Entering and Succeeding in China's Complex Mobile Gaming Ecosystem

Peng Lu
Vice President, Tencent Games

Email: penglu@tencent.com
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China Mobile Game Overview

China Mobile Game Industry Environment

Sharing of Tencent’s Mobile Game Publishing Practice
## China has Become the World’s Largest Smartphone Market

<table>
<thead>
<tr>
<th>Country</th>
<th>2013E unit shipments (MMs)</th>
<th>2013E market share</th>
<th>2017E unit shipments (MMs)</th>
<th>2017E market share</th>
<th>2017/2013E growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>301.2</td>
<td>32.8%</td>
<td>457.9</td>
<td>30.2%</td>
<td>52.0%</td>
</tr>
<tr>
<td>USA</td>
<td>137.5</td>
<td>15.0%</td>
<td>183</td>
<td>12.1%</td>
<td>33.1%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>35.5</td>
<td>3.9%</td>
<td>47.5</td>
<td>3.1%</td>
<td>33.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>35.2</td>
<td>3.8%</td>
<td>37.7</td>
<td>2.5%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Brazil</td>
<td>28.9</td>
<td>3.1%</td>
<td>66.3</td>
<td>4.4%</td>
<td>129.4%</td>
</tr>
<tr>
<td>India</td>
<td>27.8</td>
<td>3.0%</td>
<td>155.6</td>
<td>10.3%</td>
<td>459.7%</td>
</tr>
<tr>
<td>Others</td>
<td>352.5</td>
<td>38.4%</td>
<td>568.1</td>
<td>37.5%</td>
<td>61.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>918.6</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>1516.1</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>65.0%</strong></td>
</tr>
</tbody>
</table>

Source: IDC, Tencent Analysis
Number of Mobile Internet Users Surpassed PC Internet Users in China

% of Chinese Internet Users Accessing the Web via Desktop PCs vs. via Mobile Phones, 6/07 - 12/12

Source: CNNIC, Tencent Analysis
Mobile Internet Market Maintains Rapid Growth in China

Mobile Internet Market Scale of China (2009-2016E)

Source: iResearch, Tencent Analysis
Chinese Mobile Gaming Market is under Explosive Growth

Mobile Game Market Scale of China (2009-2014E)

Mobile Game User Scale of China (2009-2014E)

Source: iResearch, iiMedia, Tencent Analysis
### Million Dollar Games Emerge in China Market

#### List of Top Revenue Mobile Games in China (05/2013)

<table>
<thead>
<tr>
<th>Game name</th>
<th>Game type</th>
<th>05/2013 revenue($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>My Name is MT OL</td>
<td>Card trading</td>
<td>8.20</td>
</tr>
<tr>
<td>Fishing Joy</td>
<td>Casual competitive</td>
<td>5.70</td>
</tr>
<tr>
<td>Space Hunter</td>
<td>ARPG</td>
<td>4.90</td>
</tr>
<tr>
<td>The Legend of King</td>
<td>ARPG</td>
<td>4.60</td>
</tr>
<tr>
<td>Big Head</td>
<td>Card trading</td>
<td>4.10</td>
</tr>
<tr>
<td>Meng Jianghu</td>
<td>Card trading</td>
<td>1.65</td>
</tr>
<tr>
<td>Wang Xian</td>
<td>ARPG</td>
<td>1.65</td>
</tr>
<tr>
<td>Armed Warriors</td>
<td>ARPG</td>
<td>1.65</td>
</tr>
<tr>
<td>The World</td>
<td>RPG</td>
<td>1.30</td>
</tr>
<tr>
<td>The Magic Card Fantasy</td>
<td>Card trading</td>
<td>1.15</td>
</tr>
</tbody>
</table>

Source: Tencent Analysis
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Android is Mainstream but is Fragmented

Market Share of Smartphone Systems in China (Q1,2013)

- Android: 80%
- iOS: 11%
- Symbian: 4%
- Windows: 1%
- Others: 4%

Market Share of Screen Resolution of Android in China (Q1,2013)

- 800*400: 40.3%
- 480*320: 30.1%
- 848*480: 18%
- 1280*720: 14%
- 960*540: 12%
- 1280*800: 11%
- Others: 9%

Market share of Android Smartphone vendors in China (Q1,2013)

- Samsung: 18%
- Lenovo: 14%
- Coolpad: 12%
- Huawei: 11%
- ZTE: 10%
- K-Touch: 9%
- Gionee: 7%
- HTC: 5%

Source: IDC, eGuan, Tencent Analysis
Network Speed and Data Tariffs Impact Mobile Gaming Market

Internet Access of China Smartphone (Q1, 2013)

- 2G: 44%
- 3G: 34%
- WIFI: 22%

Reason distribution of users not satisfied with China Mobile Internet (2013Q1)

- Mobile data tariffs: 59%
- Mobile terminal compatibility: 40%
- Mobile network access speed: 25%
- APP quality: 22%
- APP price: 19%
- User habit: 12%
- Others: 6%

Size does matter.

