain Capital, JPMorgan, CCMP Capital Advisors and Spectrum Equity Investors. The consortium acquired AMC in 2004 for US$2bn.

A month before the transaction, Wanda submitted IPO applications to both the Shanghai and Shenzhen Stock Exchanges. According to mergermarket, a M&A intelligence provider, the AMC acquisition could add a feather into Wanda's cap as it looks to attract potential investors to its upcoming US$1.5bn IPO.

According to the Financial Times' Lex column, Wanda is expanding its domestic cinema network as it looks to tap into annual growth rates of 30% or more for the industry. As a result, it has much to learn from the US – the world's biggest cinema market with annual box-office sales five times bigger than China's. The newspaper goes on to note that by keeping AMC's management in place, Wanda should be able to gain knowhow. And the deal will not do any harm in the run-up to the pending A-share listing of Wanda's cinema unit in Shanghai. At the same time, Kansas-based AMC needs capital to refurbish existing cinemas and expand, especially since its revenues grew by just 2% over the past three quarters, half the rate of US box-office sales growth over the year.

The New York Times' Dealbook column also adds that Wanda could also use its newly-acquired theaters to help pry open an export market for Chinese-made films. When asked, Wanda's Chairman and President didn't directly refute the prospect, instead suggesting that the newly-merged theatre company could also be used as a platform for the development of commercial property, hotels and retail centers across the United States.

DreamWorks/China Media

In the latest deal involving American film studios targeting Chinese film and entertainment companies, DreamWorks Animation recently announced a joint venture with three Chinese partners: China Media Capital, Shanghai Alliance and Shanghai Media Group, in a deal worth US$350m. This joint venture sees DreamWorks Animation holding a 45% stake in the new company, called Oriental DreamWorks. The other three entities will hold the remaining 55% stake.

While Oriental DreamWorks will primarily focus on film and television content production, the deal will also see the construction of a US$3.1bn entertainment complex named "Dream Center", touted as equivalent to Broadway and West End in 2016. The complex will be situated along an 8.4km stretch of Shanghai's Huangpu River, alongside the site of the 2010 World Expo that attracted more than 80 million visitors.

DreamWork's eagerness to crack the Chinese market is clear to see. Chinese box office receipts amounted to a total of US$2bn in ticket sales last year, making it the world's second-largest market. And with the Chinese movie market expanding by more than 30 percent every year, China has increasingly been the focus of Hollywood's new ventures. Just last year, Relativity Media, distributor of hits such as the Harry Potter and Transformers franchises, successfully completed two joint-ventures with different Chinese partners. And this interest extends beyond just distribution rights, with increasing cross-border opportunities also taking place within the content creation space, as the Oriental DreamWorks venture shows.

Currently, imports of foreign films into China on a revenue-sharing basis are currently limited to just 34 films per year, a number that was raised from 20 earlier in 2012. Thus, this joint venture would strengthen the studio's position in China, giving it better access to a market in which Hollywood has had limited success because of these limits.

However, as ever, investing in China is not without its concerns. Despite improving controls over intellectual property protection, there are still questions of whether there is a risk of IP being 'stolen' by Chinese partners. In response to this, DreamWorks CEO Jeffrey Katzenberg remarked, "“Not really. In terms of what we do, anyone and everyone can have a paintbrush. But that doesn't mean they can be a painter. That requires great storytelling."

With all the hype surrounding China's cultural pursuits, it remains to be seen whether this joint venture will succeed. The voracious Chinese appetite for entertainment will most likely not be sated anytime soon. For example, Kung Fu Panda was a huge hit, taking in US$95m at the Chinese box office. DreamWorks certainly hopes that Kung Fu Panda 3, set for production in China and with a release date in 2017, will replicate this success.

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