



China Online

Executive Summary: China today is synonymous with tremendous growth and enormous scale. The Internet is certainly part of this explosion and some might say a primary driver of the country's entrée into the very top ranks of industrialized, media-rich societies.

Internet Users and Penetration in China*, 2007-2012 (millions and % of population)

2007	176.5 (13.4%)
2008	216.0 (16.2%)
2009	254.9 (19.0%)
2010	294.4 (21.8%)
2011	334.4 (24.6%)
2012	372.9 (27.3%)

*Note: eMarketer defines an Internet user as any person who uses the Internet from any location at least once per month; *includes Hong Kong
Source: eMarketer, January 2008*

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In 2007 China had the world's second-largest and fastest-growing Internet user population. eMarketer projects that in 2008 China will have 216 million Internet users, surpassing the US online population of 193.9 million to become first in the world.

China's total population of 1.3 billion makes its numbers significant in any Internet category, even when penetration is low. For instance, although China will have 216 million Internet users, that represents less than 20% of the population.

But growth is ahead. Figures for Internet users and penetration have increased by more than 100% over the past three years. Broadband penetration is expected to double by 2012. Spending on e-commerce is expected to increase by about 50% per year through 2011.

China currently has the largest number of mobile phone users of any country in the world by far; there will be 595 million subscribers in 2008, increasing to 800 million in 2012.

Online advertising spending in China, which was just under \$1 billion in 2007, is expected to increase 52% in 2008 to \$1.4 billion. From 2009 to 2012 spending is expected to increase an average of 37% per year and reach \$5 billion in 2012.

The Internet is a young person's medium in China and generates an urgency generally unseen in the West. This stems from the fact that the country is decidedly undemocratic and the Web, despite the best efforts of government censors, represents a conduit to forbidden information.

The government understands that the Internet is an essential vehicle for continued economic growth, but they also fear its subversive potential—the inherent challenge it poses to media control, and by extension to overall government control.

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Internet Access

China is distinguished by a huge number of Internet users (176.5 million in 2007, including Hong Kong) and a relatively low rate of Internet penetration (13.4%). However, both numbers are expected to increase dramatically over the next several years. eMarketer projects that the number of Internet users and the penetration rate will more than double by 2012, to 372.9 million and 27.3%, respectively.

Internet Users and Penetration in China*, 2007-2012 (millions and % of population)

2007	176.5 (13.4%)
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Note: eMarketer defines an Internet user as any person who uses the Internet from any location at least once per month; *includes Hong Kong
Source: eMarketer, January 2008

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A July 2008 report from the China Internet Network Information Center (CNNIC) shows that figures for Internet users and penetration have risen more than 100% over the past three years, from 103 million and 7.9% in June 2005 to 253 million and 19.1% in June 2008.

Internet Users and Penetration in China, 2005-2008 (millions and % of total population)

June 2005	103 (7.9%)
December 2005	111 (8.5%)
June 2006	123 (9.4%)
December 2006	137 (10.5%)
June 2007	162 (12.3%)
December 2007	210 (16.0%)
June 2008	253 (19.1%)

Note: Internet user defined as a Chinese citizen ages 6+ who uses the Internet at least one hour per week
Source: China Internet Network Information Center (CNNIC), "22nd Statistical Survey Report on the Internet Development in China," July 2008

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Comparative research shows that comScore Networks delivered the lowest figure for China's current online population, at 102.8 million, while the International Data Corporation gave the highest, at 275 million. JPMorgan's estimate of 195 million users is closest to eMarketer's. The CNNIC figure of 253 million is from their July 2008 study.

There were 188.1 million people online in the US in 2007 according to eMarketer, making it the top country for number of Internet users. In 2008 China will surpass the US, becoming No. 1 in the world in terms of Internet users for the first time.

Comparative Estimates: Internet Users in China, 2007-2012 (millions)

	2007	2008	2009	2010	2011	2012
China Internet Network Information Center (CNNIC)*, July 2008	162.0	253.0	-	-	-	-
comScore Networks Inc.**, June 2008	90.3	102.8	-	-	-	-
Data Center of China Internet (DCCI), January 2008	182.0	244.0	-	-	-	-
eMarketer***, January 2008	176.5	216.0	254.9	294.4	334.4	372.9
International Data Corporation (IDC), June 2008	-	275.0	-	-	-	375.0
International Telecommunication Union (ITU), April 2008	210.0	-	-	-	-	-
JPMorgan, January 2008	168.0	195.0	217.0	234.0	253.0	-

Note: *data for June of each year; **ages 15+; data for April of each year; ***includes Hong Kong
Source: eMarketer, July 2008; various, as noted, 2007 & 2008

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For additional information on the above chart, see Endnote 096657 in the Endnotes section.

Internet Access

Comparative research shows little variation among different organizations in their assessments of China's 2007 Internet penetration. The CNNIC delivered the lowest figure of 12.3% and the International Telecommunication Union had the highest at 15.8%. The Data Center of China's figure of 13.8% came closest to eMarketer's estimate of 13.4%.

Comparative Estimates: Internet Penetration in China, 2007-2012

	2007	2008	2009	2010	2011	2012
China Internet Network Information Center (CNNIC), July 2008	12.3%	19.1%	-	-	-	-
Data Center of China Internet (DCCI), January 2008	13.8%	-	-	-	-	-
eMarketer*, January 2008	13.4%	16.2%	19.0%	21.8%	24.6%	27.3%
International Telecommunication Union (ITU), April 2008	15.8%	-	-	-	-	-

Note: *includes Hong Kong
Source: eMarketer, July 2008; various, as noted, 2007 & 2008

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For additional information on the above chart, see Endnote 096662 in the Endnotes section.

China has considerably more Internet users than its neighbors in Asia-Pacific, but its Internet penetration lags far behind every major country in the region except India. Australia, Taiwan, South Korea, Singapore and Japan—with the world's second-largest economy—all have penetration rates higher than 50%, a key milestone indicative of a country's overall development. China has only about one-fifth the penetration of Australia, Japan and South Korea.

Internet Users and Penetration in Select Countries in Asia-Pacific, 2007-2012 (millions and % of population)

	2007	2008	2009	2010	2011	2012
Australia	13.6	14.0	14.4	14.8	15.2	15.5
% of population	66.7%	68.0%	69.2%	70.8%	72.0%	73.1%
China*	176.5	216.0	254.9	294.4	334.4	372.9
% of population	13.4%	16.2%	19.0%	21.8%	24.6%	27.3%
India	32.6	40.7	49.7	59.6	70.3	81.3
% of population	2.9%	3.5%	4.3%	5.0%	5.8%	6.7%
Japan	89.1	90.9	92.5	94.0	95.4	96.5
% of population	69.9%	71.4%	72.8%	74.1%	75.4%	76.5%
Singapore	2.6	2.8	2.9	3.0	3.1	3.2
% of population	56.5%	60.9%	61.7%	63.8%	66.0%	66.7%
South Korea	34.8	35.5	36.1	36.7	37.3	37.8
% of population	71.0%	72.2%	73.1%	74.0%	75.1%	75.9%
Taiwan	13.1	13.5	13.8	14.2	14.5	14.8
% of population	56.8%	58.5%	59.6%	61.3%	62.3%	63.6%
Asia-Pacific total	476.6	543.8	610.8	679.7	750.1	818.3

Note: eMarketer defines an Internet user as any person who uses the Internet from any location at least once per month; *includes Hong Kong
Source: eMarketer, January 2008

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Broadband is by far the most-popular Internet access technology in China, with 163.4 million users at the end of 2007, according to the CNNIC. The No. 2 method of access, wireless (including mobile connections), had 58.8 million users.

