China Online Game

Research Report

China Online Game

Research Report

2005

艾瑞市场咨询有限公司
iResearch Consulting Group

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I. Background

After successfully conducting several consecutive surveys on China Internet users' consumption behavior, iResearch Consulting Group (www.iresearch.com.cn) carried out its new survey from November to December 2005 on Internet users' online practice and consumption behavior. We have divided the Internet industry into 20 sub-sectors:

Online game	Casual game	Online ad	Search engine
Network security	Online movie	Internet access	Online banking
B2B E-commerce	B2C E-commerce	C2C E-commerce	Digital magazine
Online securities	Online payment	Online booking	Online recruiting
Instant messenger	Email	Online education	Online community

By utilizing carefully crafted questionnaires and iResearch's long-term research database and its extensive industry knowledge base, we try to gain a deep understanding of the following industry aspects:

- Industry's market size and growth potential
- Industry's value chain and its tendencies
- Related companies' business model
- Related companies' strategy and marketing
- Internet users' habit and consumption state
- Internet users' attitude and satisfaction level
- Internet users' demand for related services
- Characteristics of each user group
- Opportunities and challenges facing the industry

iResearch publishes a series of research reports based on this survey.

- 《2005 China Online Game Research Report》
- 《2005 China Casual Game Research Report》
- 《2005 China Online Advertising Research Report》
- 《2005 China Instant Messenger Research Report》
- 《2005 China Search Engine Research Report》
- 《2005 China Email Research Report》
- 《2005 China Network Security Research Report》
- 《2005 China Online Movie Research Report》
- 《2005 China Online Community Research Report》
- 《2005 China Online Education research report》
- 《2005 China B2B E-COMMERCE Research Report》
- 《2005 China B2C E-COMMERCE Research Report》
- 《2005 China C2C E-COMMERCE Research Report》
- 《2005 China Online Booking Research Report》
- 《2005 China Online Securities Research Report》
- 《2005 China Online Banking Research Report》
- 《2005 China Online Payment Research Report》
- 《2005 China Online Recruiting Research Report》
- 《2005 China Digital Magazine Research Report》

II. Definitions

Market size of China online game industry: market size of China online game industry= total revenue of China online game operators + total revenue of China online game distributors. Total revenue here refers to total annual revenue generated directly from game operation. Revenues generated directly from game operation include revenue generated from sale of game access, relevant installation software, virtual items in gaming world, and etc. Please be reminded that sales revenue of advertisements, peripheral products, and etc are excluded.

Total revenue of China online game operators: total revenue of China online game operators equal to total annual revenue of domestic China online game operators generated directly from game operation. Revenues of operators generated directly from game operation include revenue generated from sale of game access, relevant installation software, virtual items in gaming world, and etc. Please be reminded that sales revenue of advertisements, peripheral products, and etc are excluded.

Online game distributor (a.k.a. online game reseller): A company that is not an online game operator but participate in the distribution of online game.

Total revenue of China online game distributors: total revenue of China online game distributors equal to total annual revenue of online game distributors generated from online game distribution. Revenues generated from online game distribution include revenue generated from sale of game access, relevant installation software, and etc. Please be reminded that sales revenue of advertisements, peripheral products, and etc are excluded.

III. Methodology

Data was collected through online survey on a large number of participating websites. Multiple interviews with and research efforts into related operators and distributors were conducted.

A. Online Survey

Online survey was a major method to gather data on Netizens. The questionnaire was placed on iResearch website. In addition, banner advertisements and text-linked advertisements about iResearch survey were placed on 51 websites for about one month. Respondents filled the questionnaire on their own initiative. In total, about 70,000 were kept after 1) exclusion of invalid ones, 2) quota sampling according to gender distribution and random sampling.

B. About Industry research

Surveys and interviews were held toward top operators in each sub-sector of Internet industry, to get a collective figure and particularized data related with revenue and market. In addition, related distributors were approached for relevant data.

Obtaining statistics by comparing open information and referencing survey data and accomplishing information assemble, iResearch figured out the industry scale.

IV. Summary

The development of China online game industry turned out the following features and tendencies:

1, China online game industry market size reached RMB 6.1 billion in 2005, 51% more than that of 2004. Among it, online game operators generated RMB 4.7 billion, or 77% of the industry market size; Distributors got RMB 1.4 billion, or 23% of the industry market size. It is forecasted by iResearch that the market size of China online game industry will reach RMB 7.8 billion in 2006, and reach RMB 14.3 billion in 2010.

2, China online gamers reached 29 million, or 26% of China Netizens. The annual growth rate of online gamers in 2005 was 38%. In 2005, among China online gamers, there were 15.9 million MMORPG gamers and 17.9 million online casual gamers. Online casual game has exceeded MMORPG in terms of gamer amount, and becomes the new growth point for China online game industry. It is forecasted that the number of China online gamers will reach 40 million in 2006, and reach 80 million in 2010.

3, 2005 witnessed more methods of game operation in China online game industry. For operators, in 2005, they put heavy efforts on and achieved success in both the operation of game licensed from other developers and the operation of in-house developed game. In 2005, more operators advanced for game export to oversea markets including East Asian, United States, Germany, and etc. After years of development, China online game industry in 2005 experienced the rapid increasing number of free access games. Some operators tried to use free-to-play plus pay-to-buy-item model to save game products that have stepped into decline stage.

4, Emergence of new marketing channel and marketing measures. In 2005, more and more game operators inclined to use celebrity in their game marketing campaign, and this marketing method had achieved expected rewards to some extent. In 2005, game operators were also more likely to use cross-industry marketing and promotion, and co-marketing products covered fields of drink, computer, digital product, and etc.

5, Market Concentration Kept Increasing. For Shanda, Netease, the 9, Optisp, and Kingsoft, the sum of this top five operators accounted for 51% of the total market in 2004, and the sum of them took 67% of the total market in 2005.

V. Text

1. Definition and Classification of Online Game

1.1. Definition and Classification of Electronic Game

Electronic game refers to electronic or computerized game played by manipulating images on a video display or television screen.

