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Online Games Investment Review 2010: Running out of Steam

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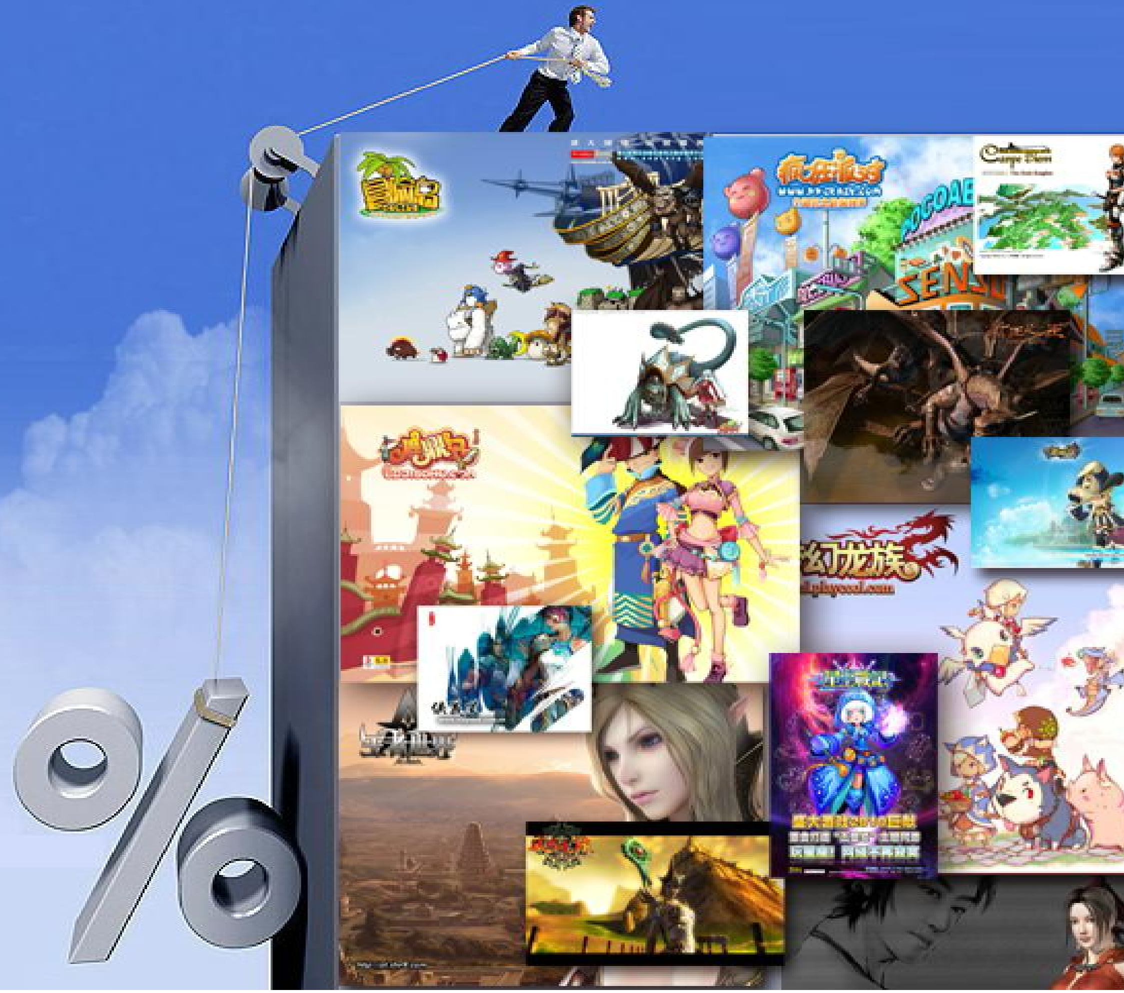

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Online Games Investment Review 2010: Running out of Steam

