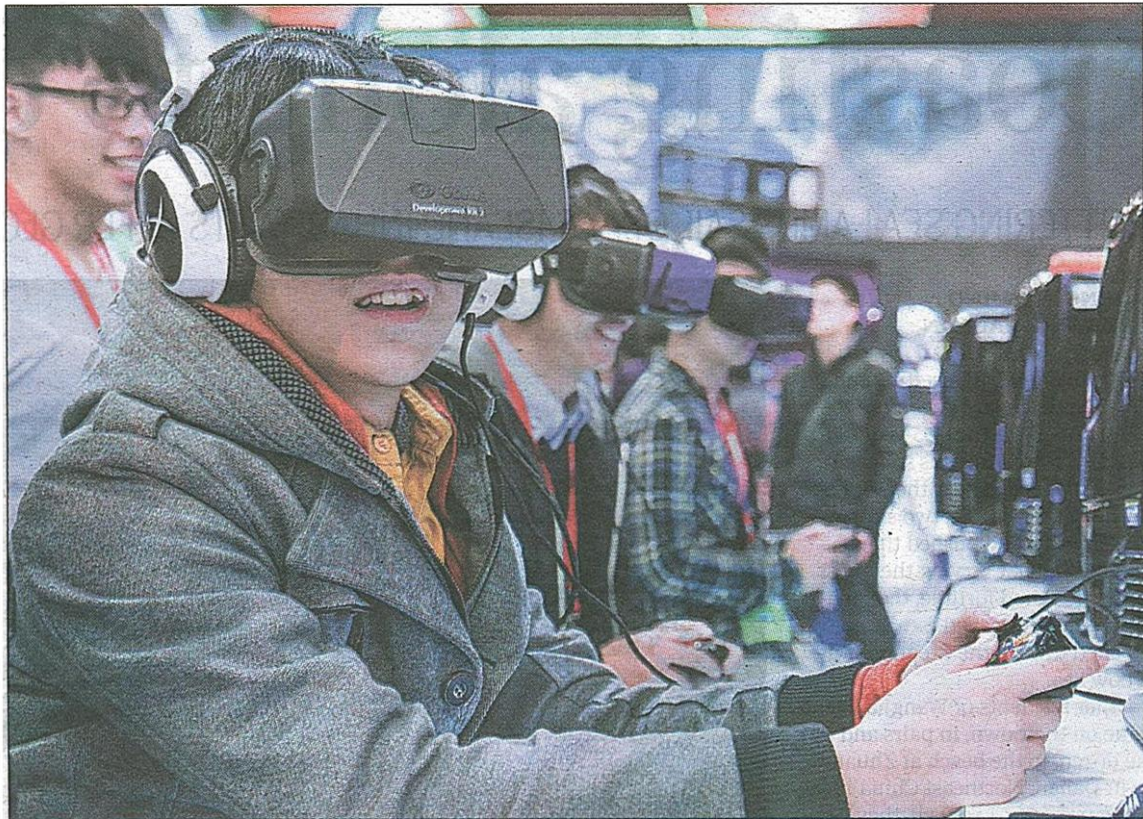


Game on for console producers

REMOVAL OF THE BAN ON PLAYSTATION AND
XBOX OPENS UP THE POTENTIALLY HUGE
CHINA MARKET FOR GAMING INDUSTRY



PROVIDED TO CHINA DAILY

Visitors experience a virtual reality platform at an entertainment expo in Taiwan. The console creates a 360-degree view that immerses players in fantasy settings. The Chinese mainland has fully opened its door for gaming consoles.

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The floodgates for both domestic and overseas gaming console providers have finally fully opened.

The State Council, or the cabinet, announced on Jan 29 that the reform

experiences of the China (Shanghai) Pilot Free Trade Zone will be promoted nationwide, which means that the ban on gaming consoles, which was lifted in the Shanghai FTZ in September 2013, will be rolled out nationwide. As a result, joint ventures in the FTZ and Chinese com-

panies will be able to produce and sell gaming consoles in the country.

In 2000, the central government banned the production and sales of gaming consoles, amid concern that they had a harmful effect on young people and could disturb social order.

But new hope was offered to the nation's struggling gaming industry with the framework policy of Shanghai FTZ, which was officially launched in September 2013. Approval for the production and sales of gaming consoles has been one of the highest-profile developments in the FTZ. The two industry giants, Sony and Microsoft, announced the release of their most celebrated devices late last year.

To ensure their success in the Chinese market, the two industry leaders both sought cooperation with a Chinese domestic company. Sony set up two joint ventures with A-share listed Oriental Pearl Group, while Microsoft worked with Shanghai-based BesTV New Media.

However, the sales figures were not too encouraging. Even though a total of 100,000 Xbox One devices were sold on the day the console was officially released in China, the annual sales target for the Chinese market in 2015 was only 1 million sets. But in the United States, 900,000 Xbox One sets were sold in the first month after the product was released.

Sony has experienced more turbulence. It had to postpone the planned Jan 11 introduction of its PlayStation 4 console in China to March 20 after Beijing asked for adjustments. Kaede Bun, a spokesman for Sony Computer Entertainment, said that the company's game unit needs time to make the changes, without elaborating on what was actually required.

