

ELABORATE DATA, INSIGHTFUL ANALYSIS,
THE MOST COMPREHENSIVE INFORMATION,
THE MOST TELLING EVIDENCES,
VALUABLE REFERENCE FOR
IT COMPETENT AUTHORITIES,
INDUSTRY ORGANIZATIONS,
INVESTMENT INSTITUTIONS
AND RELEVANT ENTERPRISES WORLDWIDE.

Beijing Software Industry Development – Blue Book 2006

(Volume of Software and Service Export)

Simple Version

- Beijing Software Industry Productivity Center (www.softdriver.org.cn)
- Beijing Software Testing & QA Center (www.bstqc.com)
- Beijing Software Industry Association (www.bsia.org.cn)
- Beijing Software Industry Productivity Center Training School (www.softedu.com.cn)

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--- Best Window to Know About Beijing Software and Information Service Industry
--- Best Partner to Successfully Invest in Beijing Software and Information Service Industry

Beijing Software Industry Productivity Center, subordinate to the Beijing Municipal Science & Technology Commission, was founded in September 2000. It is a non-profit service institution and focuses on promoting the development of software industry. The center bears responsibilities for many institutions such as being the software team office of the Beijing municipal government consultant group, being the management office of the Beijing software corporation certification and the software product registration, being the management office of the Beijing software industry base of the "China Torch" Plan and being the administration office of national base (Beijing) for industrialization of digital media technology, etc. The center is one of the national key demonstration productivity promotion centers authorized by the Beijing Municipal Commission for Science & Technology.

Beijing Software Industry Productivity Center offers many service items such as providing consultation on the software industry management promotion, software industry infrastructure service and software industry consultancy, etc.

In aspect of software industry management promotion, the center coordinates the Beijing software industry management and service system, undertakes research on the software industry development strategy programming, coordinates other institutions to implement policies on Beijing's software industry, assists the government to push forward significant supporting measures of promoting the software industry development, plans investment into the software industry from the government, and gives concerned advices.

The center set up a training platform for Beijing software talents (Beijing Software Education), a support system of public technologies for Beijing software industrial base and a software driver website (<http://www.softdriver.org.cn>) to offer services of policy explanation, industry research, application guide and talents training.

In aspect of software industry infrastructure service, the center constructs the Beijing software industry development pattern, which takes software parks, incubators and professional bases as the nodes, the public technology supporting system based on broad band as the link, to serve software companies of the whole city.

In aspect of industry strategy consultation, the center provides dynamic information and in-depth report for government departments, software companies and other institutions. It also serves those domestic and foreign IT companies who tend to develop in Beijing, offering program assessment, enterprise assessment, technology evaluation and talent training.

The center has built a database including thousands of software companies and makes follow-up analysis on software companies regularly. It has established long-term close partnerships with many domestic companies, multinationals and IT institutions. The center has a group of influential expert consultants and a strong IT research team, mainly engaged in analyzing software enterprise database, conducting research on development environment of software industry, development strategy, industry policies, trends of development and technology advances, to provide concrete, forward-looking and innovative research fruits for government, multinationals and software companies.

Following the principle of "originated from practice, based on facts, focusing on IT and thinking profoundly", the center tries to hold opportunities in the industry growth, offer professional consultancy, and help clients create more value. It is devoted to becoming China's best knowledge-oriented service institution focusing on software industry with core value to contribute to the rapid growth of Beijing and the software industry!

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Background : Categorization System of Beijing Software and Information Service Industry in 2004-2005

The report classifies Beijing software and information service industry into five major areas based on China Industrial Classification (2002) by the State Bureau of Statistics, statistical system of software and information service industry by the Ministry of Information Industry, the United Nations' relevant classification in its International Standard Industrial Classifications (2002) (3.1 Version) and NASSCOM's classification of Indian software outsourcing industry. It also takes characteristics of Beijing software and information service industry into consideration.

Categorization System of Beijing Software and Information Service Industry in 2004-2005

| First Category | Second Category | Third Category |
|------------------------------------|--|---|
| Infrastructure Software | System Software | Operating System |
| | | Database Management System |
| | Support Software | Middleware |
| | | Network and Communications Management Software |
| | | Programming Language and Development Tool Software and Platform |
| | Information Security Software | |
| Application Software | General Application Software | Word/Spreadsheet Processing Software |
| | | Information Searching Software |
| | | Machine Translation Software |
| | | Multimedia Application Software |
| | | Enterprise Management Software |
| | | Game Software |
| | Industry-specific Application Software | CAD/CAM |
| | | Communications |
| | | Finance |
| | | Government |
| | | Geographic Information |
| | | Manufacturing |
| | | Education |
| | | Transportation |
| | | Energy |
| | | Construction |
| | Comprehensive Application | |
| | Embedded Software | Other Industries |
| | | Embedded Operating System |
| | Software Services | IT Service Outsourcing |
| Customized Software Development | | |
| Localization and Technical Support | | |
| Software Testing Outsourcing | | |
| | Embedded Outsourcing | |