Written By Yolanda Zhang, Zero2IPO Research Center

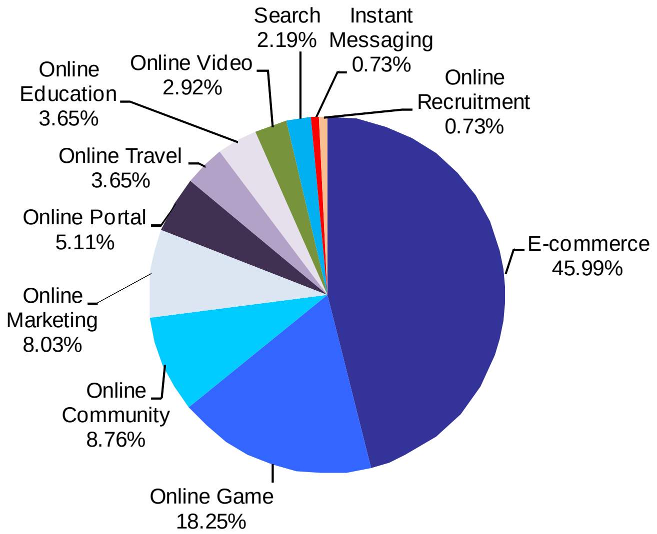
In 2010, China's online game industry entered the stage of market consolidation. No matter the growth was slowed down or stagnant, the market capital which was dancing with industrial giants seemed to run out of steam. In 2010, online game industry saw slightly growth in number and disclosed amount of investment deals compared with that in 2009. Since 2006, number of investment deals in online game has climbed year by year, with the year 2008 being the prominently. After investment growth slowed down in 2009, the online game market faced continuous challenges in 2010. In comparison with the enthusiastic investment in e-commerce market, the capital market showed more dispassion and objectiveness for the online game market.

E-commerce Is a Strong Driver of Investment in China's Internet Market, Eclipsing Online Game Sector.

In 2010, China's Internet market had disclosed 137 investment deals, of which e-commerce, online game, online community, online marketing service and other industries attracted more attention of the capital market. The investment was particularly active in e-commerce market, in which proportion of disclosed investment deals comprised 45.99%, while the investment in online game market ranked second, in which proportion of investment deals comprised 18.25%. The hot e-commerce market grabbed the spotlight of online game market. By contrast, investment in online game market was slightly gloomy.

From the perspective of investment in e-commerce market in 2010, there were 56 investment deals in B2C e-commerce market, 40 of which with disclosed a total investment of US$714.00M. The average investment hit US $17.85 M, far greater than that in other sub-markets. Hot B2C e-commerce market showed: On the one hand, the focus of China's Internet market gradually evolved from entertainment application stage to business application stage, therefore, e-commerce must be the one of the most attractive applications; on the other hand, hot invest

Sub-industry Breakdown of Investment in Internet Industry in 2010 (By No. of Deals)



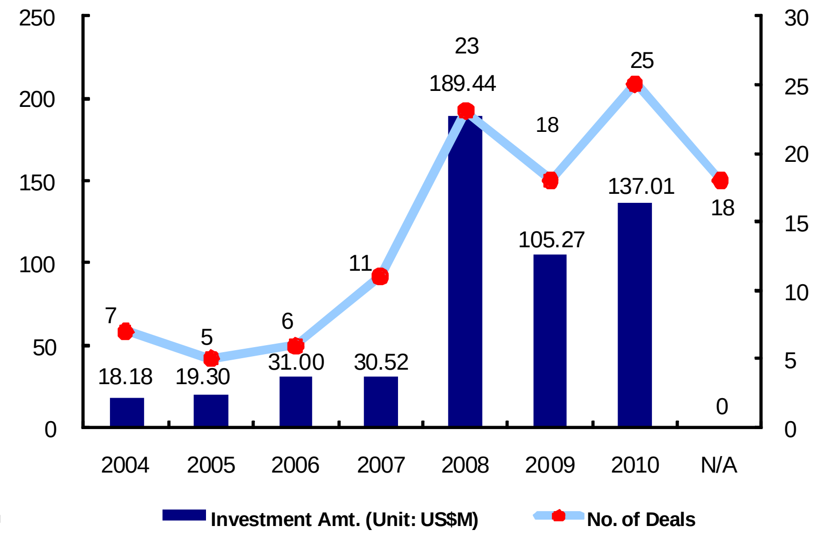
Source: Zero2IPO Research Center

ment in China's e-commerce market reflected the epitome of hot investment in China's online game market from 2008 to 2009. Though demands of capital market injected vigor into segmented markets, the irrational investment made by a deluge of capitals in quick emerging markets may impact the sound growth of market while bringing in investment risks.