Globally, there are multiple classification criteria for electronic games (aka video games). Due to the similarity between China and Korea in terms of gaming industry, we adopt the Korean classification criteria in this report. In accordance with the Korean criteria, electronic games are divided into four major categories by different platforms - console game, single-player PC game, online game, and arcade game.

1.2. Definition and Classification of Online Game

In this report, online game refers to computer game that enables hundreds or thousands of players to simultaneously interact in a game world that they are connected to via the Internet.

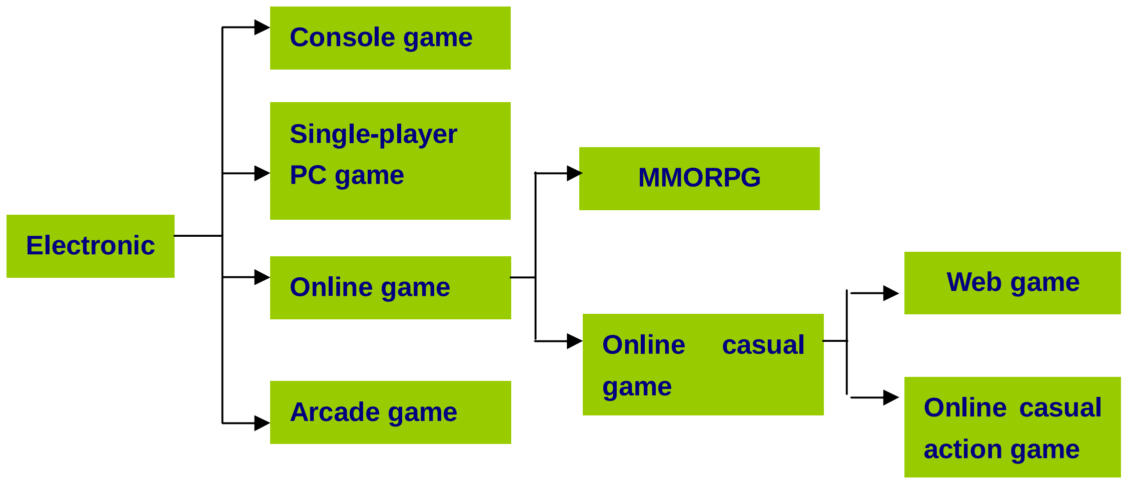
What's more, we divide online game into two genres - massive multiplayer online role-playing game (MMORPG) and online casual game. Among online casual game, we can further divide it into online casual action game and web game.

A massive multiplayer online role-playing game (MMORPG) is a multiplayer computer role-playing game that enables thousands of players to play in an evolving virtual world at the same time over the Internet. In terms of the background set in the game, MMORPG can be further divided into sub-categories such as fantasy, martial arts, sci-fi, and etc. Popular MMORPG in China market include WOW, Mir2, and Westward Journey.

In order to differentiate from web game, online casual action game is also referred to as large or medium scale online casual game. The major difference between online casual action game and MMORPG lies in the fact that online casual action game runs session by session and can be completed within a shorter period of time while MMORPG can take up much more time and energy from gamers. Without emphasis on storyline, online casual action games merely offer gamers sense of relaxation. Popular online casual action games in China include BnB and Maple Story.

Web games refer to computer games that enable hundreds or thousands of players to simultaneously play cards, chess, and other puzzle games over the Internet.

Classification of Electronic Game



2. Overview of China Online Game Industry Development in 2005

2.1. Market Sizes and Market Feature

In 2005, many factors including government policy orientation, increase of China Netizens, improvement of Internet access, prosperity of online casual game and its popularity among home Netizens, and etc. worked together to push the development of China online game industry, and enabled it keep its fast growing tendency. The market size of China online game industry achieved RMB 6.1 billion in 2005, which was 51% more than that of 2004.

The total revenue of China online game operators in 2005 reached RMB 4.7 billion, 77% of the industry market size. The total revenue of China online game distributors in 2005 was RMB 4.7 billion, 23% of the industry market size.

In recent years, online game distributors' share among market size of China online game industry has declined due to major online game operators' success in streamlining channel. In 2003, distributor revenue accounted for 29% in China online game industry market size, and it dropped to 23% in 2005. iResearch estimates that the further division of labor in China online game industry and the optimization of the influential distributors' operation capability will keep distributors' share around 20% in the following years.

Revenue of Game Operators and Distributors 2003-2005

	2003	2004	2005
Market size of China online game industry (RMB billion)	2.8	4.1	6.1
growth rate	–	45%	51%
Total revenue of operators (RMB billion)	2.0	3.2	4.7
growth rate	–	58%	49%
operator rev. /industry market size (%)	71%	78%	77%
Total revenue of distributors (RMB billion)	0.8	0.9	1.4
growth rate	–	11%	56%
distributor rev. /industry market size (%)	29%	22%	23%