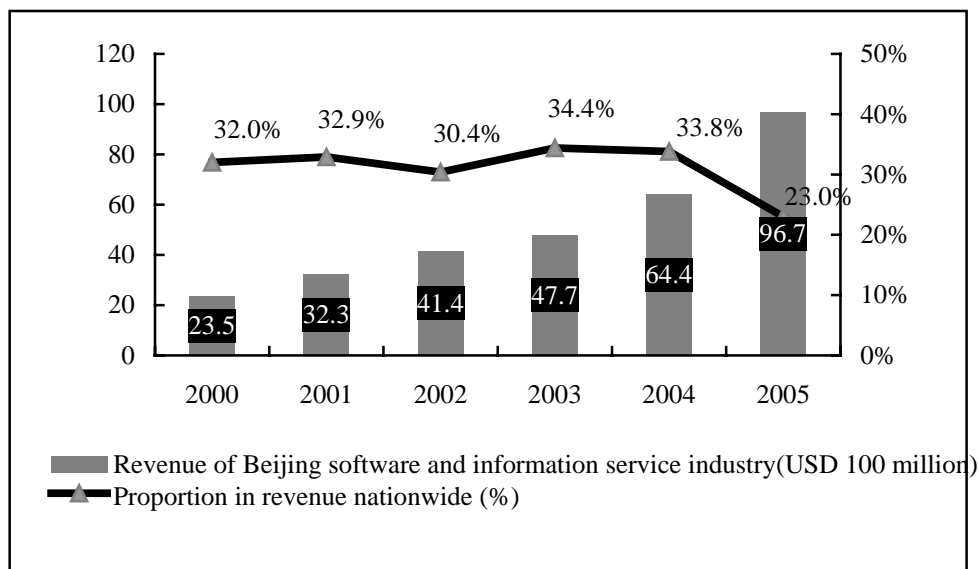
| First Category | Second Category | Third Category |
|------------------------------|------------------------------------|----------------------------------|
| Software Services | Business Process Outsourcing (BPO) | Finance & Accounting Outsourcing |
| | | Logistics Outsourcing |
| | | Procurement Outsourcing |
| | | HR Outsourcing |
| | | Customer Service Outsourcing |
| | Others | |
| | Software Testing Service | |
| | Software Sales Service | |
| | IT Service Management | |
| | IT Consulting Service | |
| IT Training Service | | |
| Internet Information Service | Network Access Service | |
| | Network Games Operation | |
| | Online Publishing Service | |
| | Wireless Value-Added Service | |
| | Internet Content Service | |
| | E-business | |
| Computer Service | Computer System Service | |
| | Data Processing | |
| | Computer Maintenance | |
| | Other Computer Services | |

Chapter I: Development of Beijing Software and Information Service Industry in 2000-2005

1. Software and information service industry has become a backbone of economy in Beijing

Beijing software and information service industry has been growing continuously and its contribution to local GDP rose year on year.

Chart: Revenues of Beijing Software and Information Service Industry in 2000-2005

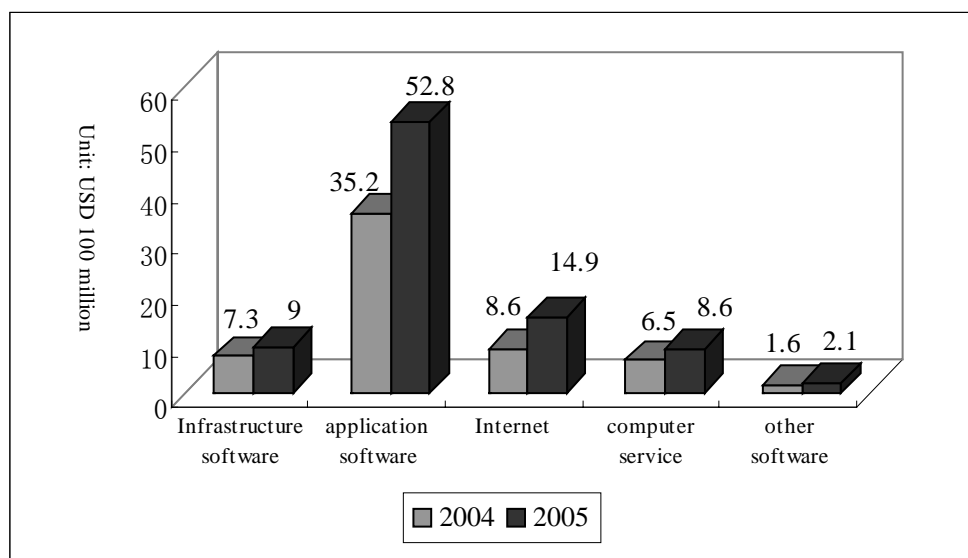


Source: Beijing Municipal Bureau of Statistics, Beijing Software Industry Productivity Center

2. Analysis of Key Sectors in Beijing Software Industry

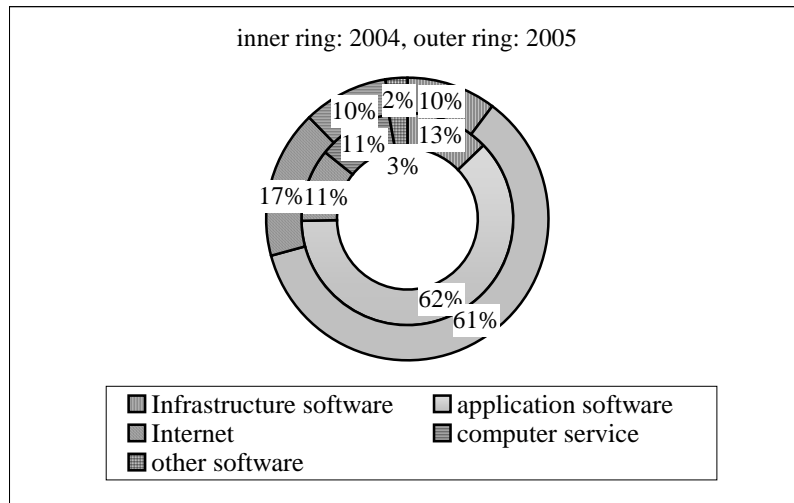
In 2005, software enterprises with annual revenues above RMB 10 million each in Beijing reported total revenue of USD 8.74 billion, a year-on-year rise of 48%.