Dial-up, with 23.4 million users, is the third-most-popular access method, though it is a good bet that over the next several years this number will decline as the user bases for the other two technologies increase.

Internet Users in China, by Access Technology, December 2007 (millions)

Broadband (includes leased lines)

163.4

Wireless (includes mobile phone connections)

58.8

Dial-up

23.4

Note: Internet user defined as a Chinese citizen ages 6+ who uses the Internet at least one hour per week; some users may use more than one access technology

Source: China Internet Network Information Center (CNNIC), "21st Statistical Survey Report on the Internet Development in China," January 2008

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The CNNIC found that a higher percentage of Internet users in China access the Web at home (74.1%) than anywhere else, followed by Internet cafes (39.2%) and work (22.7%). School access (13.1%) rounds out the top four.

Internet Access Locations Used by Internet Users in China, June 2008 (% of respondents)

Home

74.1%

Internet cafe

39.2%

Work

22.7%

School

13.1%

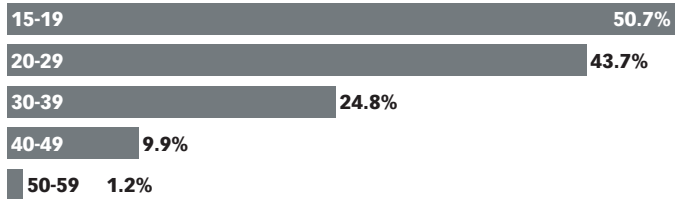
Note: Internet user defined as a Chinese citizen ages 6+ who uses the Internet at least one hour per week; multiple responses allowed
Source: China Internet Network Information Center (CNNIC), "22nd Statistical Survey Report on the Internet Development in China," July 2008

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The Internet cafe in China is still a vital point of access to the Web, especially for younger users. More than 50% of those in the 15 to 19 age group went online from Internet cafes in 2007, according to a survey by the Center for Social Development at the Chinese Academy of Social Science and the Markle Foundation. This proportion declined among older cohorts: 43.7% of 20-to-29-year-olds, 24.8% of 30-to-39-year-olds and less than 10% of 40-to-49-year-olds accessed the Web at Internet cafes.

Internet Users in China Who Go Online from Internet Cafes, by Age, 2007 (% of respondents in each group)



Note: n=1,313
 Source: Center for Social Development at the Chinese Academy of Social Science (CASS) and the Markle Foundation, "Surveying Internet Usage and Its Impact in Seven Chinese Cities," November 2007

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Broadband

eMarketer puts household broadband penetration in China at 21.4% in 2008 (81.4 million households), and with steady growth over the next several years the rate should increase to 37.1% (148 million households) by 2012.

The vast majority of broadband users in China—over 62 million households—use ADSL, and cable lags with just 3.9 million households subscribing. Other technologies are used by 16.2 million households.

ADSL is predicted to remain the most-popular broadband access method by far, growing to 113.7 million households by 2012. Cable and other technologies will remain far behind, yet both are expected to nearly double by 2012. A variety of technologies will contribute to the continued expansion of broadband access in China, but not in equal measure.

Broadband Households and Penetration in China, by Access Technology, 2007-2012 (thousands and % of total households)

	2007	2008	2009	2010	2011	2012
ADSL	46,780	61,283	74,765	87,625	101,557	113,745
Cable	3,217	3,895	4,674	5,539	6,425	7,325
Other*	13,650	16,244	18,924	21,668	24,485	26,935
Total	63,647	81,422	98,363	114,832	132,467	148,005
% of total households	17.0%	21.4%	25.7%	29.5%	33.6%	37.1%

Note: numbers may not add up to total due to rounding; *includes satellite, fixed wireless, fiber, powerline, WiMAX and emerging broadband technologies accessed at home
 Source: eMarketer, March 2008

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Broadband penetration in China looks very similar to Internet penetration in general, especially compared with the rest of the region. China has more broadband users than any other country (63.6 million), but, again, its rate of penetration (17%) is lower than all its neighbors' except India. China and India are the only major Asia-Pacific countries with household broadband penetration below 50%.

Broadband Households and Penetration in Select Countries in Asia-Pacific, 2007-2012 (millions and % of total households)

	2007	2008	2009	2010	2011	2012
Australia	4.3	5.0	5.5	5.8	6.0	6.1
% of total households	55.1%	63.4%	68.4%	72.1%	75.1%	76.4%
China	63.6	81.4	98.4	114.8	132.5	148.0
% of total households	17.0%	21.4%	25.7%	29.5%	33.6%	37.1%
India	2.7	3.7	4.7	6.0	7.4	8.9
% of total households	1.4%	1.8%	2.3%	2.9%	3.6%	4.2%
Japan	27.4	30.2	32.4	33.7	34.6	35.2
% of total households	60.5%	66.6%	71.5%	74.1%	75.9%	77.3%
South Korea	13.6	13.8	14.1	14.2	14.3	14.5
% of total households	83.5%	83.9%	84.6%	84.6%	84.9%	85.4%
Taiwan	4.3	4.4	4.6	4.7	4.9	5.1
% of total households	57.1%	58.2%	59.4%	60.6%	62.2%	63.9%
Total region	125.0	149.1	171.7	192.6	214.6	234.0

Note: includes ADSL, cable, satellite, fixed wireless, fiber, powerline, WiMAX and emerging broadband technologies accessed at home
 Source: eMarketer, March 2008

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For additional information on the above chart, see Endnote 093147 in the Endnotes section.

Internet Usage

Internet users in China have shown remarkable consistency over time in their Website preferences. In a comScore World Metrix study measuring market share of visitors to top Web properties in March 2007 and October 2007, the numbers stayed virtually the same. Tencent, the top site, had a 62.5% market share (only about 3 points higher than six months previous), while Baidu.com had a 59.8% share, just under 3 points higher than in March.

Top Six Web Properties in China, Ranked by Market Share of Visits, March & October 2007

	March 2007	October 2007
1. Tencent	59.3%	62.5%
2. Baidu.com	57.2%	59.8%
3. SINA Corporation	54.6%	56.5%
4. Microsoft sites	54.2%	53.0%
5. Google sites	45.2%	50.2%
6. Yahoo! sites	43.3%	46.9%

Note: ages 15+; home, work and university locations; excludes traffic from public computers (e.g., Internet cafes) and access from mobile phones or PDAs

Source: comScore World Metrix, "Digital World: State of the Internet" as cited by TechCrunch, March 18, 2008

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A May 2008 Alexa study of the top 10 Chinese-language Websites, ranked by traffic, includes four of the same sites listed by comScore.