Slowdown of Investment in Online Game Market in 2010

From 2004 to 2010, in China's online game industry, there were 113 investment deals, of which 72 deals whose investment amount was disclosed. The disclosed investment amount totaled US$530 M. The investment amount per deal was US$7.37M on average. From the perspective of annual investment in 2010, there were 25 investment deals, of which 20 deals disclosed their investment amounts. The disclosed investment amount totaled US$137.00M. The investment amount per deal was US$6.85M on average.

Year-on-year Comparison of Investment in China's Online Game Market in 2004-2010



Source: Zero2IPO Research Center

After rapid growth in 2008, it seems that China's online game market is running out of steam in 2010. There are mainly three reasons: firstly, online games faced serious homogeneous situation, so it was hard for online games lacking innovation to improve customer loyalty; secondly, domestic market landscape of online game was basically in place, however, profitable growth slowed down, new growth point and space still needed time to develop (for example: Chinese games entered overseas markets); thirdly, lack of talents, particularly talents in online game operation, and serious loss of talents, restricted the growth of China's online game market.

In reference to the investment, for a long run, online game giants including Tencent Inc., NetEase, SNDA, Perfect World, ChangYou.com and ztgame.com controlled the trend and lifeline of the growth of China's online games. In an era of competition on pure game quality, capitals mainly focused on the online game R&D enterprises. However, with the gradual maturing of the operation system of online games and the open, joint and platform-typed growth of market operation in China's online game market, capitals prefer enterprises engaged in online game platform operation. Of course, enterprises engaged in "game R&D + platform operation" were more attractive in capital market.

Prominent Pan-entertainment Characteristics in 2010

In 2010, China's online game market showed prominent pan-entertainment characteristics. On one hand, the cooperative operation of China's online game becomes obvious. Compared with the "self-production and self-sales" mode of online game development in initial period, the enterprises in China's online game market accelerated their pace in pursuing cooperation with enterprises of the same or different industry in 2010. In stage of market consolidation in online game industry, cooperation within both the same and different industries was helpful to use advantageous resources of various parties to promote self-development. With the accession of many tier-2 game R&D and operation enterprises, joint operation became a common mode. On the other hand, media and entertainment enterprises will break boundaries to push forward the pan-entertainment process. Apart from Chengdu B-Ray Media, which acquired all the shares in Dreamwork Net Co., Ltd. with no more than RMB481.00M and entered online game industry, in 2010, Huayi Bros. Media Group's action alone could define the pan-entertainment layout. In June 2010, Huayi Bros. Media Group reached an agreement with Ourpalm Co., Ltd., a mobile game developer and distributor, to acquire 22% shares in Ourpalm Co., Ltd. with RMB148.50M. This capital injection showed the strategic layout of Huayi Bros. Media Group in the game industry as a leading enterprise. Furthermore, a number of film and TV institutions would be supposed to further develop online game industry.

Development of Online Game Still a Trump Card of China's Internet Market

According to the analysis by Zero2IPO Research Center, after a short-term market adjustment in 2010, China's online game industry will gradually pick up in 2011. Besides paying attention to improving original customer loyalty, online game enterprises can attach importance to further development of marketing cities and customer ages as well as hierarchical development of online games to meet the diversified demands of different players.

From the perspective of capital, investors can take a break, await the development and changes in the online game market, to make investment duly and avoid following blindly.

Meyxi.Com Obtains Financing Amounting to Millions of RMB

Feb. 23, 2011, PEdaily.cn

Meyxi.com, an online shopping mall for bags and suitcases, obtained an angel investment amounting to millions of RMB not long ago, a source disclosed. This capital injection was derived from a traditional enterprise fund and credited into account in full.

In an interview, Peng Jinghui, CEO of meyxi.com, said this financing is the first capital injection in the context of increasing sales performance and improving e-commerce industrial chain step by step since its establishment three months earlier. The proceeds will be earmarked for expansion of personnel reserves, promotion of supply channel, storage and logistics, and input in relevant services. Upon receipt of the proceeds, meyxi.com started up the large-scale New Year recruitment plan for positions of procurement director, merchant invitation manager and Taobao operation director.

