The information set out in this section has been extracted from various official government publications. Such official information may not be consistent with other information compiled within or outside the PRC. The Directors have taken reasonable care in the extraction, compilation and reproduction of the information in this section.

GROWTH OF INTERNET IN THE PRC

The Internet usage in China has experienced rapid growth in recent years. China currently has the second largest number of Internet users in the world. According to CNNIC, number of Internet users in the PRC grew from 33.7 million in 2001 to 210.0 million in 2007, representing a CAGR of 35.7%. The following table sets forth certain information related to the Internet in China during the period from 2001 to 2006:

	2001	2002	2003	2004	2005	2006	CAGR (2001-2006)
China's population (in millions)	1,267	1,285	1,292	1,300	1,308	1,314	0.7%
Per capita annual disposable income of city households (RMB)	6,860	7,703	8,472	9,422	10,493	11,759	11.4%
% growth in per capita annual disposable income of city households		12.3%	10.0%	11.2%	11.4%	12.1%	
Internet players (in millions)	33.7	59.1	79.5	94.0	111.0	137.0	32.4%
Internet penetration	2.6%	4.6%	6.2%	7.2%	8.5%	10.5%	N/A

Source: National Bureau of Statistics of China, CNNIC, January 2008.

Despite the rapid growth in the Internet user base in the PRC, the penetration rate of Internet has only reached 16.0% in 2007.

The growth in broadband access has helped contribute the growth of the Internet market in the PRC. According to "China Gaming 2007-2011 Forecast and Analysis" prepared by IDC in April 2007 (the "IDC Report"), the broadband subscriber population reached 48.7 million in 2006, up 29.0% over 2005. Broadband access provides faster download speeds for Internet users and enables provisions of richer online content.

The increase in Internet users and the growth in broadband access in the PRC have helped the rapid development of the online gaming.

OVERVIEW OF THE ONLINE GAME INDUSTRY

Online games are mostly played on PCs over some forms of computer network, such as the Internet. Online games range from simple text based games to games incorporating complex graphics and virtual worlds participated by many players simultaneously. Many online communities have also been created by the players, making online games a form of social activity beyond single player games.

Online games are mainly classified into two general categories:

- *MMORPGs.* MMORPGs are a genre of online role-playing video games (RPGs) in which a large number of players interact with one another in a virtual world. As in all RPGs, a player assumes the role of a fictional character (most commonly in a fantasy setting) and takes control over many of that character's actions. MMORPGs are distinguished from single-player or small multi-player RPGs by the number of players involved, and by the game's persistent world, usually hosted by the game's publisher, which continues to exist and evolve while the player is away from the game.

- *Online casual games.* Online casual games usually have a few simple rules and engaging game designs, making them easy for a new player to begin playing the game in just a few minutes. Casual games require no long-term time commitment or special skills to play, and there are comparatively low production and distribution costs for the producer.

According to a report titled "Online Game Market Forecasts 2007" published by DFC Intelligence, worldwide online game revenue increased from US$592 million in 2001 to US$4.5 billion in 2006, representing a CAGR of 49.9% from 2001 to 2006.

East Asia, including the PRC, Korea, Taiwan, Hong Kong and Singapore, accounted for 46.6% of worldwide revenue in 2006, represents the largest online game market. North America, Europe and Japan accounted for 31.2%, 15.3% and 6.9% of the worldwide revenue in 2006, respectively.

Total number of online game players worldwide increased from 91.2 million in 2001 to 242.0 million in 2006, representing a CAGR of 21.6% from 2001 to 2006.

ONLINE GAME INDUSTRY IN THE PRC

In 2000, online games operators in the PRC formally started their commercial operations. The games began to generate revenue in late 2000 and have enjoyed high growth rate ever since. The size of PRC online game market increased from US$109.8 million in 2002 to US$815.5 million in 2006, representing a CAGR of 65.1%. The following table illustrates the historical growth of the PRC online game market during the period from 2002 to 2006:

	Online Game Revenue *(US$ million)*	**Annual increase** %
2002	109.8	—
2003	159.2	45.0
2004	298.0	87.2
2005	459.8	54.3
2006	815.5	77.4

Source: the IDC Report and an article entitled "China Gaming Market Data" published by the IDC in 2007

At the end of 2006, the PRC online game user population reached 32.6 million, an 23.8% increase over 2005.

MMORPGs have the largest player base and generates the most revenue of the online game industry in the PRC. According to the IDC Report, revenue generated by MMORPGs increased by 69.1% from 2005 to 2006 to reach US$662 million and accounted for 81.2% of the entire online game market in the PRC in 2006. Revenue generated by casual games almost doubled in 2006 over 2005 and was estimated at US$153 million and accounted for 18.8% of the online game market in the PRC in 2006.

The business models of online game operators have expanded from the pay-to-play model to include multiple profit models. In the pay-to-play model, revenue is generated from billing the time players spent on playing games. In 2006, rapid adoption of the FTP model marks a shift towards generating revenue by selling virtual commodities and value added services, including virtual items. According to the IDC Report, revenue generated from FTP games accounted for over 60% of that of the entire PRC market in 2006.

Online games developed domestically have also shown a strong competitive advantage in the PRC market. According to the IDC Report, revenue generated by the PRC domestically developed online games reached RMB4.24 billion in 2006, up 87.4% from RMB2.26 billion in 2005. These games, as a percentage of the PRC online game market, increased from 59.5% in 2005 to 64.8% in 2006.

We believe that the following industry trends will continue:

- Impact of FTP games - The FTP business model becomes widely used in the PRC and many online game companies turn to the sale of virtual items and other value added services instead of charging players for the time spent on playing games. This approach will continue to evolve.

- Growth of MMORPGs and casual games - MMORPGs are expected to continue to generate most of the revenue in the online game industry. Casual games are expected to demonstrate a strong growth momentum.

- Emergence of PRC domestically developed online games - As PRC domestically developed online games become more successful in its native market, Chinese online game companies will become more mature and begin to export more "homemade" games to take advantage of the growth in the worldwide online game market.

- More diversified game contents - Online game companies will likely develop more diversified game contents to attract players and to distinguish themselves from others in the highly competitive industry.

BACKGROUND INFORMATION OF IDC AND DFC INTELLIGENCE

IDC is a global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. We have paid RMB95,000 to IDC for use of certain market information, including the articles entitled "China Gaming Market Data" in this document. Such market information has been quoted from IDC's independently produced research reports. IDC relies on a variety of industry sources worldwide in determining its market data, including but not limited to, interviews with market participants, publicly released corporate information and the expertise of IDC industry analysts. IDC is a business carried on by IDG High Tech (Beijing) Co. Ltd. (愛奇高技術(北京)有限公司) ("**IDG Beijing**"), a subsidiary of International Data Group, Inc., which is the parent company of the limited partner of IDG Technology Venture Investments L.P., and the limited partner of IDG Technology Venture Investment III, L.P. IDG Beijing does not fall within the definition of an associate of the IDG Group, and hence is not our connected person under the Main Board Listing Rules due to the reasons that (i) the definition of "associate" under rule 1.01 is in relation to an individual or a company and not a partnership; and (ii) International Data Group, Inc. and the limited partners of IDG Group merely play the passive function of injecting capital into the funds and have no voting or management rights in the IDG Group. IDC and IDG Beijing are therefore Independent Third Parties.

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We are satisfied that the information extracted from the reports prepared by IDC and DFC Intelligence in this section of this document is reliable because the information was prepared by reputable international providers with access to market information and statistics.