Chart: Market Scale of Software Enterprises with Annual Sales Revenue over RMB 10 Million in 2004-2005



Source: Beijing Municipal Bureau of Statistics, Beijing Software Industry Productivity Center

Chart: Structure Change in Beijing Software and Information Service Industry in 2004-2005

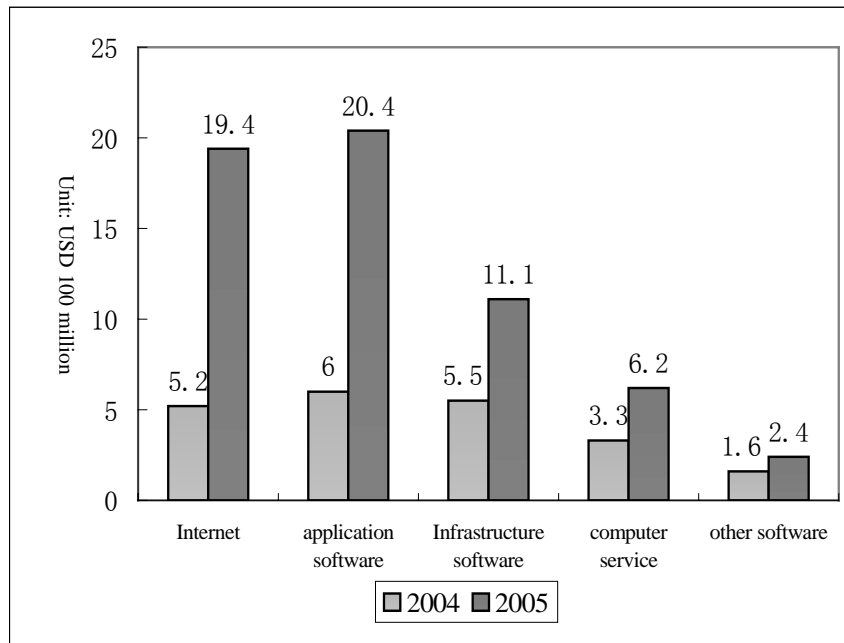


Source: Beijing Municipal Bureau of Statistics, Beijing Software Industry Productivity Center

3. Analysis of Top 100 Beijing Software Enterprises

In 2005, top 100 Beijing software enterprises¹ made total revenue of USD 5.95 billion, up 57% year on year. The market concentration rate reached 61.5%.

Chart: Revenues of Top 100 Beijing Software Enterprises in Key Areas in 2004-2005



Source: Beijing Municipal Bureau of Statistics, Beijing Software Industry Productivity Center

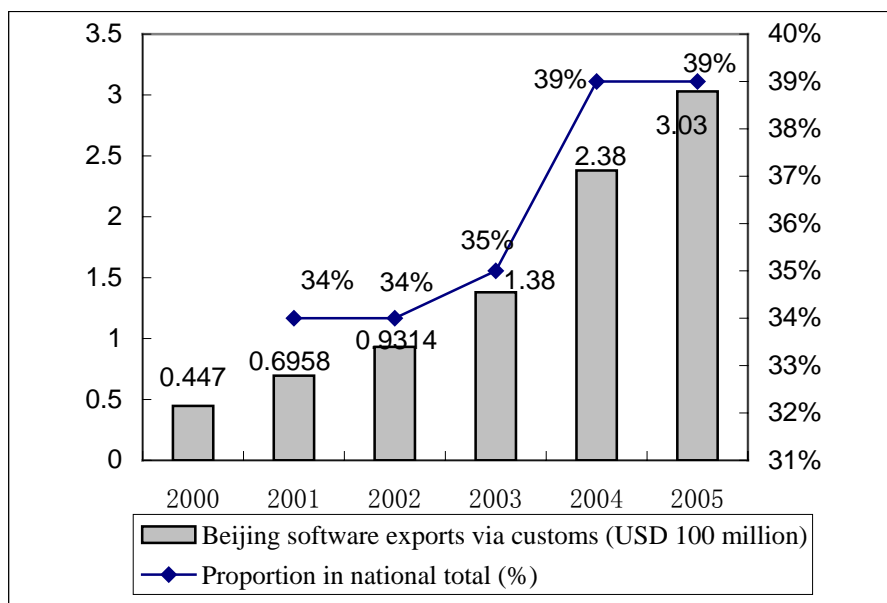
¹ Beijing software enterprises ranking in the top 100 in sales revenue.

Chapter II: Development of Beijing Software and Service Export

1. Status in National Framework of Beijing Software and Service Export

Customs figures show that in 2005 Beijing's software export maintained fast growth and its annual export totaled above USD 300 million, a rise of 33.3% over 2004 and six times that in 2000. The figure accounts for 39% of the total national exports.

Chart: Beijing's Software Exports Via Customs in 2000-2005 & Proportion in National Total

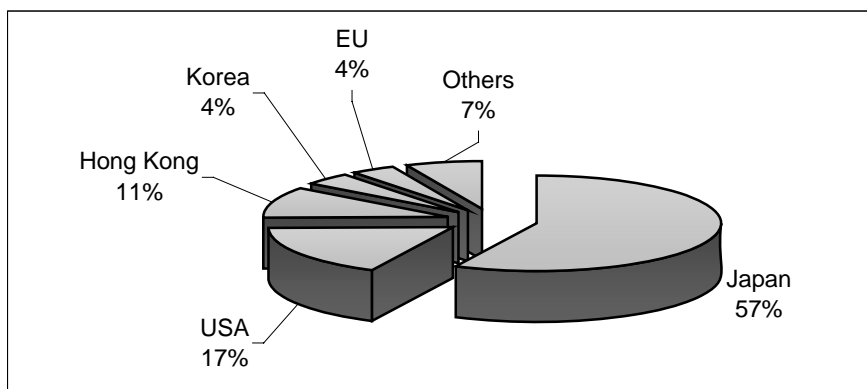


Source: Beijing Customs, Beijing Municipal Bureau of Commerce

2. Market Structure of Software Export and Service Export

Japan is the major target market of Beijing's software and service export. During the 2000-2005 period, Beijing's software export to Japan rose with an average annual rate of 43%. In 2005, the figure reached USD 173 million, which is 57% of the total exports, a rise of 41.8% over 2004. The export scale continued to be consolidated.