Meyxi.com is the first e-shopping mall affiliated to ideainair.com. It advocates outsourcing service for bag and suitcase brand e-commerce and SME e-commerce, and provides a full range of services dominated by bag and suitcase e-commerce, including several value-added services for SME e-commerce such as bag and suitcase B2B, B2C business, e-commerce outsourcing service and regional development consultation. ■

Imagi International Acquires Pleasant Goat's Brand License Division

Feb 23, 2011, Southern Metropolis Daily, Gao Lingyun

Hong Kong-listed Imagi International Holdings Limited, in which Francis Leung, father of red-chip, serves as the chairman, acquired Toon Express, the copyright manager and owner of Pleasant Goat and Big Big Wolf, the famous cartoon works in the Chinese mainland at a cost of HK $814M to HK $1047M. This is the biggest acquisition deal of a mainland cartoon enterprise by a HK company on record.

The main business of Toon Express acquired this time is consumable licensing business of "Pleasant Goat" copyright, excluding the production of film and TV series. Through issuing shares to the buyers and share placement to investors including a multiple of Hong Kong billionaires, Imagi International acquired Toon Express. But the consumable li-

censing business of "Pleasant Goat", the premier brand in mainland cartoon industry, is hopeful to be listed in Hong Kong.

A multiple of firms with economic strength and celebrities in the capital market participated in the subscription of the add-on equity offering of Imagi International, including Li Ka-shing's Cheung Kong Holdings, Larry Yung, the former chairman of CITIC Pacific, Eddie Ho, vice chairman of Hopewell Holdings, Sherry Lin, director and chief representative of Mousse's Beijing office and CITIC Securities Alpha Leaders under CITIC. They totally held 15.29% shares in Imagi International. ■

ICC's Exit Slowed SSF's Investment in Jinpu Industrial Fund

Feb. 23, 2011, 21st Century Business Herald, Chen Zhi,

Recently, China International Capital Corporation Ltd. (CICC) and Shanghai International

Group Co., Ltd. (SIG) signed the Memorandum of Strategic Cooperation. On the contrary, CICC is about to exit from Shanghai Jinpu Industrial Investment Fund Management Co., Ltd. (Shanghai Jinpu).

Shanghai Jinpu is the management institution of Shanghai Financial Industry Investment Fund with a fundraising size up to RMB11B. CICC will sell all of 50% shares in Shanghai Jinpu. Currently, it is still negotiating on the price with potential buyers.

Previously, Huatai Securities and Shagang Group proposed to subscribe for equities in Shanghai Jinpu, of which, Huatai Securities planned to subscribe for 10%.

Currently, Social Security Fund finished due diligence investigation on Shanghai Financial Industry Investment Fund. However, CICC's exit slowed down the pace of Social Security Fund to invest in the fund.

It is learned that the Investment Decision-Making Committee for Social Security Fund is about to review CITIC Capital RMB Fund for capital contribution, but has no schedule for Jinpu Fund.

Equity Investment Enterprises with Capital Size above RMB500M to Be Filed Compulsorily

Feb. 23, 2011, Shanghai Securities News, Ye Yong, Liu Yufeng

National Development and Reform Committee (NDRC) issued six key points for development and filing of equity investment enterprises in pilot areas on February 22. It defines that capital of equity investment enterprises can only be raised for specific objects capable of risk identification and tolerance by means of private placement, and the fields of investment of equity investment enterprises are confined to equities of non-publicly traded firms. It is of note that equity investment enterprises with capital size above RMB500M are required to apply for filling and accept filing management.

NDRC stated that the Circular Issued by General Office of National Development and Reform Committee Concerning Further Standardization of Development and Filing cities on January 31.

The Circular requires equity investment enterprises to rationally adopt decentralized investment and their capital cannot be used as guarantee for enterprises other than invested enterprises. As for those investing in related enterprises, they are required to carry out a related-party avoidance system in investment decision making. Equity investment enterprises and their entrusted management institutions are required to specify their performance incentive mechanism and risk constraints mechanism in such legal documents as articles of association or partnership agreement. In case that the entrusted management institution of an equity investment enterprise is a wholly foreign-owned company or Sino-foreign joint venture, the equity investment enterprise shall entrust an institution with corporate capacity in China to manage its assets.

Small and Medium-Size Enterprise (Tianjin) Venture Capital Fund Injects RMB43.95M in Wuhan Hongjinxulong

Feb. 22, 2010, PEdaily.cn

On December 30, 2010, Small and Medi-