Meanwhile, game players are disheartened by the limited choice of games available on the game console. Only 10 games are available for Xbox One at present. Another five more games will be released in the Chinese market on April 9. The newly released Sony PlayStation 4 and PlayStation Vista are able to provide only six and seven games, respectively.

But the companies seem to have foreseen the difficulties and still have enough faith in the market.

"With much faith and ambition, we have entered a brand new market, which might be filled with hardship and challenges. The Chinese gaming

console industry is in its renaissance, and we are making efforts every day to lay the groundwork for the entire industry," says Xie Enwei, general manager of Microsoft in China.

Meanwhile, market watchers have also expressed great confidence in the outlook for this embryonic industry. Lewis Ward, research director of gaming at consultancy firm IDC, said his firm found that China's current console penetration rate is in the "single digits". But given the country's huge population, that low rate already translates into millions of potential customers.

In terms of total video game revenue, China has already overtaken Japan to move into second place globally in 2013. The Chinese video games industry will expand at a compound annual growth rate of 6.8 percent between 2013 and 2018. Console games will see their market volume reach \$79 million by 2018, according to PricewaterhouseCoopers (PwC).

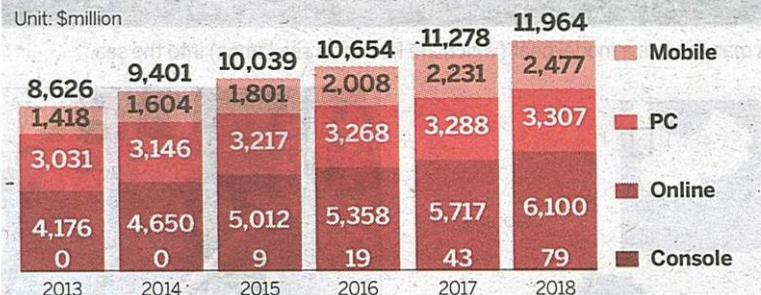
"The game-playing Chinese consumer is demonstrating an increasing appetite to engage in gaming on their mobile device. This social phenomenon is creating opportunities not only for specialist game developers, but also for content companies of all types to look at gamification as a means of increasing their reach and engagement," says William Lam, a partner at PwC China Entertainment and Media.

The market volume of the game industry is even much larger than the Chinese movie industry, which was estimated to have sales revenue of 28 billion yuan (\$4.5 billion) last year. However, Qilu Securities estimates that China's video games market volume will be around 40 billion yuan, half of which will be taken up by the joint venture between Sony and Oriental Pearl. By the end of 2019, core users in China are very likely to buy 50 million to 100 million game consoles.

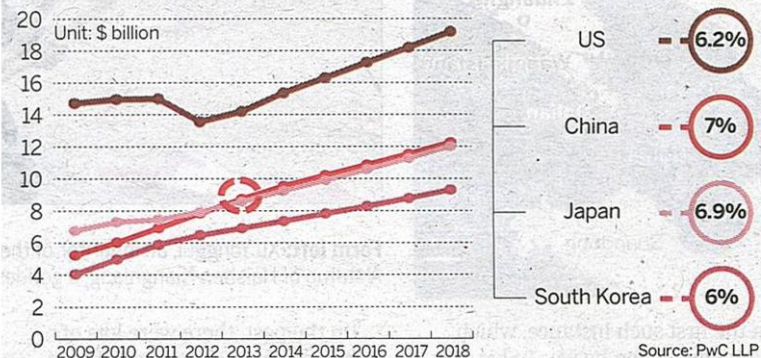
"Two of the world's leading game

TOTAL CONSUMER SPENDING ON VIDEO GAMES IN CHINA

Unit: \$million



Spending on video games (by country)



manufacturers have entered China. Each of them will be able to seek sales revenue of 10 billion yuan in the long run as market demand thrives and distribution channels are completed," says Chen Yunhong, an analyst with Qilu Securities.

**\$6.3
billion**

The market volume of China's video games market in 2019, according to Qilu Securities' estimate.

Fitch Ratings has also produced an upward revision of Sony's earnings forecast for the year ending March 2015 based on improved prospects for the device segment, including its market-leading image sensor business, game revenues and steady progress with its restructuring.

As Sealand Securities has estimated, the potential market growth rate of the Chinese video game industry will remain at 20 percent annually in the next few years. According to the *2014 China Gaming Industry Report* compiled by the Game Publishing Committee of the Chinese Audio-Visual and Digital Publishing Association, as video games become more popular among Chinese families, family entertainment will exert a long-term impact on the Chinese gaming industry.

Liao Shuhan, a senior market analyst with the client system research department of IDC China, says that video games will become the new focus of the smart TV industry in 2015.

"The green light given to game consoles is good news for video games. With the rapid expansion of the video games market, leading Internet companies, games companies and venture capitalists have all eyed the video game industry. As a result, the video games industry will enter a new era of fast development in 2015 with the preliminary industry structure formed," he says.