Top 10 Chinese-Language* Websites, Ranked by Traffic, May 2008

1. Baidu.com	Search engine
2. QQ.com (Tencent)	Portal (instant messenger)
3. Sina.com.cn	Portal
4. Google.cn	Search engine
5. 163.com (NetEase)	Portal and games
6. Googlesyndication.com	Search engine
7. Taobao.com	Shopping
8. Sohu.com	Portal
9. Youku.com	Video sharing
10. Yahoo.com.cn	Portal

Note: *simplified Chinese

Source: Alexa.com, May 15, 2008

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As Internet access has become more widespread in China, Internet users have been spending more time online. According to figures from the CNNIC, the number of weekly hours users spend online has almost doubled in six years, going from 8.5 hours in 2001 to 16.2 hours in 2007.

Average Number of Hours Internet Users in China Spend Online per Week, 2001-2007



Note: Internet user defined as a Chinese citizen ages 6+ who used the Internet at least one hour per week

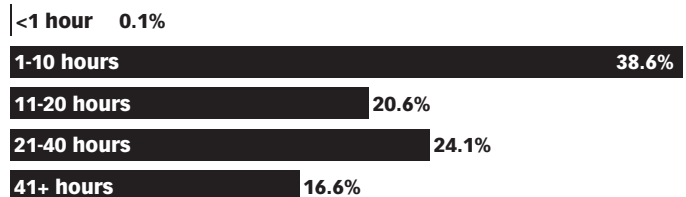
Source: China Internet Network Information Center (CNNIC), 2002-2008

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In a July 2008 CNNIC study of Internet users in China, 38.6% of respondents said they spent 1 to 10 hours per week online, 20.6% spent 11 to 20 hours online, 24.1% spent 21 to 40 hours online and 16.6% spent 41 or more hours online.

Time Spent Online per Week by Internet Users in China, June 2008 (% of total)



Note: Internet user defined as a Chinese citizen ages 6+ who uses the Internet at least one hour per week; average time spent online=16.2 hours per week

Source: China Internet Network Information Center (CNNIC), "22nd Statistical Survey Report on the Internet Development in China," July 2008

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Internet Usage

News and information gathering was the most widespread online activity of Internet users in China, according to a 2007 study by the Data Center of China Internet. Nearly four out of 10 respondents reported participating in that activity, compared with only 11% for the next-most-popular, sending and receiving e-mail.

Online Activities of Internet Users in China, 2007 (% of respondents)

News and information	38.8%
Send and receive e-mail	11.0%
Read blogs	9.2%
Instant messaging	7.5%
Online games	7.5%
Online forums	4.7%
Download software	3.1%
Search engines	2.4%
Online video watching or downloading	2.3%
Chat rooms	2.3%
Download music	2.2%
Online shopping	1.8%
Online trading	1.0%
Reading magazines or books online	1.0%
Job search	0.6%
Education	0.6%
Investment or financial search	0.5%
Online auctions, selling	0.4%
Video telephone	0.4%
Text messaging	0.4%
Entertainment search	0.3%
Online dating, relationships, marriage	0.2%
Search for information about life	0.2%
Health information	0.2%
Online travel and reservations	0.2%
VoIP	0.2%
Online banking	0.1%
Online bill payment	0.1%
Search for discounts or coupons	0.1%
Other	0.4%

Note: n=50,786

Source: Data Center of China Internet (DCCI), "Netguide 2008: China Internet Report," January 2008

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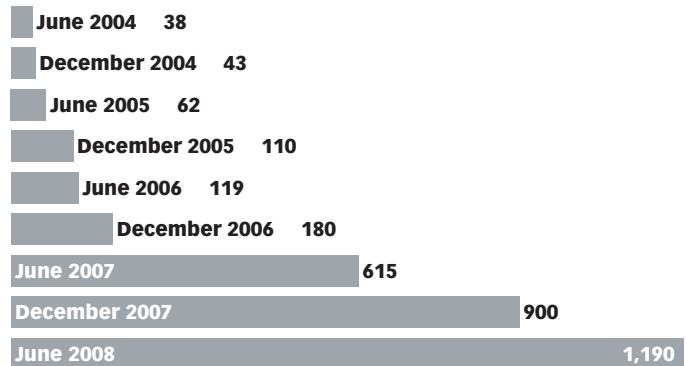
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Several activities each garnered more than 7% participation: reading blogs (9.2%), instant messaging (7.5%) and online games (7.5%). Nothing else in the top 30 was cited by more than 5% of respondents, and 16 activities, including job searching, education, video telephone, and online travel and reservations, were cited by less than 1% of Internet users.

In June 2004 the CNNIC counted 38,000 Websites in China. Today there are 1.2 million—an increase of more than 3,000% in four years.

As impressive as China's growth in Internet users and penetration has been, the number of Websites in China may be among the most telling figures as a gauge of how rapidly and profoundly the Internet has taken hold in the country. Such a drastic increase—which encompasses media, commerce, entertainment, fan sites, public information and more—shows the extent to which the Internet phenomenon has penetrated throughout the culture.

Number of Websites in China, 2004-2008 (thousands)



Note: excludes Websites under edu.cn domain

Source: China Internet Network Information Center (CNNIC), "22nd Statistical Survey Report on the Internet Development in China," July 2008

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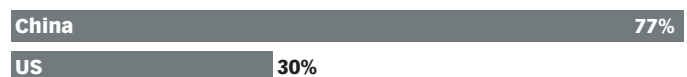
Internet Use Among the Young

In a sense, young people in China ages 16 to 25 own the Internet, and they have a passion for it that is notably different than in the US, where Internet use is more widespread and eclectic.

Data from the InterActiveCorporation (IAC) and JW Thompson Advertising (JWT) 2007 study, "Young Digital Mavens," shows that young people in China have gone beyond mere appreciation of the Internet's practical capabilities. To them it is something more than an instrument of convenience or just another outlet for entertainment and commerce—it is a substantial force in their lives.

While social networking, online dating and all other imaginable uses of the Internet are widespread in the US, young people in China who responded to the survey were 2.5 times as likely to say the Internet helps them make friends (77%, compared with 30% for the US).

Young Adult* Internet Users in China and the US Who Agree that the Internet Helps Them Make Friends, November 2007 (% of respondents in each group)



Note: US n=1,079; China n=1,104; *ages 16-25

Source: IAC and JWT, "Young Digital Mavens" as cited in press release, November 23, 2007

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Many Web users in China are going online to connect in a way their US counterparts are not, with 73% using the Internet to search for and share opinions online, compared with 43% in the US.

