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China - April 2008 Update

Digital Entertainment, Technology, Internet and Consumer Trends

Bonus analysis of Electronic Arts' FIFA Online and The9's Hellgate London

What is this?

Pearl Research has compiled information from our RedlineChina subscription service, along with our internal analysis and database. This updates the latest on digital entertainment, technology, Internet and consumer trends in China. Companies covered include Tencent, Baidu, Shanda, Sina, Sohu, China Mobile, among others.

It also includes a bonus analysis of Electronic Arts' FIFA Online and The9's operation of Hellgate London. Please visit redlinechina.com for more information.

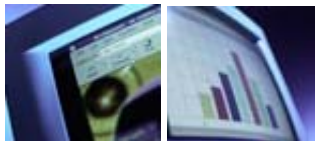
For future updates

Send us a note at mail (at) pearlresearch.com or call 415-738-7660 for more information.

About Pearl Research

Pearl Research is a business intelligence and consulting firm specializing in the technology, consumer and interactive entertainment markets with a special focus on emerging markets. Based in San Francisco and China, Pearl Research provides its clients access to a vast knowledge base of market research information. The company publishes in-depth research reports, provides a research advisory subscription service and customized research and consulting services.

For more information and to sign up on our complimentary mailing list, please contact us at research (at) pearlresearch.com, visit www.pearlresearch.com, or call 415-738-7660.

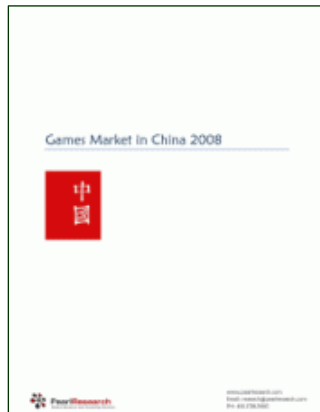


Pearl Research Reports

Please contact us at research@pearlresearch.com, visit www.pearlresearch.com, or call 415-738-7660 for a no-obligation complimentary briefing or for further samples of the work.

- **Chinese User Opinions on the iPhone including purchase intent:** A report highlighting Chinese consumers' purchase intent and opinions for Apple's iPhone.

- **E-commerce and Online Shopping in China:** Coming soon. Please contact us for a product brief.



- **Games Market in China:** The report provides insights into the \$1.66 billion market with analysis of emerging trends, top titles, leading companies, and forecasts. The report will examine the rising development capabilities in the country and emerging business models and game genres.

- **Search Engine Preferences: Google and Baidu:** Google continues to struggle with lower user awareness, compared to Chinese search engine Baidu. On the other hand, Pearl Research believes Google's robust search capability enhances its ability to retain users better than Baidu. Google users showed strong loyalty to the search engine, commenting on the depth and precision of the results returned. Some of our panel switched to Google after unsatisfactory results from Baidu. This report combines both marketplace analysis along with consumer feedback on the two top search engines.

- **Online Games Market in Asia: Top Publishers**

Pearl Research's "Online Game Publishers in Asia" study analyzes 17 top online game publishers in Asia. This study contains profiles of key market players including market share, financial data, key metrics, product analysis; and strategic outlook. Companies covered in the report include CJ Internet, NCsoft, Neowiz, Netease, NHN, Perfect World, Shanda, Soft-World, Tencent and The9. Pearl Research has also compiled an exclusive Relationship Matrix tracking licensing deals, investment, and mergers and acquisitions across the region.

Contact us for a sample at mail @ pearlresearch.com or call 415-738-7660

Phoenix Generation series of reports covering Chinese youth

300 million strong and with \$135 billion in disposable spending income, China's consumer youth markets represent an untapped opportunity.

- Pearl Research's Phoenix Generation reports are an in-depth lifestyle study on Chinese youths ages 16 to 30. The qualitative and quantitative study identifies emerging trends, attitudinal shifts and "what's hot" in games, Internet, entertainment, technology, fashion, and consumer products.
- We focus on trends that have a business impact, providing insights into the origins and implications of these trends. The study helps companies understand this important demographic and what drives their lifestyle choices and spending habits.



Defining the Phoenix Generation

Pearl Research has coined the term "Phoenix Generation" to describe China's dynamic youth.

The Phoenix Generation reports are exclusive, primary-research reports dedicated to understanding this important demographic.

This generation grew up during booming economic times and most do not have any siblings as the result of the one-child policy.

Pearl Research believes this generation will be the core driver of consumer spending in China.

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I. Games

Games market in China up 60% in 2007 to \$1.66 billion

China's online games market raked in an impressive \$1.66 billion in 2007, up 60%. The biggest gainers were game operators Shanda (up 49% to \$338 million), Giant (up 274% to \$209 million), The9 (up 30% to \$175 million) and Perfect World (up 593% to \$95 million). Coinciding with this revenue growth was a wave of initial public offerings (IPOs) by game operators Giant, Perfect World, NetDragon and KingSoft.