Source: BAIDU, eGuan, Tencent Analysis
Hot Games in China are Different from those in USA/Europe

Top 10 Games (Revenue) in APP Store China (06/2013)

<table>
<thead>
<tr>
<th>Product</th>
<th>Genre</th>
</tr>
</thead>
<tbody>
<tr>
<td>My Name is MT Online</td>
<td>Card trading</td>
</tr>
<tr>
<td>Clash of Clans</td>
<td>SLG</td>
</tr>
<tr>
<td>Big Head</td>
<td>Card trading</td>
</tr>
<tr>
<td>Dragon Force</td>
<td>RPG</td>
</tr>
<tr>
<td>The King 2 HD</td>
<td>RPG</td>
</tr>
<tr>
<td>The Magic Card Fantasy</td>
<td>Card trading</td>
</tr>
<tr>
<td>The Legend of King</td>
<td>ACT</td>
</tr>
<tr>
<td>My Name is MT Online (global)</td>
<td>Card trading</td>
</tr>
<tr>
<td>Shen Xiandao</td>
<td>RPG</td>
</tr>
<tr>
<td>Chaos Fighters</td>
<td>RPG</td>
</tr>
</tbody>
</table>

Top 10 Games (Revenue) in APP Store US (06/2013)

<table>
<thead>
<tr>
<th>Product</th>
<th>Genre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candy Crush Saga ®</td>
<td>Casual</td>
</tr>
<tr>
<td>Clash of Clans</td>
<td>SLG</td>
</tr>
<tr>
<td>MARVEL War of Heroes</td>
<td>Card trading</td>
</tr>
<tr>
<td>Hay Day</td>
<td>Social</td>
</tr>
<tr>
<td>Modern War</td>
<td>RPG</td>
</tr>
<tr>
<td>Big Fish Casino</td>
<td>Casino</td>
</tr>
<tr>
<td>Minecraft – Pocket Edition</td>
<td>Sandbox build-up</td>
</tr>
<tr>
<td>Kingdoms of Camelot: Battle for the North</td>
<td>SLG</td>
</tr>
<tr>
<td>The Hobbit: Kingdoms of Middle-earth</td>
<td>Simulation</td>
</tr>
<tr>
<td>The Simpsons™: Tapped Out</td>
<td>Adventure</td>
</tr>
</tbody>
</table>

Source: App Annie, Tencent Analysis
Complex Mobile Game Publishing Chain

Europe/USA

China

R&D → Publishing → Game Play

R&D → Publishing

Distribution & promotion channels:
- Game Stores
- Game Communities

Payment:
- Platform currency
- SMS billing
- 3rd party payment
- E-bank
- Pre-paid card

Source: Tencent Analysis
### Distribution Channels are Fragmented and Complicated

<table>
<thead>
<tr>
<th>Channel</th>
<th>Company or product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-installation</td>
<td>Huawei, ZTE, Samsung, HTC</td>
</tr>
<tr>
<td>ROM flashing</td>
<td></td>
</tr>
<tr>
<td>Game stores</td>
<td>Google play, Huawei, Xiaomi, ZTE, Google Play, Samsung Apps</td>
</tr>
<tr>
<td>Mobile APPs</td>
<td></td>
</tr>
<tr>
<td>Mobile advertisement</td>
<td>admob, AdChina.com, VPtun, domob</td>
</tr>
<tr>
<td>Game portals/communities</td>
<td></td>
</tr>
</tbody>
</table>
Credit Card Payment is **NOT** Popular in China

