OPPORTUNITIES IN CHINA’S GAMING SECTOR

MARKET INFORMATION

May 2016
Business Sweden, China
IMPROVED CONNECTIVITY HAS ENABLED CHINA’S MIDDLE CLASS TO QUICKLY ADOPT MOBILE GAMING

TRENDS DRIVING DEVELOPMENT OF CHINA’S MOBILE GAMING SECTOR

Accelerating the development of telecommunications
- China has over 1 billion mobile users, half of them are on 3G or 4G network
- China boasts more than 550 million smartphone users
- The ICT sector is strongly promoted in China and receives government support

Growing the gaming scene and changing habits
- As of December 2015, China’s mobile gamers amounts to more than 366 million
- Chinese mobile gaming revenue expected to reach USD 7.7 billion in 2016
- The average monthly revenue per paid user amounts to approximately USD 2.9

The rise of China’s middle class is fuelling the mobile games market
- Booming middle class population, expected to reach 630 million by 2022
- China’s rising middle class is the largest group of Chinese gaming consumers, that increasingly are adopting online payments via platforms such as Alipay

CHINA’S MOBILE GAMING SECTOR IS BOOMING, WHICH CAN OFFER OPPORTUNITIES FOR SWEDISH DEVELOPERS

SOURCE: MCKINSEY, BUSINESS SWEDEN ANALYSIS
CHINA CONTRIBUTES TO 20% OF THE GLOBAL GAMING REVENUES AND BOASTS SUBSTANTIAL GROWTH

CHINESE MOBILE GAME REVENUES
USD billion

MARKET SHARE OF MOBILE GAMING PLATFORMS, CHINA VS. REST OF THE WORLD 2015*

SOURCE: NEWZOO, TALKING DATA

*100% = USD 30 billion
DOMESTIC APP STORES DOMINATE THE CHINESE APP MARKET

MARKET SHARES* OF TOP-10 ANDROID APP STORES IN CHINA 2015

<table>
<thead>
<tr>
<th>App Store</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>MyApp</td>
<td>25%</td>
</tr>
<tr>
<td>360 Mobile Assistant</td>
<td>22%</td>
</tr>
<tr>
<td>Baidu Mobile Assistant</td>
<td>17%</td>
</tr>
<tr>
<td>MIUI app store (Xiaomi)</td>
<td>12%</td>
</tr>
<tr>
<td>Wandoujia</td>
<td>7%</td>
</tr>
<tr>
<td>Huawei App Store</td>
<td>7%</td>
</tr>
<tr>
<td>HiMarket</td>
<td>6%</td>
</tr>
<tr>
<td>Vivo</td>
<td>5%</td>
</tr>
<tr>
<td>Oppo Store</td>
<td>5%</td>
</tr>
<tr>
<td>Google Play</td>
<td>5%</td>
</tr>
</tbody>
</table>

