This section and other parts of this Prospectus contain information and statistics relating to the Chinese economy and our industry and related industry sectors. We have derived such information and data from official and unofficial sources without independent verification. We cannot ensure that these sources have compiled such data and information on the same basis or with the same degree of accuracy or completeness as are found in other industries.

China's Telecommunications and Internet Service Markets

The telecommunications and Internet industries in China have experienced rapid growth in recent years. According to MII, China currently has the largest number of fixed line phone users and the largest mobile subscriber base in the world. According to CNNIC, the state network information center of China, China also has the second largest Internet user base in the world.

According to MII, the total number of fixed line subscribers in China increased from 87.4 million as of the end of 1998 to 263.3 million as of the end of 2003, representing a compound annual growth rate of 24.7%. The number of mobile subscribers in China increased from 25.0 million as of the end of 1998 to 268.7 million as of the end of 2003, representing a compound annual growth rate of 60.8%. According to CNNIC, Internet users in China increased from 2.1 million in 1998 to 79.5 million in 2003, representing a compound annual growth rate of 106.8%.

The large number of telecommunications and Internet users has accelerated the growing demand for value-added services in China. As a result, IM, online community, online entertainment and other value-added telecommunications and Internet services are becoming increasingly popular in China.

The following table sets forth certain information related to the telecommunications and Internet industries in China during the period from 1998 to 2003:

	1998	1999	2000	2001	2002	2003	Compound annual growth rate (CAGR) (1998 – 2003)
China's population (in millions)	1,248	1,258	1,267	1,276	1,285	1,292	0.7%
China's GDP per capita (RMB)	6,038	6,551	7,086	7,651	8,184	9,030	8.4%
Per capital annual disposable income of city households (RMB)	5,425	5,854	6,280	6,860	7,703	8,472	9.3%
Internet users (in millions)	2.1	8.9	22.5	33.7	59.1	79.5	106.8%
Internet penetration	0.2%	0.7%	1.8%	2.6%	4.6%	6.2%	—
Fixed Line – access lines in service (in millions)	87.4	108.8	144.4	179.0	214.4	263.3	24.7%
Fixed Line penetration	7.0%	8.6%	11.4%	14.0%	16.7%	20.4%	—
Mobile subscribers (in millions)	25.0	43.2	85.3	144.8	206.6	268.7	60.8%
Mobile penetration	2.0%	3.4%	6.7%	11.3%	16.1%	20.8%	—

Sources: National Bureau of Statistics of China, CNNIC and MII.

Growth of Telecommunications Services in China

Despite the significant growth in the past, both fixed line and mobile penetration rates in China remain significantly lower than those in more developed markets in Asia and elsewhere, indicating future growth potential. The following table sets forth certain data on population, fixed line and mobile subscribers and penetration rates in China and some selected other countries for 2003:

Country	2003 population (in millions)	2003 subscribers (in millions)		2003 penetration%	
		Fixed line	Mobile	Fixed line	Mobile
China	**1,292.3**	**263.3**	**268.7**	**20.4%**	**20.8%**
United States	292.3	181.6	158.7	62.1%	54.3%
Japan	127.5	71.1(1)	86.7	55.8%(1)	68.0%
Germany	82.5	54.4	64.8	65.9%	78.5%
United Kingdom	58.1	34.9(1)	49.7(1)	59.1%(1)	84.1%(1)
France	59.9	33.9	41.7	56.6%	69.6%
South Korea	48.4	22.9	33.6	47.2%	69.4%
Taiwan	22.6	13.4	25.1	59.0%	110.8%
Hong Kong	6.9	3.8	7.2	55.5%	105.8%
Singapore	4.2	1.9(1)	3.3(1)	46.3%(1)	79.6%(1)

(1) 2002 data

Sources: National Bureau of Statistics of China, MII, International Telecommunication Union.