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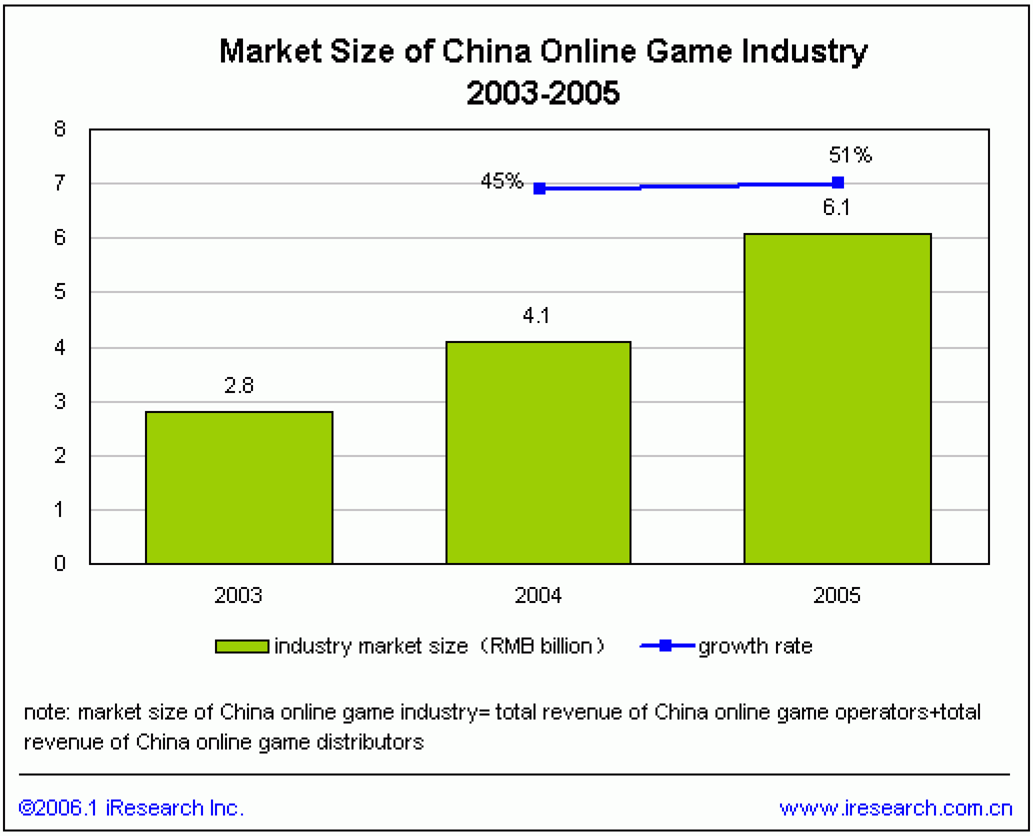
Market Size of China Online Game Industry
2003-2005
8
7
6
5
4
3
2
1
0
45%
51%
2.8
4.1
6.1
2003
2004
2005
industry market size（RMB billion）
growth rate
note: market size of China online game industry= total revenue of China online game operators+total revenue of China online game distributors
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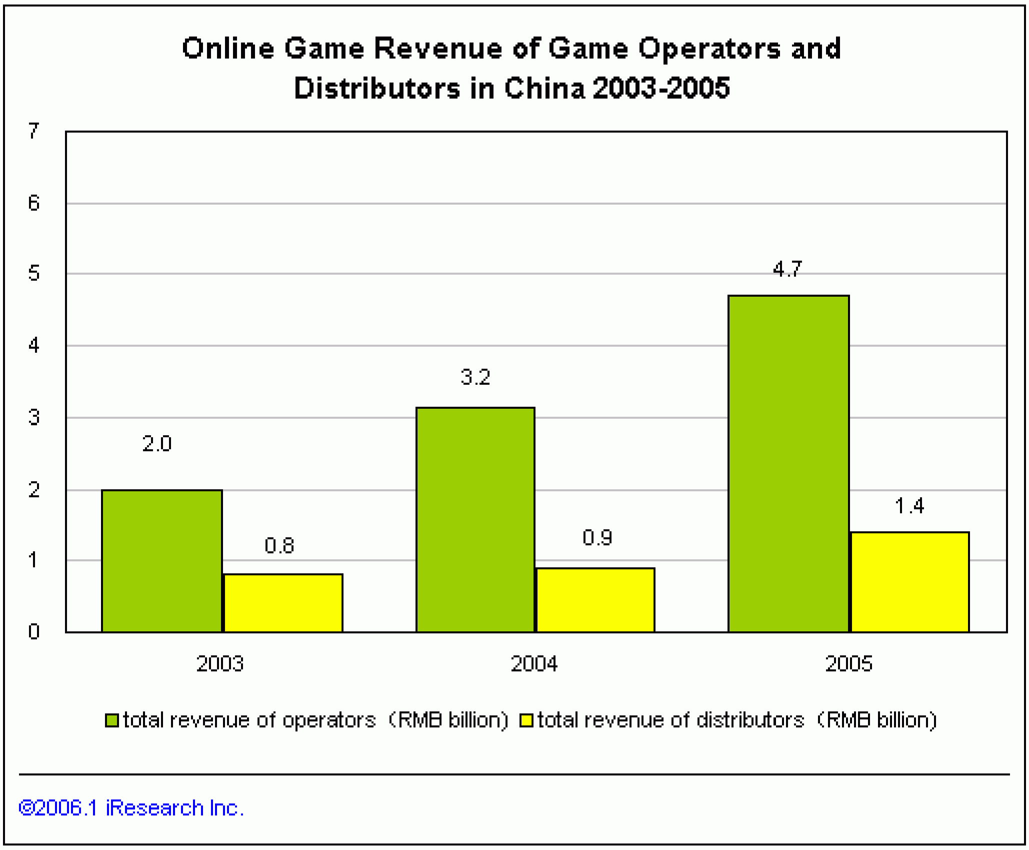
Online Game Revenue of Game Operators and Distributors in China 2003-2005
7
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5
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3
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1
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2.0
0.8
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0.9
4.7
1.4
2003
2004
2005
total revenue of operators（RMB billion）
total revenue of distributors（RMB billion)
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In 2005, both MMORPG and online casual game obtained rapid growth. Market size of China MMORPG industry reached RMB 4.9 billion, 39% more than that of 2004, and 81% of China online game industry market size. After five year development, China MMORPG industry has gradually stepped into maturity with growth rate slowing down and share among total China online game industry market decreasing to 80%. This tendency mainly results from the following two reasons. On one hand, social issues raised by MMORPG have attracted great attention and criticism. On the other, the growth of MMORPG users has declined.