Chart: Major Target Nations of Beijing Software Export in 2005



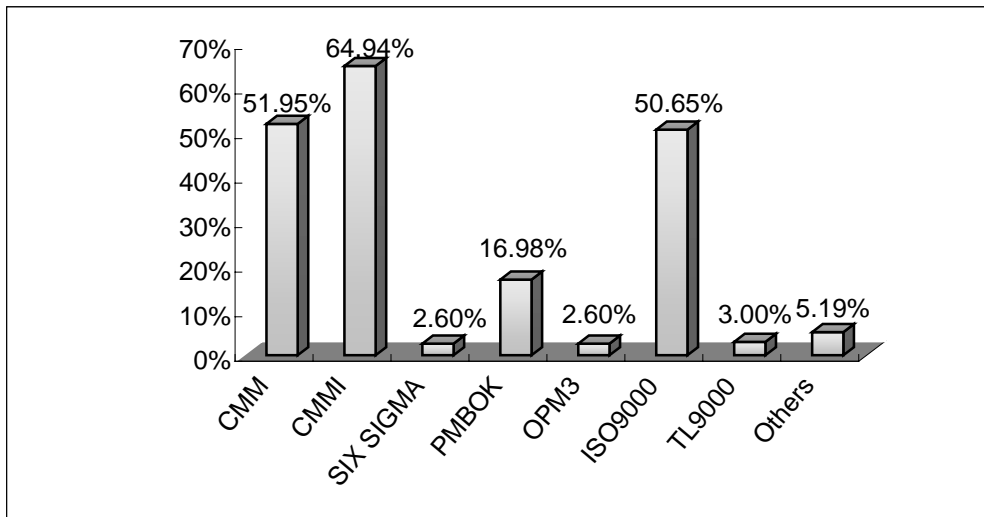
Source: Beijing Customs, Beijing Municipal Bureau of Commerce

Chapter III: Service Delivery Guarantee Capacity of Beijing Software Enterprises

1. Process Improvement Capacity of Beijing Software Enterprises

A variety of organizational models and personal models had been put into application to varying degrees.

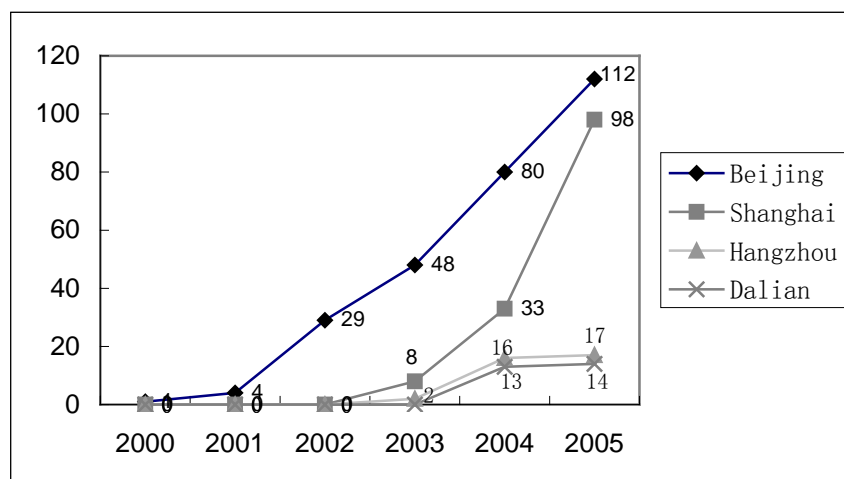
Chart: Model Application of Beijing Software Process Improvement



Source: Beijing Software Industry Productivity Center

The number of enterprises passing CMM/CMMI assessment kept steady growth in Beijing. The growth rate in recent three years is: 65.52% in 2003, 66.67% in 2004 and 40.00% in 2005. The average growth rate in the three years is 57.39%.

Chart: Annual Growth of Enterprises Passing Assessment in Beijing, Shanghai, Guangzhou and Dalian

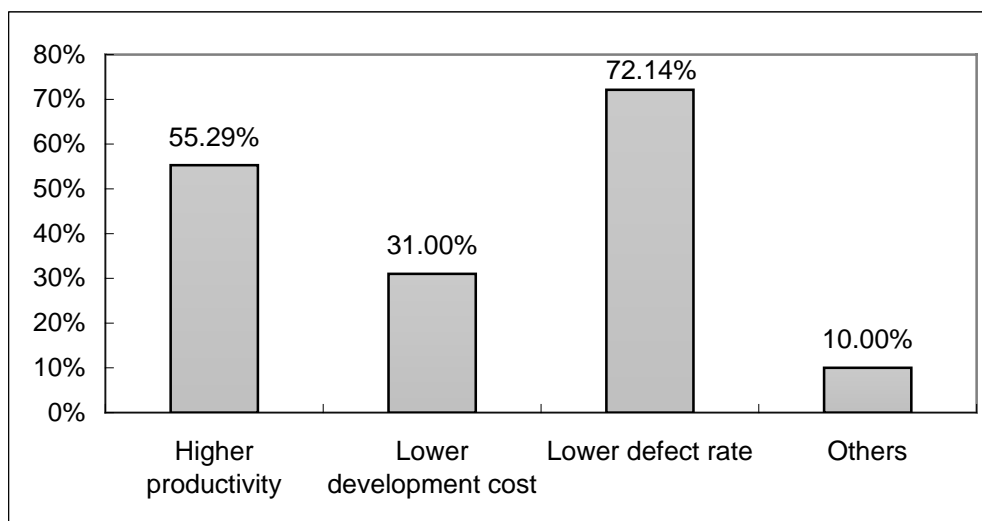


Note: Y-axis means total amount in the year

Source: Beijing Software Industry Productivity Center

2. Actual effects using benchmarking method

Chart: Improvement of Benchmarking Indexes



Source: Beijing Software Industry Productivity Center

3. Beijing Software Process Improvement and Enhancement Institutions

Table: List of Major Domestic CMM Consulting Companies

| Location of Domestic Headquarters | Name of Consulting Companies | Website | Market Share | |
|-----------------------------------|---|---|----------------------|-----------------------|
| | | | Company Market Share | Location Market Share |
| Beijing | SoftTech | http://www.softtechdev.com/ | 19% | 52% |
| | Cyber Park, Inc. Keji | http://www.cyberspi.com.cn/ | 14% | |
| | China Software Testing Center | http://www.cstc.org.cn/ | 9% | |
| | Beijing Software Enterprise Advisory Center | http://www.cmmi.org.cn/ | 5% | |
| | PISolution | http://www.cmmi-pi.com.cn/ | 3% | |
| | RTConsulting | http://www.rtconsulting.com.cn/ | 2% | |
| Shanghai | QAI | http://www.qaichina.com/ | 17% | 37% |
| | Process Improvement Asia | http://www.piachina.com/ | 10% | |
| | Bytewatch | http://www.bytewatch.com.cn/ | 10% | |
| Guangzhou | CEPREI Certification Body | http://www.ceprei.org/ | 7% | 7% |