Pearl Research forecasts the online games market in China will exceed \$3 billion in 2010. The year 2007 exceeded expectations with the market growing more than 60%, driven by compelling and diverse content, free-to-play games, and rising demand for leisure and technology products. Pearl Research believes Chinese-themed and advanced casual games are expected to drive revenues in 2008 and beyond.

A key trend to track in 2008 is the rising average-revenue-per-user (ARPU). Certain online games are reaching \$7 to \$12 a month in average-revenue-per-user, significantly higher than past averages of \$5 or less per month. I believe there is still room for average-revenue-per-user to grow, as game operators enhance monetization efforts from free-to-play games," said Allison Luong, Managing Director of Pearl Research.

Pearl Research's key findings:

China's most popular online game, Netease's "Fantasy Westward Journey" has 1.66 million peak concurrent users, followed by Giant's "Zhengtou Online" with 1.52 million peak concurrent users. Successful MMORPGs can be highly profitable. Game operator Giant Interactive generated the majority of its \$209 million in revenues from one title, "Zhengtou Online."

The study also contains highlights from Pearl Research's Phoenix Generation research initiative, consisting of more than 200 one-on-one, personalized interviews conducted with Chinese youth. One key finding is that games are a social phenomenon, with gamers often playing casual games to connect with friends and flirt with others. Gamers cite cheating and account thefts as a top reason for abandoning a game and seek out game operators with a reliable reputation.

9you

9You Receives \$100 Million Investment from Group Led by Temasek Holdings



Thu, Mar 20, 2008

Chinese online games operator 9You announced today that the company has received \$100 million in equity investment from Temasek Holdings and other investment institutions. The investment came after 9You's launch of GTown, a virtual world integrating 9You's existing online games.

9You says the investment will help the company to continue transforming its business into an entertainment virtual community.

Founded in 2003, 9You is currently operating one of China's most popular online casual games Audition. By February 2008, the company's games combined have more than 1 million peak concurrent users. The company is planning an IPO later this year.

9You to Halt Operation of Music Casual Game O2Jam



Thu, Mar 6, 2008

Chinese game operator 9You announced today that the company will discontinue the service of music casual game O2Jam in May after the current licensing contract runs out. Launched in January 2005, O2Jam was developed by Korean company O2Media and was one of China's first online music casual games.

The game once had as many as 300,000 peak concurrent users. However, as 9You shifts its focus to develop and operate the game's sequel Burst-A-Fever, the game is being slowly phased out of 9You's portfolio.

users (PCU) on March 2. The announcement came after Giant's recent declaration of its ZT Online reaching record high 1.52 million PCU. Pearl Research believes the record numbers in PCU for these companies indicate the continuing trend of strong growth in the Chinese online games market.

T2CN Names New CEO, Announces 6 Upcoming Titles

Tue, Mar 4, 2008

Chinese online game company T2CN, a subsidiary of GigaMedia (NASDAQ: GIGM), announced today that it has named the company's former Chief Strategy Officer as the new CEO. In addition, T2CN says the company is planning on launching 6 new games in 2008, including basketball casual game Freestyle 2 and in-house developed MMORPG House of Flying Daggers.

Founded in 2005, the company launched its first game, the Korean-licensed Freestyle in the same year. Thanks to various marketing campaigns with companies such as Coca Cola and popular music stars like Jay Chou, the game emerged as one of China's most popular casual game. As of March 2008, Freestyle has over 360,000 peak concurrent users.

LineKong Announces Launch Dates for 4 Online Games



Mon, Mar 3, 2008

Beijing-based online games company LineKong today announced launch dates for 4 of its upcoming games. According to the schedule, the company will launch MMORPG Wending, in Q2 2008 and in-house developed 2D MMORPG Rexue Xiyou in the following quarter. In 2009, LineKong will launch 2 additional in-house developed titles including a 3D MMORPG in the first half and a 3D casual game in the second half of the year.

In addition, LineKong says MMORPG Yitianjian & Tulongdao, which was the company's first game and commercialized in January 2008 has accrued nearly 100,000 peak concurrent users.

II. Mobile

Mobile Phone Ownership Exceeds 565 Million in China

Tue, Mar 25, 2008

China's Ministry of Information Industry said the number of China's mobile phone subscribers in February 2008 grew by a record 9.5 million from the prior month. The agency cited reduced prices for both phones and airtime as a reason for the increase. China had 565 million mobile phone users as of February 2008.