Market Size of MMORPG and Online Casual Game 2003-2005

	2003	2004	2005
MMORPG (RMB billion)	2.5	3.6	4.9
growth rate	–	44%	39%
MMORPG/total (%)	88%	88%	81%
Online casual game (RMB billion)	0.3	0.5	1.2
growth rate	–	62%	111%
online casual game/total (%)	12%	12%	19%

2.2. Number of Users and User Features

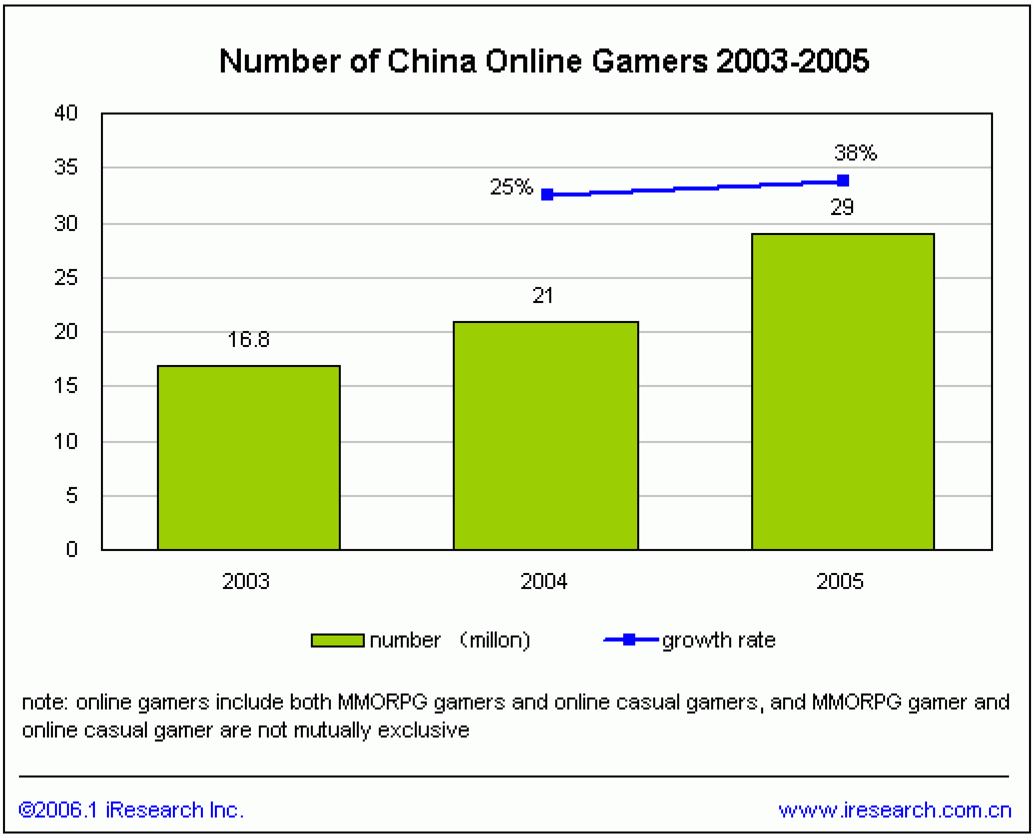
The growth of China Netizens and the increase of available products in China online game market led to the growth of China online gamers. According to statistics from CNNIC, China Netizens reached 111 million in 2005, 18.2% more than that in 2004. According to iResearch, the number of China online gamers in 2005 was 29 million, or 26% of China Netizens.

Number of China Online Gamers 2003-2005

	2003	2004	2005
Number of Netizens (million)	79.5	94	111
growth rate	34.5%	18.2%	18.1%
Number of online gamers (million)	16.8	21	29
growth rate		25%	38%
online gamer/Netizen (%)	21%	22%	26%
Number of MMORPG gamers (million)	8.9	11.6	15.9
growth rate	–	30%	37%
MMORPG gamer/Netizen (%)	11%	12%	14%
MMORPG gamer/online gamer (%)	53%	55%	55%
Number of online casual gamers (million)	8.5	10.6	17.9
growth rate		25%	69%
online casual gamer/Netizen (%)	11%	11%	16%
online casual gamer/ online gamer (%)	51%	50%	62%

note: number of Netizens sourced from CNNIC;