Young Adult* Internet Users in China and the US Who Search for and Share Opinions Online, November 2007 (% of respondents in each group)



Note: US n=1,079; China n=1,104; *ages 16-25; respondents agreed with the statement "I often use the Internet to find the opinions of others or to share my opinions"
 Source: IAC and JWT, "Young Digital Mavens" as cited in press release, November 23, 2007

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Internet Censorship in China

Internet usage in China has a distinct political dimension that is generally not found in Western democracies. As a tool of communication and information, the Internet is considered by the government to be a potentially subversive force, so it is closely monitored.

The IAC and JWT studied the feelings of Internet users ages 16 to 25 in China and the US about anonymity online. A full 79% of respondents in China agreed that "it's good to be able to express honest opinions anonymously online," compared with only 42% of those from the US. US Internet users may take anonymity online for granted and have no direct or even secondhand experience with censorship or any other kind of official intrusion.

The study also found that 73% of young adult Internet users in China felt they could "do and say things online they would not do or say offline," compared with only 32% of US respondents. Such a measurement reveals, among other things, the fact that the Internet in China represents to young people an important, even singular, vehicle for free expression.

Feelings of Young Adult* Internet Users in China and the US About Anonymity Online, November 2007 (% of respondents in each group)

	China	US
Agree that it's good to be able to express honest opinions anonymously online	79%	42%
Agree that they are free to do and say things online they would not do or say offline	73%	32%

Note: US n=1,079; China n=1,104; *ages 16-25
 Source: IAC and JWT, "Young Digital Mavens" as cited in press release, November 23, 2007

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The Internet and other communications technologies such as mobile phones have been and will continue to be integral to China's phenomenal development, but paradoxically these media also pose a real threat to the government's tightly run ship.

According to an April 2008 article in USA Today, the state's need for media control can be at odds with the naturally expansive, unpredictable Internet, so a delicate balance must be struck: "China is encouraging Internet usage as it rushes to construct a modern economy. . . . However, China's government does not tolerate opposition and is wary of the variety of views and information the Web brings."

Government censors in China are engaged in a constant cat-and-mouse game with those who crave a higher degree of freedom in their lives—or at least in their Internet use. The government continually employs new filtering technologies and policing methods, including some older, blunter tactics such as imprisonment, and the "hacktivists" find some way to circumvent them.

USA Today explains that the hacktivists "are engaged in a kind of technological arms race, inventing software and using other tactics to allow ordinary Chinese to beat the 'Great Firewall of China' and access information on sensitive subjects such as Chinese human rights and Tibet."

Video is emerging as an important dimension of the Internet in China. A study by Universal McCann of Internet users around the world found that China has one of the highest proportions of users who share video online, at 58.1%.

Video content is much harder to police than text, so in China it has presented censors with big problems. According to an article in the Wall Street Journal from January 2008, "Online-video technology potentially poses a major challenge to the Communist Party's control of information. Content-filtering technologies that can identify politically objectionable text on the Internet can't be used to screen videos effectively. Online-video sites in China have been used at times to share footage of political protests and riots."

In response to the rise of online video, China moved to "restrict the broadcast of Internet videos to sites run by the state. . . . That means video sites could face the same treatment as television broadcasters and newspapers, which also are controlled by the state."

Internet Demographics

The Internet is clearly still a young person's medium in China. The CNNIC reports that 68.6% of all Internet users in the country are 30 or younger, and almost one-half are 24 or younger. Less than 12% of China's Internet population is over 40.

Internet Users in China, by Age and Gender, June 2008 (% of total)

Gender	
Male	53.6%
Female	46.4%
Age	
6-18	19.6%
18-24	30.3%
25-30	18.7%
31-35	11.0%
36-40	8.7%
41-50	7.8%
50+	3.9%

Note: Internet user defined as a Chinese citizen ages 6+ who uses the Internet at least one hour per week

Source: China Internet Network Information Center (CNNIC), "22nd Statistical Survey Report on the Internet Development in China," July 2008

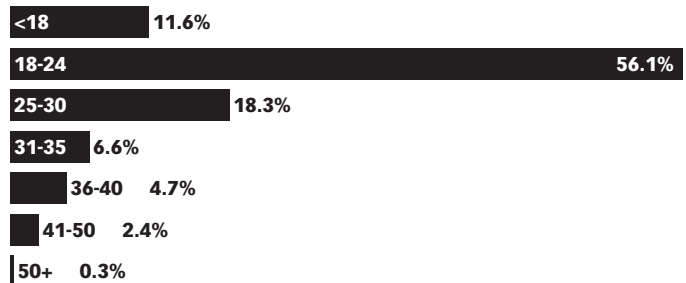
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Chinese Internet usage has traditionally been dominated by males. In 2000, women constituted just 20% of China's Internet population, rising to 39.6% in 2003 and 42.8% in 2007. Consistent with the increase in female usage over the course of the decade, the gender gap seems to be headed for extinction. The latest figures from the CNNIC put the split at 53.6% male versus 46.4% female. This is also consistent with the general trend among all developed nations, where increases in Internet usage and penetration—indicative of the technology's integration into the society—are concurrent with decreases in the gender gap (especially among young users).

Mobile Internet use in China is even more heavily dominated by the young than is the Internet in general. According to the CNNIC, 56.1% of mobile Internet users are ages 18 to 24. With users under 18 added in, the figure increases to 67.7%. Only 7.4% of mobile Internet users are 36 or older, while 25-to-35-year-olds make up less than one-quarter of users. When it comes to the Internet in China, it seems mobility equals youth.

Mobile Internet Users in China, by Age, June 2008 (% of total)



Note: Internet user defined as a Chinese citizen ages 6+ who uses the Internet at least one hour per week

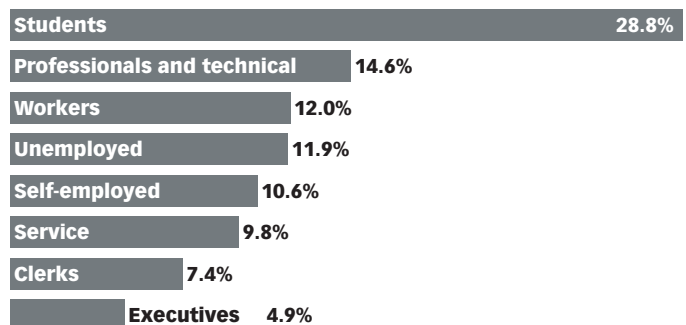
Source: China Internet Network Information Center (CNNIC), "22nd Statistical Survey Report on the Internet Development in China," July 2008

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In a December 2007 study by the CNNIC, 28.8% of responding Internet users in China identified themselves as students, the most-popular choice. The next-largest group, professionals and technical, comprised less than 15% of respondents. This gives further credence to the claim that young people dominate Internet use in China.