Source: Beijing Software Industry Productivity Center

4. Support Policies on Software Process Improvement

Table: List of Support Policies by Beijing on Software Process Improvement

| Date of Release | Released by | Name of Measures | Contents of Measures | Effects |
|-----------------|---|--|--|--|
| November 2000 | Beijing Municipal Science and Technology Commission | Policy of Beijing Software Industry Base to Promote CMM Certification | Dispatch RMB 10 million from 2000 to 2002 to reward CMM2 (or above)-certified enterprises. Software enterprises passing CMM2 can have RMB 200,000 as premium and those passing CMM3 can have RMB 300,000 as premium. | By the end of 2002, more than 40 software enterprises gained special financial support with the total sum reaching above RMB 10 million. |
| August 2004 | Beijing Municipal Bureau of Commerce, Beijing Municipal Bureau of Finance | Circular on Giving Subsidies to Beijing Software Enterprises Passing CMMI3 (2004 No. 28) | For qualified enterprises passing CMMI3 or above, "reward RMB 300,000 to those passing CMMI3; RMB 100,000 more for those passing CMMI4; RMB 100,000 more for those passing CMMI5." | By July of 2006, 20 software enterprises have gained subsidies with the total sum being RMB 4.25 million. |

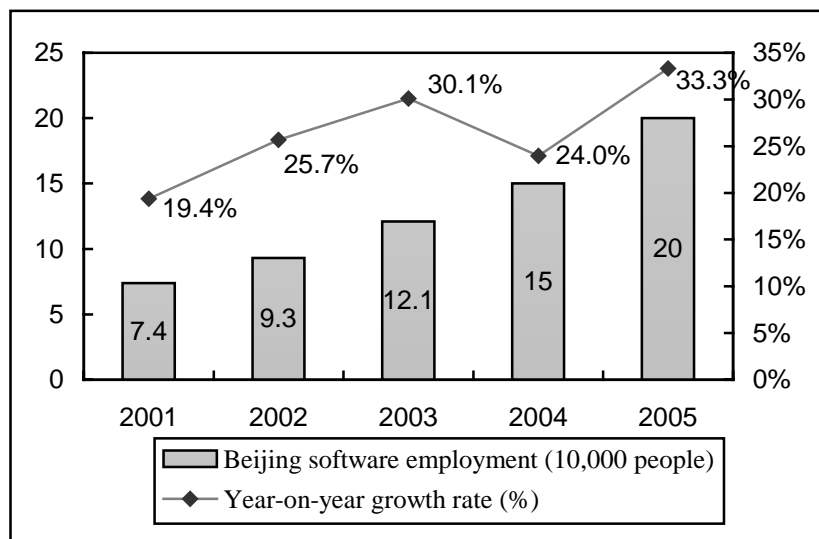
Source: Beijing Municipal Bureau of Commerce, Beijing Software Industry Productivity Center

Chapter IV: Beijing's Advantages in Software Talents

1. Supply and Demand of Beijing Software Talents

By the end of 2005, Beijing had 200,000 people working in software sector, 2.7 times that in 2001 with an average annual growth rate of 26%.

Chart: Growth of Beijing Software Employment in 2001-2005



Source: Beijing Municipal Bureau of Statistics

2. Beijing Software Talents Supply System

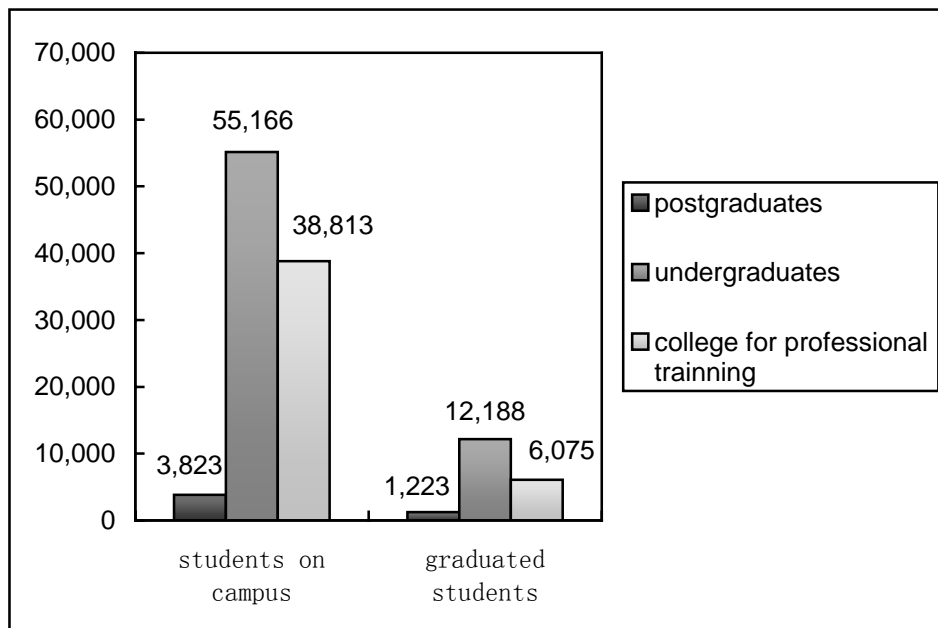
Beijing has set up a software talents supply system including high, middle and low layers. Software talents supply has reached certain scale and keeps its momentum of growth.