Chinese app stores
Foreign app stores

* TOTAL MARKET >100% SINCE IT IS POSSIBLE TO HAVE MORE THAN ONE APP MARKETS ON ONE DEVICE

SOURCE: NEWZOO
THE HIGHEST CONCENTRATION OF MOBILE GAMERS ARE FOUND IN THE AFFLUENT COASTAL AREAS OF CHINA

GEOGRAPHICAL DISTRIBUTION OF CHINA’S MOBILE GAMERS

User concentration
Percentage of total users
100% = 366 million

- 0% - 2%
- 2% - 5%
- 5% - 7%
- 7% - 10%
- 10% +

SOURCE: TALKING DATA
**THERE IS A LARGE NUMBER OF MAJOR PLAYERS ON THE CHINESE MARKET**

**MAJOR PLAYERS IN CHINA’S GAMING SECTOR**

<table>
<thead>
<tr>
<th>Company</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Osauhing</td>
<td>Creative Mobile is an independent game developer based in Tallinn, Estonia, founded in 2010</td>
</tr>
<tr>
<td>Creative Mobile</td>
<td>Approx. 250 million active players in 2016</td>
</tr>
<tr>
<td>Tencent</td>
<td>China’s largest and most used internet service portal, founded in 1998</td>
</tr>
<tr>
<td></td>
<td>Total revenue reached RMB 78.9 billion in 2014</td>
</tr>
<tr>
<td>Yodo1</td>
<td>A global game publisher based in Beijing</td>
</tr>
<tr>
<td></td>
<td>Has assisted more than 60 foreign companies to enter China</td>
</tr>
<tr>
<td>Chukong</td>
<td>China’s third largest game developer and distributor, located in Beijing and with presence in USA and Korea</td>
</tr>
<tr>
<td></td>
<td>Its most successful game title to date has been the game <em>Fishing Joy</em></td>
</tr>
<tr>
<td>Shanda Games</td>
<td>An online game operator, established in 1999 with its base in Shanghai, China</td>
</tr>
<tr>
<td></td>
<td>Approx. 460 million registered accounts in 2014</td>
</tr>
</tbody>
</table>

MANY OF THE SUCCESS CASES IN CHINA INVOLVE FINDING THE RIGHT LOCAL PARTNER
DUE TO A FIERCELY COMPETITIVE MARKET LANDSCAPE, IT IS IMPORTANT TO FIND RIGHT PARTNER

SOFTWARE FLOW ALONG MARKET PLAYERS ON THE CHINESE MARKET*

GAME/APP DEVELOPER
e.g. Turborilla, Osauhing Creative, Mobile etc.)

OWN SUBSIDIARY
e.g. EA Games

LOCAL TECHNOLOGY PARTNER
More than 50 local players

APP STORE / PLATFORM
e.g. Myapp, Google Play, Baidu, Apple Store, Steam
(More than 10-20)**

END-USERS
e.g. private persons or professional users)

Not a common approach for smaller developers

FEW DISTRIBUTE DIRECTLY FROM SWEDEN TO THE PLATFORMS

SOURCE: BUSINESS SWEDEN ANALYSIS

*NOT EXHAUSTIVELY COVERING ALL ASPECTS OF THE SOFTWARE FLOW
**ACTING AS A DISTRIBUTOR
***CAN PROVIDE E.G. TRANSLATION, LOCALIZATION AND CLOUD STORAGE TO INCREASE ACCESS TIME/DOWNLOAD SPEED
EVEN A SMALL SHARE OF CHINA’S GAMING MARKET CAN CREATE SIGNIFICANT REVENUE

GLOBAL TURNOVER PER SELECTED GAMING COMPANY IN 2015

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>GLOBAL TURNOVER (USD MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZYNGA</td>
<td>591</td>
</tr>
<tr>
<td>EA MOBILIE</td>
<td>501</td>
</tr>
<tr>
<td>SGN</td>
<td>300</td>
</tr>
<tr>
<td>BIG FISH</td>
<td>266</td>
</tr>
<tr>
<td>POCKEY GEMS</td>
<td>82</td>
</tr>
</tbody>
</table>

SOURCE: ORBIS
# How to Launch a Game, If the Offering Requires Underlying Software-as-a-Service to Work

**Process and Requirements**

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>REQUIREMENTS</th>
<th>PERMIT</th>
<th>RUN</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOFTWARE-AS-A-SERVICE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A COMMERCIAL USE</td>
<td>‣ Legal entity in mainland China&lt;br&gt; ‣ ICP* license**</td>
<td>‣ Requirements for ICP license***&lt;br&gt; ‣ Registered capital of CNY&gt;1 million&lt;br&gt; ‣ Origin server located in China&lt;br&gt; ‣ A Chinese legal representative&lt;br&gt; ‣ &gt;3 employees covered with social insurance for a minimum of 3 months&lt;br&gt; ‣ No official fee</td>
<td>READY TO OPERATE</td>
</tr>
<tr>
<td>B NON-COMMERCIAL USE</td>
<td>‣ Legal entity in mainland China&lt;br&gt; ‣ ICP filing</td>
<td>‣ ICP filing&lt;br&gt; ‣ Time frame 3 - 20 working days&lt;br&gt; ‣ No official fee</td>
<td></td>
</tr>
</tbody>
</table>