The number of fixed-line subscribers fell 3.26 million in the first two months to 362 million, as of February 2008. The figure has decreased for seven months in a row as users forego signing up for fixed-lines and instead opt for mobile phones.

China Mobile said that half of the new subscribers were from the rural areas, which are a key source of new subscribers and a driver of growth.

China Issues Standard to Unify Mobile Data Formats

Mon, Mar 17, 2008

China's Ministry of Information Industries recently issued a new rule prompting cell phone makers to adopt a unified standard in cell phone data storage and transfer. The new rule mostly applies to user data such as contact list and message history and will allow users to seamlessly transfer these data from one phone to the other regardless of phone's brand or model. In order to promote the adoption of this standard, MII will issue a sticker marked "UDX" (Universal Data eXchange) to distinguish phones with such capabilities.

TOM Group Announces Losses of \$38 million, CEO Resigns



Thu, Mar 27, 2008

The Hong Kong-headquartered Tom Group Limited announced its 2007 financial results. The once-profitable company is now operating at a loss. Tom Group Limited CEO Tang Meijuan has resigned due to "personal reasons".

III. Internet

China Telecom Reported to Build Wi-Fi Networks in 21 Provinces

Thu, Mar 6, 2008

China Telecom (NYSE: CHA) is planning to purchase Wi-Fi equipment this month to set up the wireless network in 21 provinces. Currently, the company has already built trial networks in seven provinces and cities including Jiangsu, ZheJiang and Shanghai. The launch of additional Wi-Fi networks will allow the company to increase its revenue from data services, which are believed to be the key to China Telecom's future growth as its voice-based services have shown signs of saturation in the past years.

BestTV Launches 2-Year Free Trial IPTV Subscription in Shanghai

Tue, Mar 11, 2008

IPTV operator BestTV joined forces with China Telecom Shanghai to launch a free trial subscription program targeting broadband users in Shanghai. According to the trial plan, the \$45 installation fee will be waived and users will receive 2-year free subscription as long as the service is used at least 8 times during each month. Shanghai currently has approximately 3 million ADSL subscribers but only 200,000 IPTV users, the company hopes to increase IPTV subscribers to 800,000 by the end of 2008.

Symantec Launches Second Chinese Research Center in Chengdu

Wed, Mar 12, 2008

System security software maker Symantec (NASDAQ: SYMC) today announced the establishment of a research center in Chengdu, the company's second research facility in mainland China. According to the company, the center will finish construction in 2009 and will host over 1,000 staff members once completed. China now has the world's second largest Internet population with over 200 million Internet users at the end of 2007. The increasing demand for network security products prompted Symantec's investments in China. Currently, the company has over 500 employees in its Beijing research center.

Ctrip Expects Increasing Revenue Contribution from Vacation Packages



Wed, Mar 12, 2008

Chinese online travel site Ctrip (NASDAQ: CTRP) told local media today that the company expects to see larger portion of its revenue to come from vacation packages, which currently only constitute 5.6% of its total revenue.

In 2007, 92% of Ctrip's revenues came from plane ticket and hotel sales and the company expects this portion of the business will decline to approximately 70% of total revenues while vacation packages will rise to 15% by 2012. Pearl Research believes the increasing revenue contribution from vacation packages will help the company to improve its margin as more value-added services are incorporated in these packages compared to airline and hotel booking.

Chinese Online Music Distributor 9Sky Expects to Break Even by Q3 2008



Thu, Mar 13, 2008

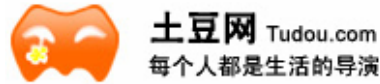
Chinese online music distributor 9Sky told local media today that the company is expecting to double its revenues in 6 months and break even by the end of Q3 2008. According to 9Sky's CEO Ming Cao, the company currently generates

Sample.

online music videos and music streams and managed to recoup some of its user base. In the beginning of 2007, 9Sky received \$10 million in venture funding

IV. Web 2.0

Video-Sharing Site Tudou Forms Partnership with SonyBMG



Mon, Mar 3, 2008

Video-sharing site Tudou has formed a partnership with music label SonyBMG. This follows on a separate agreement Tudou inked with MySpace China last week.

The partnership will allow SonyBMG to promote its artists and products on the Tudou website. As a result, Tudou has already launched a SonyBMG channel, which includes music videos and other promotional material. Pearl Research believes the partnership is another endeavor by Chinese video-sharing sites to profit from its increasing traffic. While most leading sites have embedded advertising in their videos, the companies will have to continue to generate revenues to keep up with the increasing bandwidth costs associated with rising traffic.