High-layer talents supply mainly relies on higher education, scientific research institutions and demonstration software colleges combined with in-company training. Government policies also attract returnees from abroad and foreigners into Beijing software industry.

Middle-layer talents supply mainly relies on ordinary colleges and demonstration software colleges.

Low-layer talents supply mainly relies on software technical workers from professional technical education. Social training and in-company training cover three layers of software talents.

Chart: Number of Students and Graduates in Computer and Software-Related Majors from Colleges and Universities and Scientific Research Institutions in Beijing in 2005

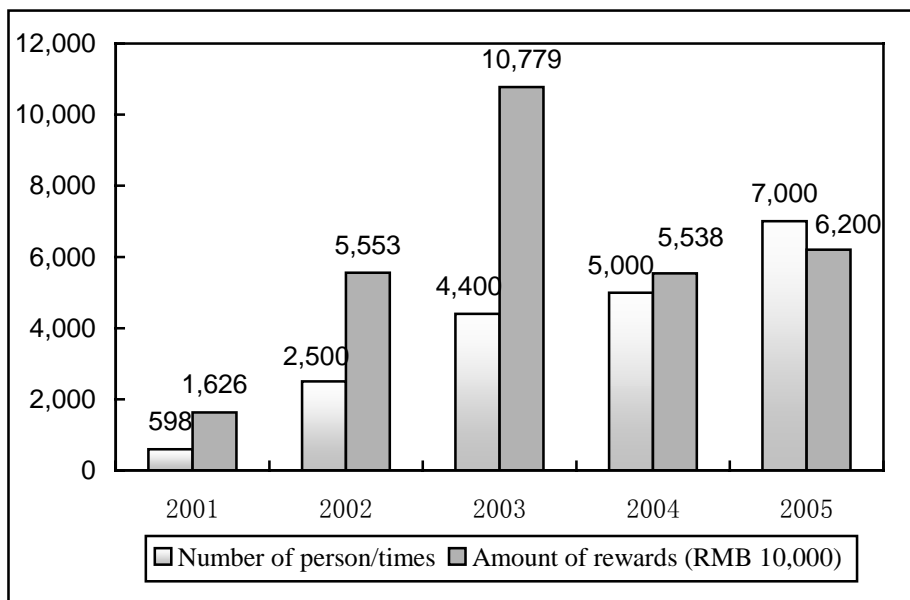


Source: Beijing Municipal Education Commission, Beijing Software Industry Productivity Center

3. Beijing's Support Policies in Software Talents

During the 10th Five-Year Plan period, around 19,500 person/times of high-level management talents and senior technicians received special rewards from the municipal government. The total sum of rewards reached above RMB 300 million.

Chart: Rewards to "Double High" Talents in Beijing Software Enterprises in 2001-2005



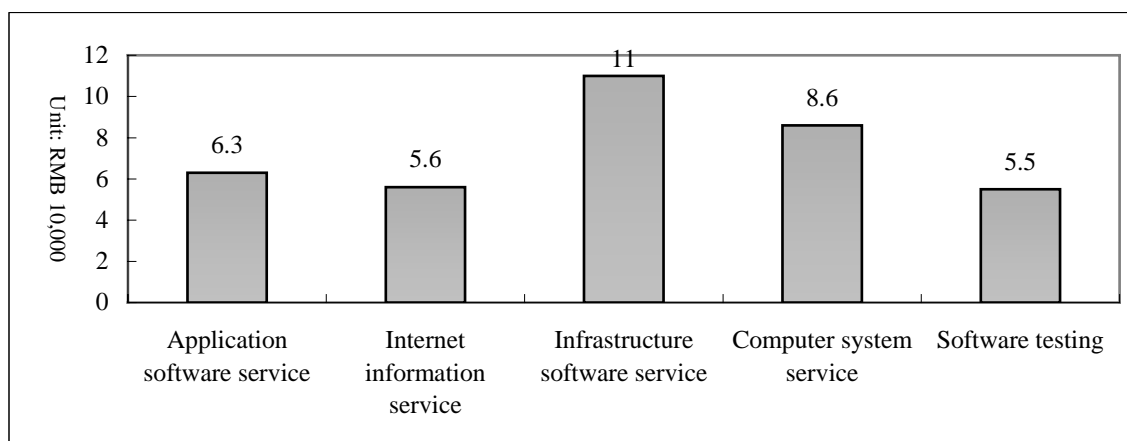
Source: Beijing Software Industry Productivity Center

Chapter V: Operating Costs Beijing IT Enterprises

1. Human Resource Costs of Beijing Software Enterprises

Software industry is technology-intensive and high technology contents decide higher salary in the industry to be above the social average. In 2004, the average annual salary of “information transmission, computer service and software industry” was RMB 62,000, only lower than the financial industry.

Chart: Comparison of Average Salary in Sectors of Software Industry in 2005



Source: Beijing Municipal Bureau of Statistics and Beijing Software Industry Productivity Center

2. Rent and Land Price

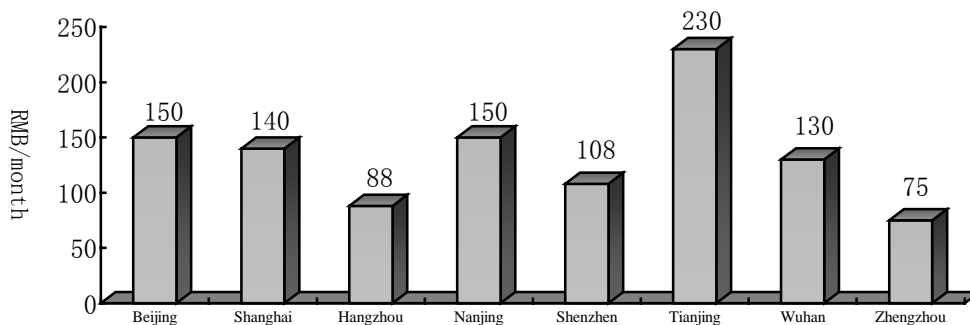
Table: Quoted Rents of Some Buildings in Software Enterprises Clustered Areas in Beijing

| Name of Base or Region | Name of Building | Rent (RMB/square meter/day) |
|---------------------------------------|--|-----------------------------|
| 863 Software Park | Quantum Silver Plaza | 5.3 |
| Beijing National Software Export Base | Shining Building | 4.2 |
| | Baiyan Building | 4 |
| Shijingshan District | Wanshang Building | 2.8 |
| | Xin'an Building | 2.5 |
| Shangdi Information Security Base | Shangdi Building | 2.6 |
| | International Science & Technology Park | 2 |
| | Huasheng Building | 2.8 |
| | Dongfang Electronics Technology Building | 3.5 |
| | Diamond Building | 3.5 |
| Zhongguancun Software Park | Great Road Building | 3 |
| BPU Software Park | 13 small buildings for rent and sale | 2 |