MMORPG gamer and online casual gamer are not mutually exclusive


Number of China Online Gamers 2003-2005
40
35
30
25
20
15
10
5
0
16.8
21
29
25%
38%
2003
2004
2005
number （millon)
growth rate
note: online gamers include both MMORPG gamers and online casual gamers, and MMORPG gamer and online casual gamer are not mutually exclusive
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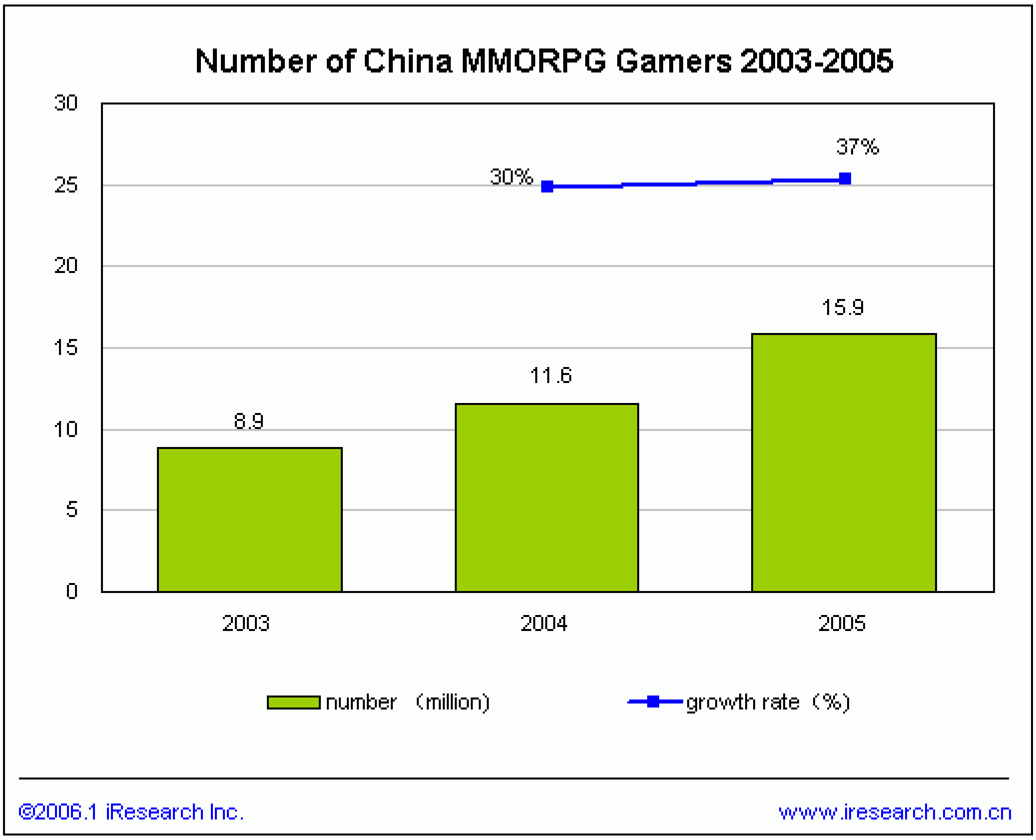
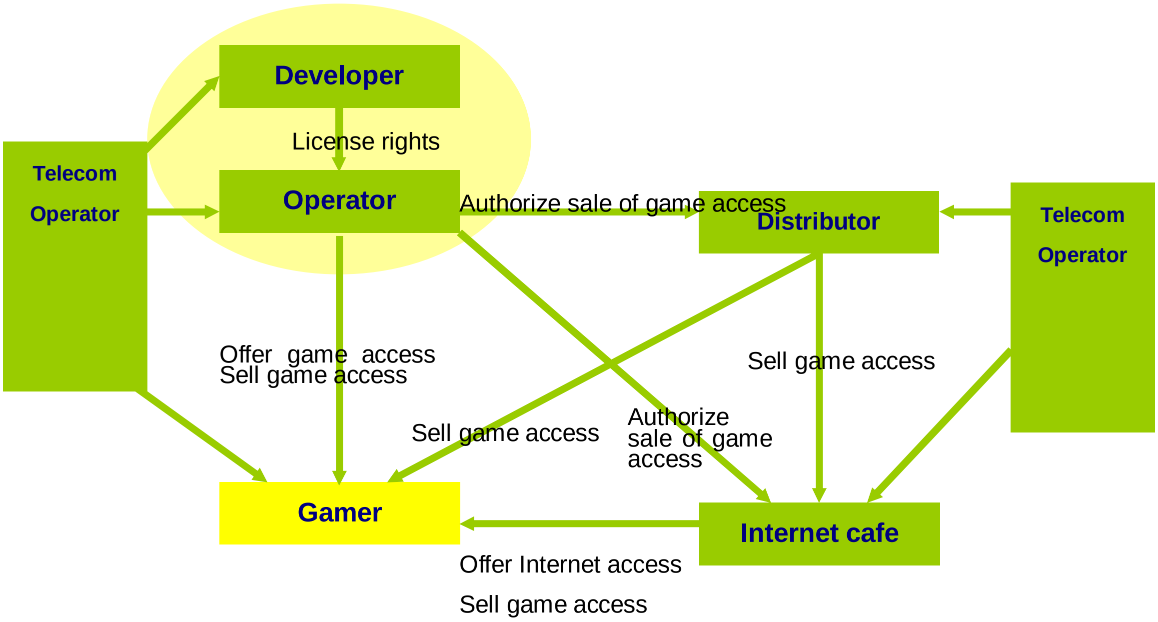
According to iResearch, there were 15.9 million MMORPG gamers in China, 55% of China online gamers, or 14% of China Netizens.



3. Industry Value Chain of China Online Game Industry

Industry Value Chain of China Online Game Industry



4. Forecast of China Online Game Market Development 2006-2010

4.1. Market Sizes and Market Features

In the next five years, China online game industry will keep stable growth. In 2006, the industry market size wall reach RMB 7.8 billion, 28% more than that of 2005. In 2010, it will reach RMB 14.3 billion, with the CAGR of 2006-2010 to be 16%. The total revenue of game operators in 2006 will reach RBM 6.3 billion, 34% more than that of 2005. It is forecasted by iResearch that the share of operators among industry market size will rise to 85% while the share of distributors will decline to 15%.

Revenue of Game Operators and Distributors 2006-2010

	2006	2007	2008	2009	2010
Market size of China online game industry (RMB billion)	7.8	9.7	11.5	13	14.3
growth rate	28%	25%	18%	13%	10%
Total revenue of operators (RMB billion)	6.3	8.1	9.6	10.9	12.2
growth rate	34%	27%	20%	14%	11%
operator rev. /industry market size (%)	81%	83%	84%	84%	85%
Total revenue of distributors (RMB billion)	1.5	1.7	1.9	2	2.1
growth rate	7%	13%	10%	7%	6%
distributor rev. /industry market size (%)	19%	18%	16%	15%	15%


Market Size of China Online Game Industry
2003-2010
45%
51%
28%
25%
18%
13%
10%
2.8
4.1
6.1
7.8
9.7
11.5
13.0
14.3
2003
2004
2005
2006e
2007e
2008e
2009e
2010e
industry market size（RMB billion）
growth rate
note: market size of China online game industry= total revenue of China online game operators+total revenue of China online game distributors
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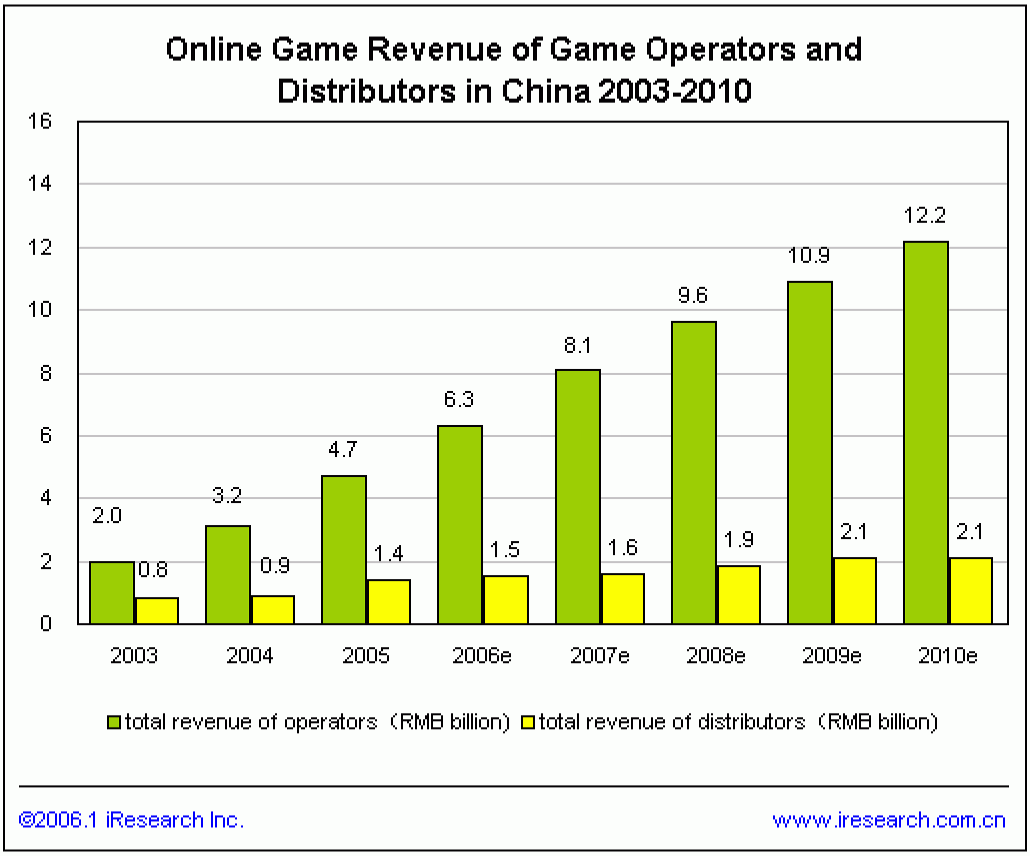
Online Game Revenue of Game Operators and Distributors in China 2003-2010
2.0
0.8
3.2
0.9
4.7
1.4
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2010e
total revenue of operators（RMB billion)
total revenue of distributors（RMB billion)
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Both MMORPG market and online casual game market will keep growing, and the growth rate of online casual game sector will be obviously larger than that of MMORPG sector.