*INTERNET CONTENT PROVIDER, PERMIT ISSUED BY THE CHINESE MINISTRY OF INDUSTRY AND INFORMATION TECHNOLOGY
**COMPANIES RELATED TO FOREIGN INVESTMENT (WOFE OR JV) ARE NOT ALLOWED TO OBTAIN AN ICP LICENSE. HOWEVER, EXEMPTIONS CAN BE MADE FOR JVS (WITH FOREIGN INVESTMENT <49%) IN FREE TRADE ZONES UNDER CERTAIN CIRCUMSTANCES
***MAY VARY SLIGHTLY BETWEEN PROVINCES

**Source:** BUSINESS SWEDEN INTERNAL INTELLIGENCE

**Source:** BUSINESS SWEDEN
HOW TO PUBLISH MOBILE APPS IN CHINA AND UNLOCKING OPTIMAL MARKET REACH

REGISTRATION TO PUBLICATION

1. Registration
   - Registration on selected website

2. Legal documents
   - Required documents
     - Business license
     - IP rights
     - Power of attorney

3. Upload
   - Required information
     - Size MB
     - Descriptive text
     - Game category

4. Test period (2-7 days)
   - Test of product
     - App can be updated until approval is given

5. Publication
   - Published upon approval

THE MOBILE APP MARKET IN CHINA

OS MARKET SHOARES
- Android: 72.0%
- iOS: 19.1%
- Blackberry: 2.9%
- Windows phone/mobile: 2.8%
- Other: 3.2%

LEADING APP STORES IN CHINA
- 360 Mobile Assistant
- Baidu Mobile Assistant
- MyApp (Tencent)
- MIUI App store (Xiaomi)

MARKET LEADERS APP COVERAGE
- MyApp
- 360 Mobile Ass.
- MIUI App Store
- Baidu Mobile Ass.
- Huawei App Store
- Oppo Store
- Vivo
- Google Play
- HiMarket
- Wandoujia

SOURCE: BUSINESS SWEDEN INTERNAL INTELLIGENCE, TALKING DATA
COMMON ENTRY BARRIERS TO THE CHINESE MARKET
A SEEMingly BUMPy ROAD MIGHT DETER WESTERN GAME STUDIOS

LOCALISATION IS ABOUT A LOT MORE THAN JUST LANGUAGE
Chinese netizens lack access to popular social media channels like Facebook, Twitter and Youtube. In order to succeed in China you must also localise your product with domestic social network platforms like Weibo and Wechat.

THE GREAT FIREWALL OF CHINA
It is important to find a local partner to provide storage solutions for your app, due to the Great Firewall of China foreign cloud solutions might be unstable and lead to disconnections and delays while gaming.

PAYMENT METHODS
Integration of local online payment options such as Alipay and UniPay is necessary. Also one need to work with Chinese mobile carriers in order to allow in-app payments directly billed on the consumer’s carrier payment plan since about 75% of app payments in China are done through direct carrier billing.

IP THEFT AND COPYCATTING
Chinese local app markets usually have their own app certification and QA process but IP theft and copycatting is still quite normal. Even if one has not published the app in China there is still a risk someone else has released it on a domestic app market or as a downloadable APK-file already.

MOBILE DOMINATES THE CHINESE INTERNET
Internet penetration has reached around 50% of the population however the majority are mobile-only users. With expanding 3G and 4G networks bringing Chinese customers improved connectivity this trend does not seem to slow down in the near future.

SOURCE: BUSINESS SWEDEN ANALYSIS
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