Source: Beijing Software Industry Productivity Center

3. Costs of Communications, Water and Electricity

Chart: Comparison of Charges on Monthly Payment ADSL 1M Services in Different Places



Source: Broadband Service Providers

4. Transportation Costs in Beijing

By 2008, the mileage of railway transport in Beijing would be over 300 km. Major business areas and software parks would be connected through underground transport and the transport efficiency would be greatly improved.

Table: Layout of Beijing Subways in Operation and under Construction

| Name | Departure | Terminal | Mileage (km) | Number of Stations |
|--------------------------------|---------------|-----------------------|--------------|--------------------|
| Line 1 | Pingguoyuan | Sihui East | 31.04 | 23 |
| Line 2 (Loop Line) | Xizhimen | Xizhimen | 23.61 | 18 |
| Line 13 | Xizhimen | Dongzhimen | 40.85 | 16 |
| Batong Line | Sihui | Tuqiao | 18.9 | 13 |
| Branch Subway for Olympics (*) | Olympics Park | Xionghao Intersection | 4.0 | |
| Line 10 (*) | Huoqiying | Dabeiyaoyao | 23.9 | |
| Airport Line (*) | Dongzhimen | Capital Airport | 22.0 | |
| Line 4 (*) | Beigongmen | Majiapu | 26.2 | |
| Yizhuang Line (*) | Songjiazhuang | Yizhuang | 26 | |
| Line 5 (*) | Songjiazhuang | Taipingzhuang North | 27.6 | |
| Line 9 (*) | Baishiqiao | West Railway Station | 5.8 | |

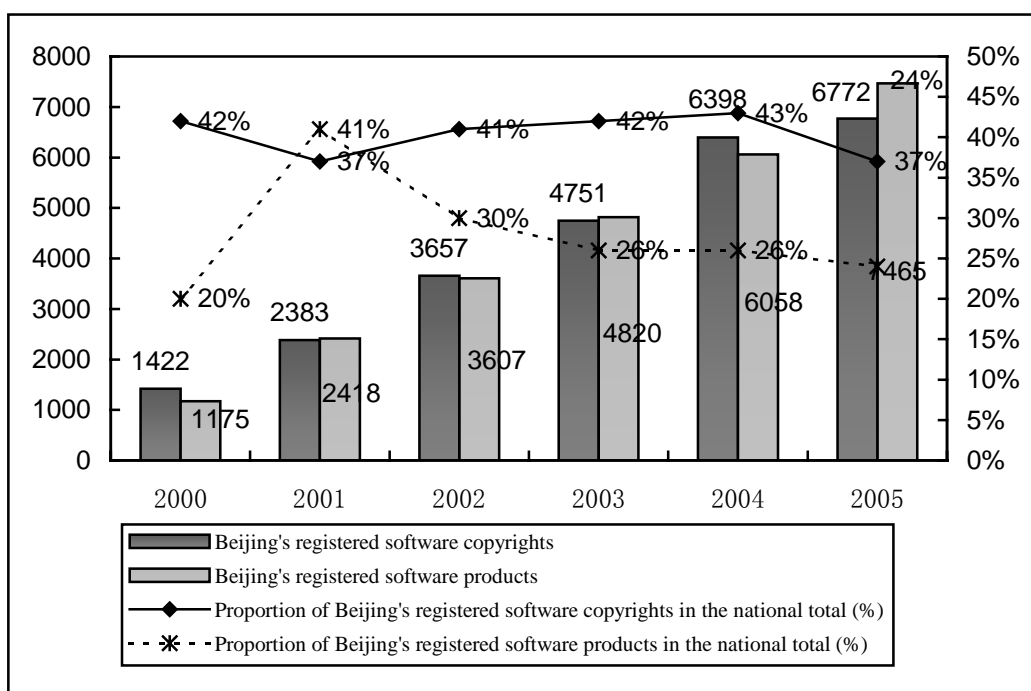
Note: “*” means under construction.

Chapter VI: Software IPR Protection in Beijing

1. Policies on Software IPR Protection in Beijing

Beijing is China's capital and departure of the state IPR protection policies. It is a pioneer in protection policies and legitimatization of software. Beijing has made great achievements in legislation on IPR protection. At the end of 2005, Beijing has registered 6,772 pieces of software copyright, accounting for 37% of the national total. The number of registered software products reached 7,465, accounting for 24.1% of the national total.

Chart: Number of Registered Software Copyrights in 2000-2005



Source: Beijing Software Industry Association, the Copyright Protection Center of China

2. Related policies issued

In order to promote implementation of IPR protection strategy, the State and the Beijing municipal government have made concerned policies on software copyright protection, digital product copyright protection, crackdown on making and selling pirated software as well as computer software use and management.