According to forecasts by Datamonitor, the number of China's fixed line subscribers is expected to grow at a compound annual rate of 8.6% from 2003 to 2007, reaching 366.3 million by 2007. According to Pyramid Research, a market research and consulting firm specializing in the communications industry, the number of China's mobile subscribers is expected to grow at a compound annual rate of 16.9% from 2003 to 2007, reaching 502.1

million by 2007. The following table sets out a forecast for number of fixed line and mobile subscribers over the period from 2003 to 2007:

	2003A[1]	2004E	2005E	2006E	2007E	CAGR (2003-2007)
Fixed line subscribers (in millions)	263.3	278.2	306.3	336.1	366.3	8.6%
Mobile subscribers (in millions)	268.7	327.1	386.4	444.6	502.1	16.9%

(1) Represents actual data from MII

Sources: Datamonitor, Pyramid Research and MII.

Growth of the Internet in China

Despite being the second largest Internet market in the world, Internet penetration in China is still low compared to developed countries. As of December 31, 2002, the Internet penetration rate in China was 4.6%. According to CNNIC, the number of Internet users in China grew from 59.1 million as of December 31, 2002, to 79.5 million as of December 31, 2003, representing an annual growth rate of 34.5%. According to IDC, Internet users in China will reach approximately 154 million by 2007, representing a compound annual growth rate of 18.0% since 2003. We believe that the continuing development of Internet value-added services, reduction in Internet access costs and lower PC prices will further drive the increase in Internet users in the China market.

The growth in China's Internet market is expected to be further fueled by the growth in broadband access. According to CNNIC, the number of China's broadband users increased from 6.6 million as of December 31, 2002, to 17.4 million as of December 31, 2003, representing a growth rate of 163.6%. Broadband access service offers Internet users faster download speeds, thereby facilitating the consumption of richer online content and applications, and the convenience of having an "always-on" network connection.

The large Internet user base in China represents a significant market for Internet value-added services such as IM, community services and online entertainment. According to a CNNIC survey report published in January 2004, more than 70.1% of Internet users in China are below the age of 30, and students comprise the largest demographic segment at 29.2%. According to IDC's Marco Polo Survey in 2003, China's Internet users were more willing to pay for online services than users in any other Asia-Pacific market.

We believe that the increase in Internet users in China will contribute to the acceleration in the growth of IM and other value-added communications and online entertainment services in China. For example, China's online games market is expected to grow at a rapid pace. According to IDC, China's online games subscription revenues totaled US$159.65 million in 2003, and this market is expected to grow at a compound annual growth rate of 38.8% from 2003 to 2008, with online games subscription revenues expected to reach US$822.86 million by 2008.

Online advertising services are also expected to grow as the Internet gains acceptance as an advertising medium. According to IDC, China's online advertising market is expected to

grow at a compound annual growth rate of 40.4% from 2002 to 2007, with revenues expected to reach US$344 million by 2007.

The following table sets forth a forecast for online games and online advertising revenues in China from 2003 to 2008:

	2003A[1]	2004E	2005E	2006E	2007E	2008E	CAGR (2003-2008)
Online games subscription revenues (US$ in millions)	159.65	237.68	336.07	462.11	622.01	822.86	38.8%
Online advertising revenues (US$ in millions)	63.0	96.0	129.5	173.8	240.5	344.0	40.4%

(1) Represents actual data.

Source: IDC.

Growth of Mobile and Telecommunications Value-Added Services in China

In addition to traditional voice services, mobile subscribers in China are increasingly using their mobile handsets to access a broad range of value-added services, including IM, information services and game applications. Both China Mobile and China Unicom have launched mobile data service platforms that are the principal drivers behind the growth of this market. China Mobile began operating its SMS service platform in 2000 and launched its Monternet platform during the same year. China Unicom began to offer SMS service in 2000 and introduced its GSM-based mobile data platform, UNI-INFO, during 2001. In developing their mobile data services, both mobile operators have adopted a similar business model of partnering with Internet content and service providers (SPs). In this model, SPs develop mobile data services, while the mobile operators provide the data transmission network, billing systems, and fee collection services for SPs based on revenue sharing arrangements.