BabyTree Receives \$10 Million Venture Funding from Matrix Partners



Tue, Mar 11, 2008

Chinese website BabyTree.com has raised \$10 million in venture funding from Matrix Partners China Fund. BabyTree provides an online platform for mothers to blog and exchange ideas about raising their children. In addition, the site helps mothers and children to organize meetings and parties. The site was founded by former Google Asia executive Huainan Wang and Eachnet's founder Yibo Shao in 2007. Currently Yibo Shao also serves as a partner of Matrix Partners' China Fund.

SARFT Punishes Tudou and 61 Other Online Video Sites for Violating Regulations

Thu, Mar 20, 2008

The State Administration of Radio Film and Television (SARFT) today announced the results of its inspection on numerous online video sites, which was carried out in the 3-month period ending March 20, 2008. SARFT said they found a total of 62 sites in violation of the recently announced rules regulating China's online video sites. The two most common violations are operation without a license and providing illegal content. As a result, SARFT will force closure of video services on 30 sites while issuing warning notices to 32 sites. Tudou, one of China's largest video-sharing sites was on the warning list.

MySpace Adopts Chinese Name "Juyou"



Fri, Mar 28, 2008

MySpace.cn has confirmed its Chinese name is Juyou which means getting friends together.

Former MSN China CEO Luo Chuan joined MySpace in 2006 and released the first test version of MySpace.cn in April 2007. The company itself was called Mai Sabei, but MySpace.cn had no Chinese name until now. Many people were confused into thinking Mai Sabei was the Chinese name of MySpace.

Sample.

networking site is growing after Hong Kong billionaire Li Ka-Shing's decision to up his investment in Facebook to \$100 million. This was Li's second investment

V. Miscellaneous

Hardware

HP China Reports Strong PC Sales Growth in Third-to-Sixth Tier Cities

Thu, Mar 6, 2008

Isaiah Cheung, the GM of HP (NYSE: HPQ) China's Personal System Group (PSG) told local media today that the company experienced strong growth in PC sales in 2007, with consumer PC sales up by 153% and business PC sales up by 84% year-over-year. Cheung says the strong growth is mainly driven by increasing

Sample.

Lemote Launches \$260 Loongson-Based Home PC in China

Thu, Mar 13, 2008

Government sponsored PC manufacture Lemote today announced a low-cost home PC Fulong 2F Mini for the Chinese market. With a MSRP of 1,800 RMB (\$260), the PC will use the Loongson 2F processor designed by Chinese chip maker Loongson. In addition, the PC will be packed with an 80G hard drive, 512MB DDR II RAM, as well as multimedia capabilities and Ethernet connectivity. Most surprisingly, the 2F Mini comes in dimensions of approximately 8"x 6"x 1.5", making it one of the smallest PCs on the market.

However, Pearl Research believes the PC is unlikely to see great market demand as the non-standard system (Linux-based) and relatively low processing power have little appeal to value-driven Chinese consumers.

Dell Launches Linux-Based Laptop in China

Mon, Mar 17, 2008

This week, Dell China launched a new model, Dell 500, to its laptop lineup in China. With price tag as low as 3,699 RMB (\$520), the Dell 500 offers a Linux operating system, 512MB RAM, 80G hard drive and 15.4" screen. The new

Background

Hellgate: London was released for testing in China in December 2007. As of April 2008, there are no available servers in China so Chinese players must find ways to apply for the Korean servers. Pearl Research played on the Korean servers for this analysis. The official website states that China servers could be up as early as April 2008. As of March 3, 2008 the game is ranked number 12 in terms of Internet café usage in South Korea after it was initially ranked 9th following its release in January 2008. The game is still currently free to play in South Korea.

The game will monetize virtual items for players to buy. The pay for additional content method
Sample. ready
ing money
Internet

Graphics

The graphics for Hellgate: London are impressive and high-end. The characters and the demonic background of a devastated London is extremely detailed; from the lunar shadows shining down from buildings to the tinting on windows. Players can alternate between first and third person views and the game flows smoothly during the change. Video card requirements (NVIDIA GeForce 6200) are quite high, especially for computers in Chinese Internet cafes outside of 1st tier cities.

Gamers have complained that sometimes character movement is unnatural and it seems like they are floating instead of walking, a common problem found in first person shooters, but for a game as widely-hyped as Hellgate: London, this problem is disappointing.

User Interface

The controls are very similar to Diablo 2's. Characters gain new abilities by moving along a tree style map as they gain new levels.

A unique aspect of Hellgate: London is how players can easily switch back and forth from 1st person view (for ranged combat) and 3rd person view (for melee combat). This is a new and innovative concept which has won praise from gamers and critics alike. By using the mouse and keyboard together, the combat system is similar to Valve's Counterstrike and Blizzard's World of Warcraft, but the item and character building system is similar to Diablo 2.

Trading System

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l of
identity in Diablo 2) to use.