It is forecasted the MMORPG will achieve revenue of RMB 6 billion in 2006, 21% more than that of 2005. It is forecasted that the MORPG will achieve revenue of RMB 8.9 billion in 2010, and CAGR 2006－2010 will be 10%. By then, the importance of MMORPG to total online game industry will decrease to 62%. It is forecasted that the online casual game market will reach RMB 1.8 billion, 56% more than that of 2005.

Market Size of MMORPG and Online Casual Game 2006-2010

	2006	2007	2008	2009	2010
MMORPG (RMB million)	6	7.1	7.9	8.4	8.9
growth rate	21%	18%	11%	7%	5%
MMORPG/total (%)	77%	73%	69%	65%	62%
Online casual game (RMB million)	1.8	2.6	3.6	4.6	5.4
growth rate	56%	45%	34%	28%	25%
online casual game/total (%)	23%	27%	31%	35%	38%
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4.2. Number of Users and User Features

In the next five year, the growth of China Netizens will lead to the rapid growth of China online gamers. iResearch forecasts that the number of China online gamers will reach 40 million in 2006, or 30% of China Netizens. Among them, the growth of MMORPG users will lag behind the growth of online casual gamers, and its percentage among China online gamers will drop from 50% in 2006 to 47% in 2010.

Number of China Online Gamers 2006-2010

	2006	2007	2008	2009	2010
Number of Netizens (million)	135	159	185	210	232
growth rate	21.6%	17.8%	16.4%	13.5%	10.5%
Number of online gamers (million)	40	53	63.5	73.6	81
growth rate	38%	33%	20%	16%	10%
online gamer/Netizen (%)	30%	33%	34%	35%	35%
Number of MMORPG gamers (million)	20.1	24.3	29	33.5	38.2
growth rate	26%	21%	19%	16%	14%
MMORPG gamer/Netizen (%)	15%	15%	16%	16%	16%
MMORPG gamer/online gamer (%)	50%	46%	46%	46%	47%
Number of online casual gamers (million)	24.5	32.8	42.6	53.1	62.4
growth rate	37%	34%	30%	25%	18%
online casual gamer/Netizen (%)	18%	21%	23%	25%	27%
online casual gamer/ online gamer (%)	61%	62%	67%	72%	77%

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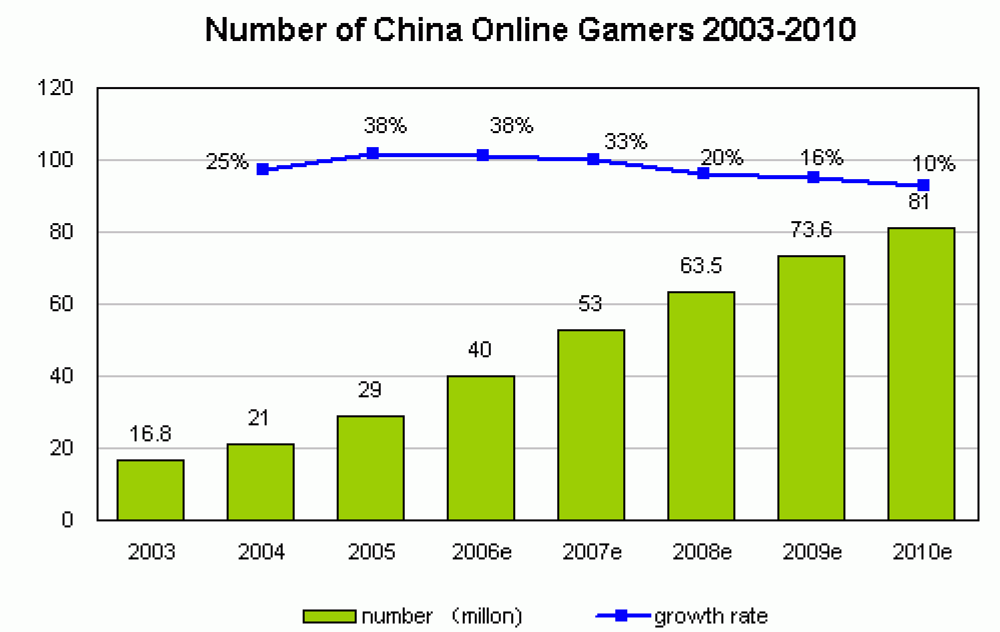

note: online gamers include both MMORPG gamers and online casual gamers, and MMORPG gamer and online casual gamer are not mutually exclusive