Internet Users in China, by Occupation, December 2007 (% of respondents)



Note: Internet user defined as a Chinese citizen ages 6+ who uses the Internet at least one hour per week

Source: China Internet Network Information Center (CNNIC), "21st Statistical Survey Report on the Internet Development in China," January 2008

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Internet Demographics

According to the same CNNIC study, 74% of Internet users in China reported earning RMB2,000 (\$263) or less per month, with the largest percentage of users found in the RMB1,001 (\$131) to RMB2,000 range (28.7%). Only 26% of Web users earned more than RMB2,000 per month.

Internet Users in China, by Personal Monthly Income, December 2007 (% of total)

<RMB500	24.2%
RMB501-RMB1,000	16.7%
RMB1,001-RMB2,000	28.7%
RMB2,001-RMB3,000	12.4%
RMB3,001-RMB5,000	8.4%
RMB5,001+	5.2%
No income	4.4%

Note: Internet user defined as a Chinese citizen ages 6+ who uses the Internet at least one hour per week

Source: China Internet Network Information Center (CNNIC), "21st Statistical Survey Report on the Internet Development in China," January 2008

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E-Commerce

Currently e-commerce is a fairly small aspect of the Internet in China, possibly owing to the fact that credit cards are not nearly as integral to the economy as in most developed countries.

However, rapid and continuous e-commerce growth over the next several years will transform this reality.

B2C e-commerce sales in 2007 were at \$3.8 billion, and eMarketer predicts they will reach \$6.4 billion in 2008. Spending is expected to increase by about 50% per year through 2011, when it is expected to reach \$24.1 billion.

B2C E-Commerce Sales* in China**, 2006-2011 (billions and % change)

	Sales	% change
2006	RMB19.2 (\$2.4)	-
2007	RMB28.7 (\$3.8)	49.5%
2008	RMB45.5 (\$6.4)	58.3%
2009	RMB75.6 (\$11.1)	66.3%
2010	RMB111.4 (\$16.9)	47.3%
2011	RMB153.7 (\$24.1)	38.0%

Note: converted at average annual exchange rates (projected for future years); total B2C e-commerce sales include all purchases made on a retail Website, regardless of device used to complete the transaction; *includes online travel, event ticket and digital download sales; **excludes Hong Kong

Source: eMarketer, January 2008

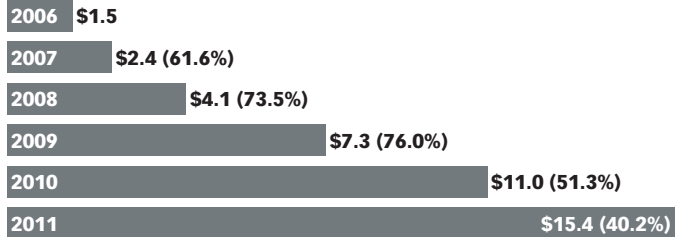
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A key driver behind the impressive gains in Chinese e-commerce will be the even-more-impressive rise in online travel sales. Only a few years ago this aspect of e-commerce was hardly a blip on China's Internet landscape, but in 2007 online leisure and unmanaged business travel sales reached \$2.4 billion, an increase of 61.6% over the previous year. eMarketer predicts sales in 2008 will reach \$4.1 billion, a 73.5% rise.

In 2009 Chinese online travel sales are forecast at \$7.3 billion, a 76% increase, which represents a growth peak for the period from 2007 to 2011. In 2010 and 2011 annual growth will level off at 51.3% and 40.2%, respectively, with sales in 2011 expected to reach \$15.4 billion.

China Online Leisure/Unmanaged Business Travel Bookings, 2006-2011 (billions and % change)

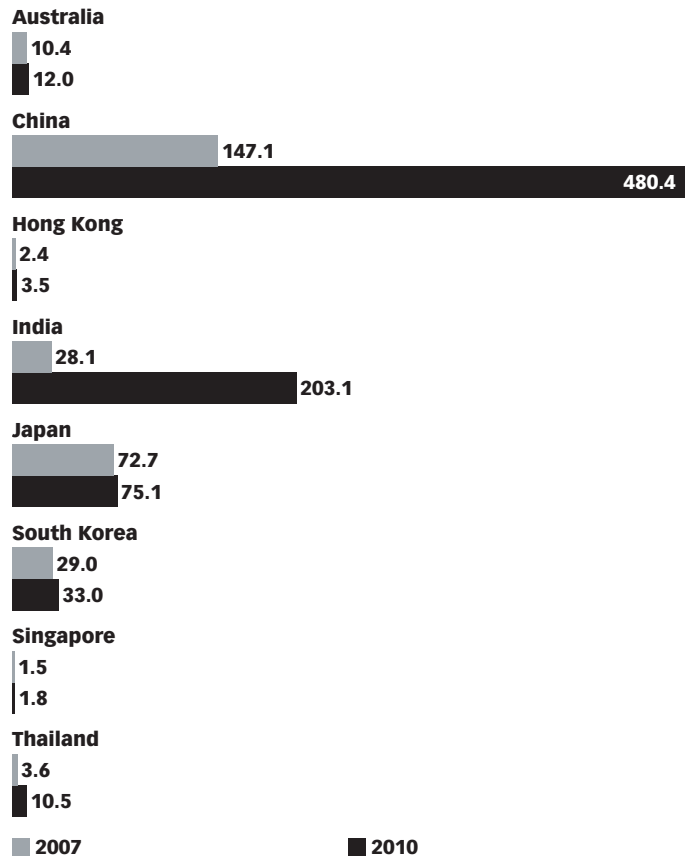


Note: includes all online travel bookings, whether paid for online or offline
Source: eMarketer, September 2007

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The remarkable rise of e-commerce in China can best be appreciated by looking at raw numbers. According to MasterCard Worldwide, in 2007 there were 147.1 million online buyers in China—more than the total population of all but the world’s seven largest countries. This figure is expected to increase to a staggering 480.4 million by 2010.

Online Buyers in Select Countries in Asia-Pacific, 2007 & 2010 (millions)

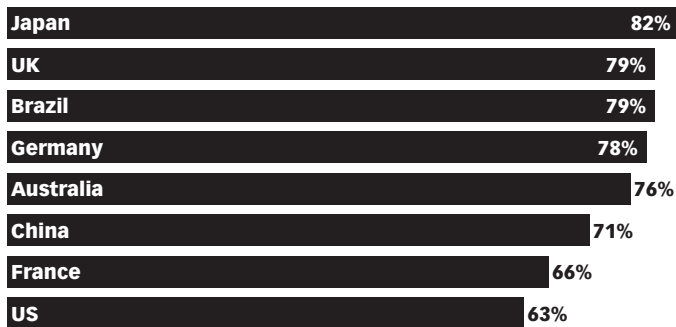


Note: projections use econometrical model with income levels, Internet penetration rates and cultural factors (assumed to remain constant) as independent variables
Source: MasterCard Worldwide, "Online Shopping in Asia/Pacific - Patterns, Trends and Future Growth" conducted by Ipsos with UN Population Census and Internet World Stats, April 2008

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E-commerce is being steadily integrated into the habits of Web surfers in China. In a December 2007 Symantec study of Internet users, 71% of respondents said they had made a purchase online. This compares favorably with some of the world's most-developed countries, such as Japan (82%), the UK (79%) and the US (63%).