Compared to mobile voice communications, mobile data communications is still at an early growth stage in China, accounting for 9.4% of total mobile revenues in 2002, according to Pyramid Research. We believe that the further development of China's mobile network infrastructure will provide new opportunities for the growth of mobile value-added services and applications, and will further stimulate market demand for these services. China Mobile launched its 2.5G GPRS service in May 2002, and China Unicom launched its 2.5G CDMA 1x service in March 2003. China Telecom and China Netcom have both launched SMS services on their PHS networks. We believe that China's telecommunications operators will continue to invest in upgrading their networks, which is expected to further stimulate the growth of the mobile value-added service industry in the future.

Mobile data services in China have primarily been driven by SMS services and the majority of mobile data traffic in China has been over SMS. However, mobile data services such as MMS, application downloads, and WAP browsing continue to grow. The most popular data services, such as mobile IM, mobile games, and ringtone and pictures downloads, primarily target the youth-user segment with a strong emphasis on entertainment services.

The following table sets forth a forecast for the growth of the mobile data services industry in China from 2002 to 2007:

	2002A[1]	2003E	2004E	2005E	2006E	2007E	CAGR (2002-2007)
Value-added service and SMS revenues (US$ in millions)	2,521.1	3,882.4	5,871.2	8,426.0	11,658.1	15,219.0	43.3%
GPRS revenues (US$ in millions)	25.0	70.4	236.9	463.4	1,043.7	2,065.7	141.8%

(1) Represents actual data.

Source: Pyramid Research.

Growth of Instant Messaging Services

IM is one of the most popular and fastest growing Internet and mobile value-added services in China as it provides the ability for users to interact in real-time over the Internet and mobile networks.

At its core, IM is an Internet service application that allows users to communicate in real-time with one another. To use the IM service, a user needs to download IM client software to their PC and register a user account. When a user launches an IM application, they can see who is online on their "contact list"—a feature commonly known as "presence"—and can send messages and receive messages in real-time with their online contacts. IM services now also commonly offer the ability for users to communicate in real-time via video, voice, picture messaging and other mediums, as well as over mobile and other terminal devices.

As a value-added communication service, IM offers a unique proposition to users. In contrast to SMS, email and telephony, IM services offer some of the following differentiating features:

- **Communication across platforms and terminal devices**. IM service allows users to communicate between PC and mobile devices, between PC devices, and between mobile devices, while email and SMS may be transmitted between PC and mobile devices to a more limited extent.
- **Ability to detect user availability and be able to broadcast this information in real-time.** Among users' communications options, only IM provides information about users' online status — i.e., presence.
- **Ability to obtain user profile and maintain a contact list.** IM users can obtain other users' profiles and have the ability to create and manage a contact list, a user-created list of other users in the IM service who have agreed to exchange IM messages and presence information with the end-user.
- **Ability to enable close, yet anonymous, communication.** As IM users are identified by a special number or user handle within the system, users do not need to provide sensitive contact information to other users in order to engage in real-time communications. Therefore, IM has become a popular medium for people to meet each other over the Internet, due to both the closeness and anonymity allowed by the system.

Acceptance of IM as a communication service is growing rapidly worldwide. For example, according to Forrester Research, in the first five years since its inception in the United States, IM has grown more than 30% faster than email. Despite the fact that the initial adoption of IM has been concentrated in the consumer market, we believe that IM services will expand in the enterprise market. In contrast to consumer IM, enterprise IM networks can be operated and maintained by enterprises themselves, and require security and user management features that facilitate the effective operation of the networks. We believe as enterprise IM offerings become more mature, IM adoption by enterprises will increase.

IM service providers are able to market value-added services to their user communities by displaying advertising impressions within the IM service environment. In recent years, mobile IM has become a popular value-added service, leveraging the user traffic generated from PC-based IM networks. Mobile IM enables real-time communication between mobile and PC devices and is commonly offered on a fee basis.

We believe IM is poised for growth in China as the number of Internet and telecommunication users in China continues to grow. In addition, we believe the proliferation of value-added services will give IM service providers the opportunity to market an increasing number of fee-generating services to their users. According to a survey of the most frequently used IM software conducted by iResearch in 2003, we are the leading IM service provider in China with a market share of approximately 74.3%. We intend to leverage our leading position in the IM market in China to fully exploit the market opportunities described above.