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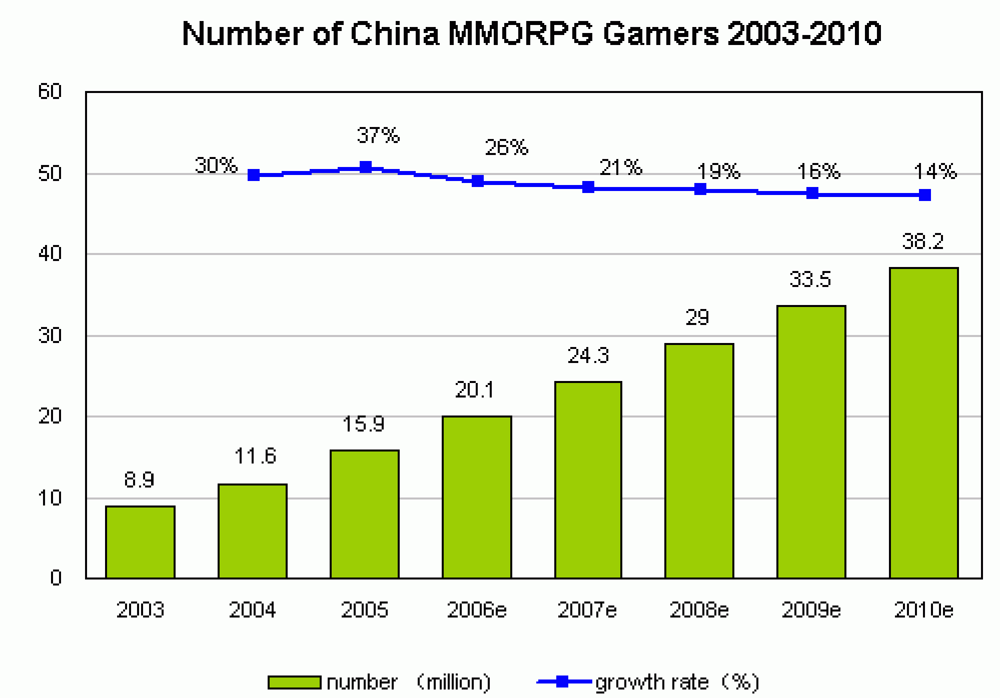

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5. Analysis on China MMORPG Gamers

5.1. Gaming Purpose of China MMORPG Gamers

Entertainment was the major reason for online gamers no matter what genre gamers they were. For MMORPG gamers, 72% played online game for entertainment and relaxation. 11.5% played online game because they want to make more friends through gaming. Comparison with 2004 statistics showed that the percentage of those who gaming just for entertainment and relaxation increased in 2005.

Gaming Purpose of China MMORPG Gamers

sample description: N=4460; data obtained through online survey of iUserSurvey with links placed on 51 websites in Nov-Dec 2005

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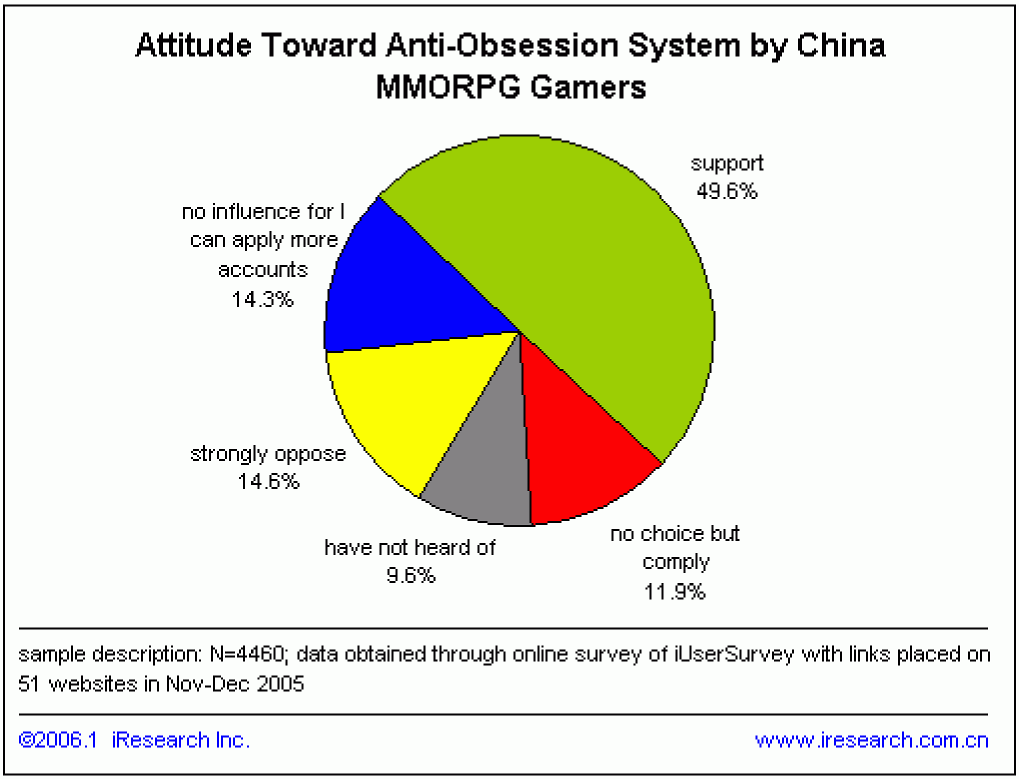
5.2. Attitude Toward Anti-Obsession System by China MMORPG Gamers