Adult Internet Users in Select Countries Who Have Made a Purchase Online*, December 2007 (% of respondents)

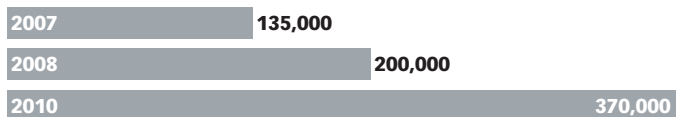


Note: n=4,687 ages 18+; *at least sometimes
Source: Symantec, "Norton Online Living Report," February 13, 2008

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In China e-commerce is becoming a habit for both buyers and sellers. Indeed, businesses are getting on board in a big way, as illustrated by a recent study conducted by AMI-Partners that measured businesses with e-commerce-enabled Websites. In 2007 there were 135,000, but that number is expected to more than double by 2010 to 370,000.

Businesses in China with E-Commerce-Enabled Websites, 2007, 2008 & 2010



Source: AMI-Partners as cited in press release, July 28, 2008

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Other Digital Channels

With less than 50% mobile phone penetration, China still has the most mobile phone users of any country in the world by far. eMarketer predicts the number of subscribers will be 595 million in 2008, and should increase to 800 million in 2012.

Only 14.3% of mobile subscribers access the Internet on their phone, but that still comes to 85 million people. As we see so often in China, even light usage of any given technology translates into huge numbers. With mobile Internet, however, light will gradually turn heavy, and eMarketer projects there will be 320 million users of mobile Internet by 2012, making up 40% of mobile phone subscribers, a near-300% increase.

Mobile Usage Metrics for China, 2008 & 2012 (millions and % penetration)

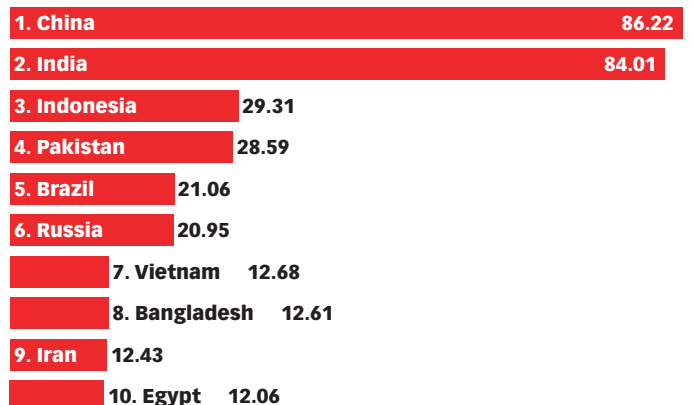
	2008	2012
Population (1)	1,330.0	1,366.0
Mobile phone subscribers*	595.0	800.0
Mobile phone penetration	44.7%	58.6%
Mobile Internet users**	85.0	320.0
Mobile Internet users % of mobile subscribers	14.3%	40.0%

Note: *active SIM cards; **accounts that use a browser (WAP or XHTML) to access the Internet via mobile phone; SMS/MMS/IM not included
Source: eMarketer, June 2008; (1) US Census Bureau, July 2007

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China added about 86 million mobile phone subscribers in 2007, more than any other country. The mobile phone has emerged as a vitally important technology for the developing world. Mobile phones are relatively cheap and plentiful, and provide an important means of connectivity for people in all socioeconomic spheres. China is at the forefront of this trend.

Top 10 Countries, Ranked by Mobile Phone Subscriber Additions, 2007 (millions)



Note: based on statistics from national regulators and company reports
Source: Light Reading Europe as cited in press release, April 30, 2008

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Other Digital Channels

Mobile TV is emerging as a viable technology in China and seems to be among the elements driving the mobile explosion there. There were 19.1 million mobile-TV-enabled phones sold in China in 2007, and CCID Consulting predicts that number will rise to 29.1 million in 2008. By 2011, sales of nearly 60 million units are expected.

Mobile-TV-Enabled Mobile Phone Sales in China, 2007-2011 (thousands of units)

2007	19,067
2008	29,113
2009	41,321
2010	53,914
2011	59,892

Source: CCID Consulting as cited in press release, December 11, 2007

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According to Juniper Research, mobile TV revenues in China in 2008 are projected to reach \$98 million, more than 2.5 times what they were in 2007.

Mobile TV Revenues in China, 2007 & 2008 (millions)

2007	\$36
2008	\$98

Source: Juniper Research, "Mobile China: 3G Content Strategies & Forecasts 2007-2012" as cited by Cellular-News, July 23, 2007

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This is a relatively small figure, but in terms of its dramatic growth, this technology, like many others in China, represents the remarkably dynamic nature of the country's Internet landscape. The availability of so many technologies that were either emerging or taken for granted during the industrialized West's own Internet boom in the 1990s was, for China, far from the realm of possibility—but that is no longer the case.

Online Advertising and Marketing

Online advertising spending in China, which was just under \$1 billion in 2007, is expected to increase by 52% in 2008 to \$1.4 billion, according to eMarketer projections. From 2009 to 2012 spending is expected to increase an average of 37% per year and reach just under \$5 billion in 2012.

Online Advertising Spending in China, 2007-2012 (millions)

	2007	2008	2009	2010	2011	2012
Dollars						
Online ad spending	\$924	\$1,404	\$1,952	\$2,752	\$3,716	\$4,942
% change	-	52%	39%	41%	35%	33%
Renminbi						
Online ad spending	RMB7,031	RMB9,662	RMB12,786	RMB17,340	RMB22,665	RMB29,255
% change	-	37%	32%	36%	31%	29%

Note: converted at average annual exchange rates (projected for future years)

Source: eMarketer, May 2008

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For such a huge number of Internet users, the amount spent on online advertising in China is relatively small. This is true especially compared with the US, where the amount spent in 2007 was more than 20 times as much. (Japan spent about four times China's amount.) As with most things in China, though, the watchword is growth, and with steady, impressive yearly increases, by 2012 China will be up to almost one-tenth of what the US spends on online advertising.

Online Advertising and Marketing

A large part of the 52% spike in online ad spending in China in 2008 can be attributed to the 2008 Beijing Olympic Games. Not surprisingly, the amount spent on online advertising for the Olympics increased heavily as the start of the games drew nearer. According to iResearch, spending in November 2007 was RMB20 billion (\$2.6 billion), 12% more than the previous month, and in December the amount was RMB30.24 billion (\$3.97 billion), a 51.2% increase from November.