<table>
<thead>
<tr>
<th>Payment channel</th>
<th>Company or Product</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMS billing</td>
<td>China Telecom, Unicom</td>
<td>20%</td>
</tr>
<tr>
<td>Virtual Currency</td>
<td>Sina</td>
<td>20%</td>
</tr>
<tr>
<td>3rd party payment system</td>
<td>Alipay, Yuja, Huitongtian, Huafu, Fubon, Bigcard</td>
<td>40%</td>
</tr>
<tr>
<td>Pre-paid card</td>
<td>Huaxia, Huating, Junmengtong</td>
<td>10%</td>
</tr>
<tr>
<td>E-bank</td>
<td>China Merchants Bank, Pingan Bank, Bank of Communications</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Tencent Analysis
Key Success Factors

- Know what Chinese users want
- Understand China mobile game market
- Support diversity of users mobile devices
- Consider network situation and traffic tariff
- Develop multiple payment channels
- Work with best distribution & promotion channels
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In-depth Understanding of Chinese Internet Users

2/3 Time spent on Tencent Service

Working 9am-12am
12am-2pm
2pm-5pm
6pm-9pm
On the way to Office
working while listening to QQ music.

Home Entertainments
8pm-12pm
Dinner
6pm-9pm
Sleeping

Tencent Games
QQ Games
QQ Talk
QQ Zone
QQ Search
QQ Micro-blog
Tencent News
Peng You
IM
WeChat
Strong Game Operation Capability

Tencent Games Revenue (1Q, 2010 - Q2, 2013)

Tencent Games Market share (1Q,2010 - 1Q,2013)

Revenue of world's top game companies,1Q-3Q, 2012 (Billion USD)

Source: Public annual reports & Tencent research
Full Coverage of Mobile Game Value Chain

Product
- R & D
- Licensing

Distribution, Marketing & Operation

Payment

Customer Service

Source: Tencent Analysis
Product Optimization with Strong Data Driven

User Behavior Data ➔ Tencent Big Data ➔ Game Optimization

- User segmentation
- Market trend
- User profile
- Game life cycle
- Gaming behavior

Game Optimization
- Starter guide
- Level
- Combat
- Growth system
- Interaction
- Visual effects
- Payment
- Meticulous marketing
Comprehensive & Powerful Distribution Channels

**SNS Platform**
- WeChat
  - Register user accounts: 400MM
  - MAU: 236MM
- Mobile QQ
  - MAU: 478MM
  - DAU: 120MM
- Mobile Qzone
  - MAU: 357MM
- Mobile QQ Games
  - MAU: 40MM
  - DAU: 10MM

**Tool APP**
- Tencent APP Center
  - Accumulative download: 8billion
  - Daily download: 20MM
- QQ mobile browser
  - MAU: 37MM
  - DAU: 10MM
- QQ mobile manager
  - MAU: 84MM

Source: EGUAN, iResearch, Tencent Analysis
Social Network-driven Marketing

Tencent social network users

- MAU 818MM
- MAU 626MM
- MAU 247MM
- MAU 236MM

Interactive Marketing

Game Store

Enter Game

SNS

Invite

CtoC message sharing

Share to SNS

Sending heart

Source: Tencent Analysis
Comprehensive and Easy Payment Channel

In Game Payment

New Users
6 payment options

Frequent Users
One click

User Behavior
Smart Payment

Full payment list

Payment method
- QQ points
- WeChat
- TenPay
- Bank card
- Mobile pre-paid card

- Pre-paid mobile card
- QQ card
The Explosive Power of Tencent Platform: WeMatch Case Study

- Aug.05.2013
  - Launch
  - Top 1 free game in App Store China

- Aug.07.2013
  - 5 hours after launch
  - Accumulative download: 14MM+
  - DAU: 10MM+

- Aug.09.2013
  - Accumulative download: 20MM+
  - DAU: 15MM+

- Aug.11.2013
  - Accumulative download: 30MM+
  - DAU: 20MM+

- Aug.13.2013
  - Accumulative download: 40MM+
  - DAU: 25MM+

- Aug.15.2013
  - Accumulative download: 50MM+
  - DAU: 30MM
  - Covers 11.9% mobile Internet users in China
  - Covers 15.6% mobile game users in China

Accumulative download: 20MM+
DAU: 15MM+

Accumulative download: 30MM+
DAU: 20MM+

Accumulative download: 40MM+
DAU: 25MM+

Accumulative download: 50MM+
DAU: 30MM
Covers 11.9% mobile Internet users in China
Covers 15.6% mobile game users in China.
Find the Right Partner is the Key