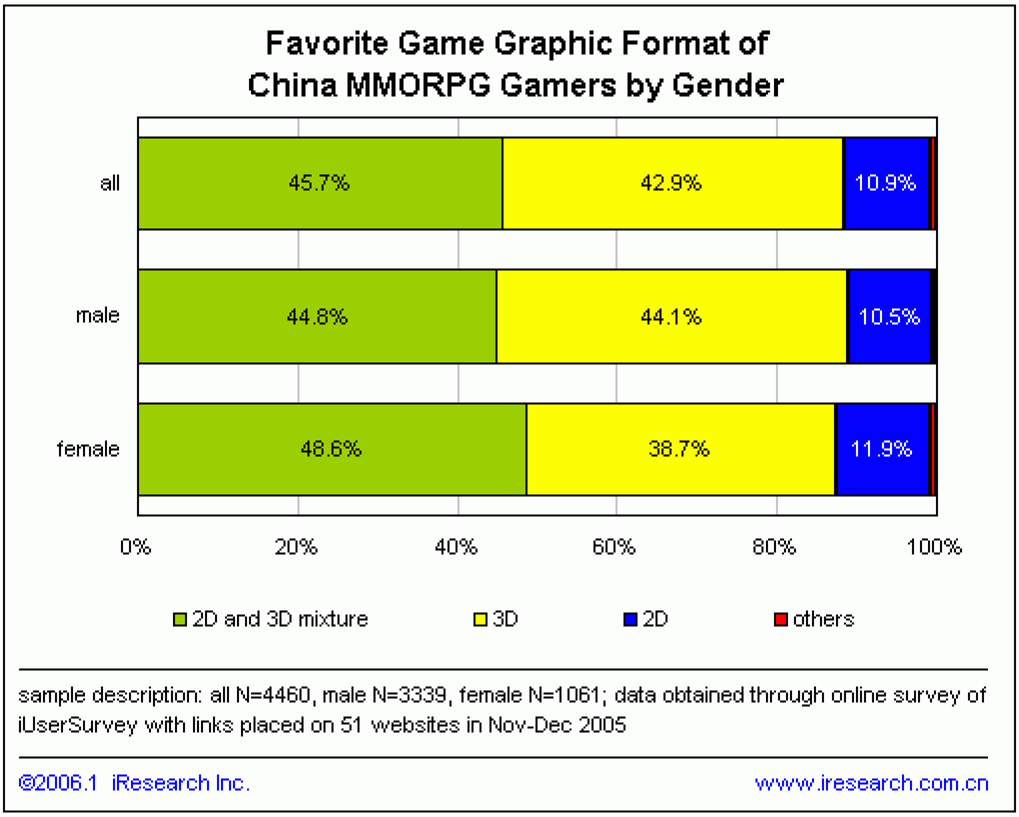
Over 90% MMORPG gamers had somewhat awareness of anti-obsession system, and nearly half MMORPG gamers support this system.

There were no obvious disparity existed between female and male gamers on attitudes toward anti-obsession system.



5.3. Favorite Game Graphic Format of China MMORPG Gamers

Similar to the statistics of 2004, in 2005, graphic format that mixes 2D and 3D together still got highest popularity among China MMORPG gamers, but the percentage of gamers that preferred pure 3D graphic format increased from 34.1% of 2004 to 42.9% of 2005.



Appendix1: Research Methodology and Procedures

1. Definitions Related with Survey Sample

- Regional Classification. China's Internet users are divided into the following categories: Northern China, Eastern China, Southern China, Southwestern China, Northwestern China, Northeastern China and Central China as well as Central Cities, First-Level Cities and Others.

N China: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and Shandong
E China: Shanghai, Zhejiang, Jiangsu and Anhui
S China: Guangdong, Fujian, Guangxi and Hainan
SW China : Sichuan, Chongqing, Yunnan, Guizhou and Tibet
NW China: Shanxi, Gansu, Ningxia, Qinghai and Xinjiang
NE China: Jilin， Liaoning and Heilongjiang
Central China: Hunan, Hubei, Jiangxi and Henan

Central Cities: Beijing, Shanghai,and Guangzhou

First-Level Cities: Tianjin, Chongqing, Shenzhen, Hangzhou, Harbin, Changchun, Shengyang, Dalian, Shijiazhuang, Taiyuan, Jinan, Qingdao, Nanjing, Hefei, Fuzhou, Xiamen, Chengdu, Kunming, Guiyang, Xi'an, Lanzhou, Changsha, Wuhan, Nanchang, Zhengxhou, Nanjing, Baotou, Haikou, Lasa, Yinchuan, Wulumuqi and Zhuhai.

Others: apart from the First-Level Cities, including counties, towns and villages.

- Salary Classification. Low Income, Middle Income and High Income
Low Income： 1000 RMB /month or less
Middle Income： 1001 to 4000 RMB /month
High Income： 4001 RMB /month or more

- Education Classification. Well Educated and Less Educated
Well Educated： College diploma and above
Less Educated: High-school diploma and below

- Internet Experience Classification. Beginner, Average and Veteran
Beginner: less than 1 year
Average: from 1 to 5 years
Veteran: more than 5 years

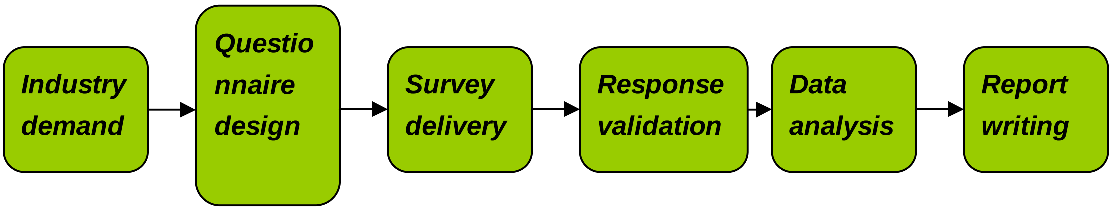
- Daily Online Usage Classification. Less Frequent, Average and Hardcore

Less Frequent: less than 1 hour
Average： From 1 to 8 hours
Hardcore： more than 8 hours

- Internet Access Classification. Narrowband, Broadband and Others
Narrowband: Dial-up/ISDN
Broadband: FTTB / Cable modem/ADSL
Others: Wireless connection/ other fixed line access methods

- Age Classification.
< 18
18-35
36-60
> 60

2. Procedure



Appendix2: Table of Contents of Full Version

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Statistics related to market size and operators' revenue are mainly obtained through interview, marketing survey, secondary sources and etc., some of which have not been confirmed by the related operators. In addition, statistics resulting from original research in this report are influenced by sample structure. Due to the limitation of research and limited survey coverage, part of the result may not precisely reflect the situation. Customers should use this report as only a single factor in making business decisions. iResearch does not guarantee the accuracy of all data in this report.

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