Online Advertising Spending in China for the Beijing 2008 Olympic Games, October, November & December 2007 (billions of RMB and % change)

October 2007	RMB17.86
November 2007	RMB20.00 (12.0%)
December 2007	RMB30.24 (51.2%)

Note: includes 170+ major media
Source: iResearch (formerly Shanghai iResearch), "China Online Olympic Advertising Research Report" with "iAdTracker" as cited in press release, February 1, 2008

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In 2007 online advertising revenues in China represented 6.7% of total advertising revenues, according to a report by JPMorgan. That figure is expected to reach 17.5% by 2015, an increase of over 400% since 2004.

Online and Total Advertising Revenues in China, 2004-2015 (millions and Internet % of total)

	Online*	Total	Internet % of total
2004	\$287	\$8,449	3.4%
2005	\$407	\$10,184	4.0%
2006	\$626	\$12,051	5.2%
2007	\$961	\$14,236	6.7%
2008	\$1,441	\$17,479	8.2%
2009	\$1,956	\$19,588	10.0%
2010	\$2,677	\$22,918	11.7%
2011	\$3,561	\$26,356	13.5%
2012	\$4,527	\$30,309	14.9%
2013	\$5,596	\$34,855	16.1%
2014	\$6,764	\$40,084	16.9%
2015	\$8,080	\$46,096	17.5%

Note: *includes branded advertising, e-mail advertising, pay-per-click search and fixed-price ranking
Source: China Internet Network Information Center (CNNIC) and JPMorgan estimates, "Nothing But Net," provided to eMarketer, January 2, 2008

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Analysys International reports that in Q2 2008 online advertising revenues were RMB2.81 billion (\$405 million), up 33% from the previous quarter and 72.5% from the previous year.

Banners were the largest online advertising category in China, with revenues of RMB1.43 billion (\$206 million). Compared with the previous quarter, banner advertising grew faster than any other form of online advertising, by 36.7%. Keyword search, however, was ultimately the fastest-growing form of online advertising in China, with revenues of RMB1.23 billion (\$177 million) for an 86.6% increase over the previous year.

Online Advertising Revenues in China, by Format, Q2 2008 (billions of RMB and % change)

	Revenues	Q/Q % change	Y/Y % change
Banners	RMB1.43	36.7%	64.2%
Keyword search	RMB1.23	32.9%	86.6%
Other	RMB0.15	6.9%	52.5%
Total	RMB2.81	33.0%	72.5%

Source: Analysys International, "Online Advertising Market Quarterly Tracker Q2 2008" as cited by DigiTimes, August 5, 2008

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Web 2.0

With its huge and enthusiastic Internet population, especially among young people, China may well be the next frontier for Web 2.0 activity. In recent years, MySpace, Yahoo! and Google have all made inroads into the Chinese market by either launching local versions of their sites or investing in China-based technology or social networking startups. US firms are apparently betting Web 2.0 will be the golden path to reaching China's multitudes of consumers.

Online Investments by US Internet Firms in China, 2007

Investor	Investment	Details	Nature of business
Yahoo!	Alibaba	Bought 40% stake for \$1 billion in 2005	Online auction used by over 15 million businesses and consumers in China
Amazon	Joyo	Acquired in 2004 for \$75 million	Sells books, music and videos
eBay	EachNet	Completed acquisition in 2003 for total price of \$180 million	China's first online auction site, but ceded market leadership to Taobao-Alibaba's C2C marketplace
Google	Opens R&D center in Beijing	Launched Chinese version of its search engine in 2006 that complies with China's censorship rules	Competes against market leader Baidu (a local firm) and Yahoo!
MySpace (News Corp.)	Licenses brand to local entrepreneurs	Launches Chinese-language version of MySpace in 2007 that complies with China's censorship rules	Enters the Chinese market at a time when social networking and entertainment sites are already wildly popular

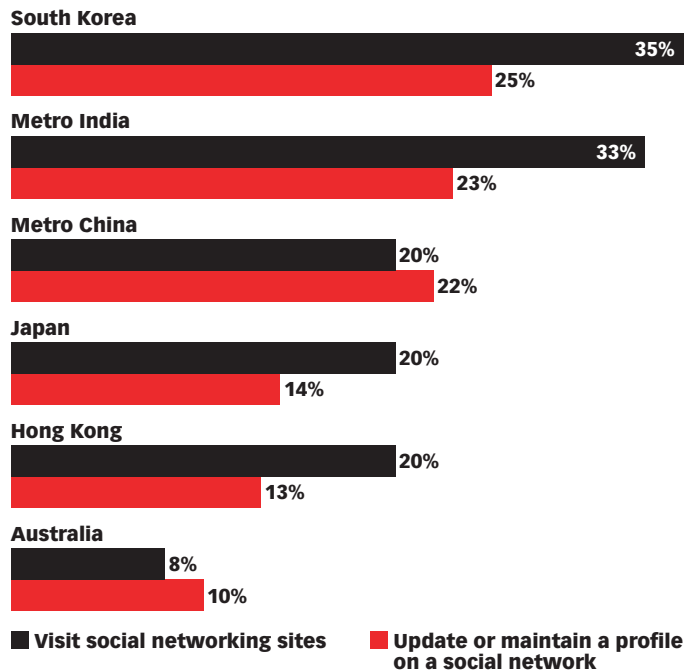
Source: company reports and press releases, 2007

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More than one out of five Internet users in metro China actively use social networking sites (that is, they update or maintain a profile). This figure is among the highest in Asia-Pacific, according to a late 2007 study by Forrester Research.

Internet Users Who Use Social Networking Sites in Select Countries in the Asia-Pacific, 2007 (% of respondents)



Source: Forrester Research, "A Global Look At Consumers' Social Computing Behavior," November 19, 2007

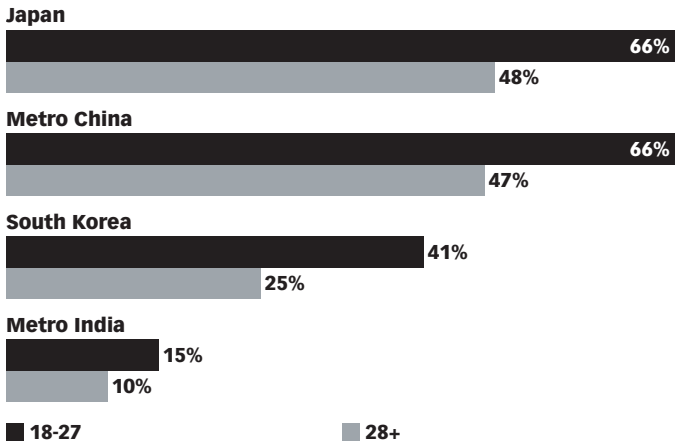
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Web 2.0

The same study reported that among adults in metro China, 66% of those ages 18 to 27 read blogs, the same percentage as in Japan.