Table: IPR Protection Policies in Software Sector(partly)

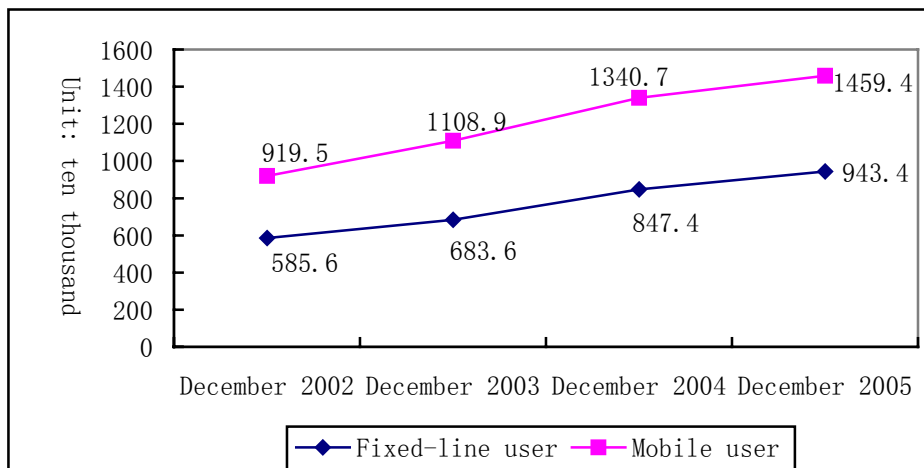
| Category | Name of Policy | Date of Release | Released by | Policy Abstract |
|---|---|-------------------|---|--|
| Policy on Software Copyright Registration | Regulations for the Protection of Computer Software | December 20, 2001 | State Council | Specify software copyright ownership, licensed use and transfer of software copyright, and relevant legal responsibilities. |
| | Measures for the Registration of Computer Software Copyright | February 20, 2002 | National Copyright Administration | Regulate software copyright registration, license contract and transfer contract registration; make requirements on qualifications, conditions and examination standards and procedures for software copyright applicants. |
| | Measures Encouraging the Registration of Computer Software Copyright in Beijing | August 1, 2003 | Beijing Copyright Administration, Beijing Municipal Science and Technology Commission, Zhongguancun Science Park Management Committee | The measures took effect as of August 1 of 2003 till December 31 of 2005. It encourages enterprises to register their software copyright through launching Beijing office for computer software copyright registration under China Copyright Protection Center as well as providing subsidies. |

Chapter VII: Telecom and Other Business Infrastructures

Telecom Market Basis in Beijing

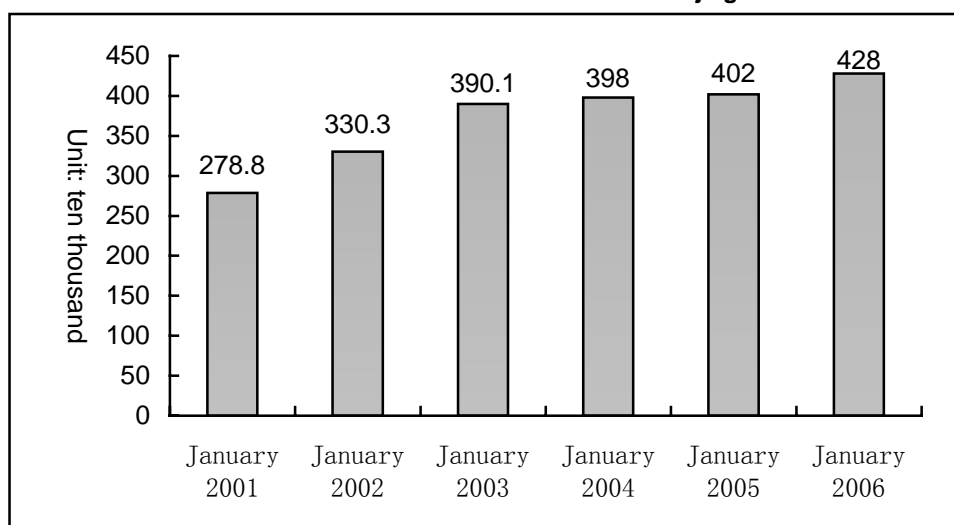
By the end of December 2005, fixed-line users reached 9.434 million, mobile users 14.594 million and broadband Internet users 2.228 million in Beijing.

Chart: Numbers of Fixed-line and Mobile Users in Beijing



Source: Beijing Communications Administration

Chart: Consistent Increase of Netizens in Beijing



Source: CNNIC

Chapter VIII: Advantages of Beijing as a Destination of Investment in Software and Information Service Industry

1. One Of Opportunities in Beijing IT Market: Rapid Growth in the Number of Netizens

By June 30, 2006, the number of netizens in China had mounted to 0.12 billion and the number of broadband users rose sharply to 77 million. China now has the second largest number of netizens and broadband users, right next to the US.

By the end of December 2005, the netizens in Beijing added up to 4.28 million, 28.7% of the whole population, the highest percentage in China. Among them, 3.7 million are broadband users, 86.3% of all the netizens in Beijing and 5.7% of all the broadband users in China.

Table: Development of Netizens in China and Beijing 2001-2005

Unit: ten thousand people

| | 2001 | 2002 | 2003 | 2004 | 2005 | Average Annual Growth Rate |
|---------------------|------|------|------|------|-------|----------------------------|
| Netizens in China | 3370 | 5910 | 7950 | 9400 | 11100 | 34.70% |
| Netizens in Beijing | 330 | 356 | 398 | 402 | 428 | 6.70% |

Source: CNNIC

2. Principal Support Policies on Businesses Investment in Beijing

“Article 7 – The object of subsidy is the actual amount invested by a startup investment enterprise. The amount of the subsidy shall be 10% of actual investment into a certain company; if it is the company’s first batch of startup investment, the subsidy percentage can be raised to 15%. The highest single subsidy is RMB 1 million.”

--- *Interim Regulations on Risk Subsidy of Startup Investment Enterprises in Zhongguancun Science Park*

Appendix1: Content of Full Version

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Tel: 86-10-82331717-159 Fax: 86-10-82332323
Email: chenr@bsw.gov.cn caog@bsw.gov.cn

For information about purchase:

Tel: 86-10-82331717-815/818 Fax: 86-10-82332323
Email: chuhongzhi@bsw.gov.cn guanrr@bsw.gov.cn

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