Adults Who Read Blogs in Select Countries in Asia-Pacific, by Age, 2007 (% of respondents)

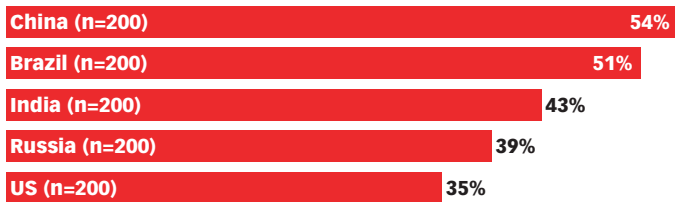


Source: Forrester Research, "A Global Look At Consumers' Social Computing Behavior," November 19, 2007

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Key aspects of Web 2.0 have attracted an influential core of users in China. More than one-half (54%) of adult influencers use blogs, compared with 35% in the US, reported a 2007 study by Ketchum and the USC Annenberg Strategic Public Relations Center.

Adult Influencers* in Select Countries Who Use Blogs, September-October 2007 (% of respondents)



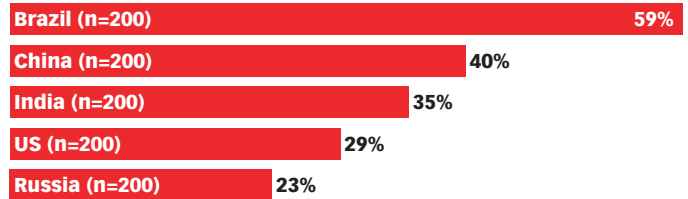
Note: ages 18+; *10%-15% of the population who exercise influence and control the levers of change in society

Source: Ketchum and USC Annenberg Strategic Public Relations Center, "Media Myths & Realities: A Public of One - 2007 Media Usage Survey" provided to eMarketer, December 10, 2007

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In the same study, China ranked second among select countries for the percentage adult influencers who use video-sharing/networking Websites (40%).

Adult Influencers* in Select Countries Who Use Video Sharing/Networking Web Sites, September-October 2007 (% of respondents)



Note: ages 18+; *10%-15% of the population who exercise influence and control the levers of change in society

Source: Ketchum and USC Annenberg Strategic Public Relations Center, "Media Myths & Realities: A Public of One - 2007 Media Usage Survey" provided to eMarketer, December 10, 2007

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Endnotes

Endnote numbers correspond to the unique six-digit identifier in the lower left-hand corner of each chart.

096657

Comparative Estimates: Internet Users in China, 2007-2012 (millions)

	2007	2008	2009	2010	2011	2012
China Internet Network Information Center (CNNIC)*, July 2008	162.0	253.0	-	-	-	-
comScore Networks Inc.**, June 2008	90.3	102.8	-	-	-	-
Data Center of China Internet (DCCI), January 2008	182.0	244.0	-	-	-	-
eMarketer***, January 2008	176.5	216.0	254.9	294.4	334.4	372.9
International Data Corporation (IDC), June 2008	-	275.0	-	-	-	375.0
International Telecommunication Union (ITU), April 2008	210.0	-	-	-	-	-
JPMorgan, January 2008	168.0	195.0	217.0	234.0	253.0	-

Note: *data for June of each year; **ages 15+; data for April of each year; ***includes Hong Kong

Source: eMarketer, July 2008; various, as noted, 2007 & 2008

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Extended Note: China Internet Network Information Center (CNNIC) defines an Internet user as a Chinese citizen ages 6+ who uses the Internet at least one hour per week. comScore excludes traffic from public computers such as Internet cafes and access from mobile phones or PDAs. eMarketer defines an Internet user as any person who uses the Internet from any location at least once per month. JPMorgan estimates are based on 2005-2007 data from CNNIC.

Citation: China Internet Network Information Center (CNNIC), "22nd Statistical Survey Report on the Internet Development in China," July 2008; comScore World Metrix as cited in press release, June 30, 2008; Data Center of China Internet (DCCI), "Netguide 2008: China Internet Report," January 2008; eMarketer, January 2008; International Data Corporation (IDC), "Digital Marketplace Model and Forecast" as cited in press release, June 25, 2008; International Telecommunication Union (ITU), "World Telecommunication Indicators Database," April 2008; China Internet Network Information Center (CNNIC) and JPMorgan estimates, "Nothing But Net," provided to eMarketer, January 2, 2008

096662

Comparative Estimates: Internet Penetration in China, 2007-2012

	2007	2008	2009	2010	2011	2012
China Internet Network Information Center (CNNIC), July 2008	12.3%	19.1%	-	-	-	-
Data Center of China Internet (DCCI), January 2008	13.8%	-	-	-	-	-
eMarketer*, January 2008	13.4%	16.2%	19.0%	21.8%	24.6%	27.3%
International Telecommunication Union (ITU), April 2008	15.8%	-	-	-	-	-

Note: *includes Hong Kong

Source: eMarketer, July 2008; various, as noted, 2007 & 2008

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Extended Note: China Internet Network Information Center (CNNIC) defines an Internet user as a Chinese citizen ages 6+ who uses the Internet at least one hour per week. eMarketer defines an Internet user as any person who uses the Internet from any location at least once per month.

Citation: China Internet Network Information Center (CNNIC), "22nd Statistical Survey Report on the Internet Development in China," July 2008; Data Center of China Internet (DCCI), "Netguide 2008: China Internet Report," January 2008; eMarketer, January 2008; International Telecommunication Union (ITU), "World Telecommunication Indicators Database," April 2008

093147

Broadband Households and Penetration in Select Countries in Asia-Pacific, 2007-2012 (millions and % of total households)

	2007	2008	2009	2010	2011	2012
Australia	4.3	5.0	5.5	5.8	6.0	6.1
% of total households	55.1%	63.4%	68.4%	72.1%	75.1%	76.4%
China	63.6	81.4	98.4	114.8	132.5	148.0
% of total households	17.0%	21.4%	25.7%	29.5%	33.6%	37.1%
India	2.7	3.7	4.7	6.0	7.4	8.9
% of total households	1.4%	1.8%	2.3%	2.9%	3.6%	4.2%
Japan	27.4	30.2	32.4	33.7	34.6	35.2
% of total households	60.5%	66.6%	71.5%	74.1%	75.9%	77.3%
South Korea	13.6	13.8	14.1	14.2	14.3	14.5
% of total households	83.5%	83.9%	84.6%	84.6%	84.9%	85.4%
Taiwan	4.3	4.4	4.6	4.7	4.9	5.1
% of total households	57.1%	58.2%	59.4%	60.6%	62.2%	63.9%
Total region	125.0	149.1	171.7	192.6	214.6	234.0

Note: includes ADSL, cable, satellite, fixed wireless, fiber, powerline, WiMAX and emerging broadband technologies accessed at home

Source: eMarketer, March 2008

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Extended Note: eMarketer defines "broadband" as an Internet connection of 200 kbps in at least one direction.

Related Information and Links

Related Links

Analysys International

<http://english.analysys.com.cn/>

China Internet Network Information Center (CNNIC)

<http://www.cnnic.net.cn/en/index/>

iResearch

<http://english.iresearch.com.cn/>

The McKinsey Quarterly

<http://www.mckinseyquarterly.com>

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