

# Technology

Experts see herd mentality developing among venture capitalists wanting a piece of the mainland's action

## Investors in search of online heroes

Michael Logan

Competition in the mainland online games market is becoming as fierce as the blood-and-guts battles many of them depict.

New money is pouring into the sector, with investors attracted to a market estimated to be worth US\$356.8 million by 2007 and the near 300 per cent returns of Shanda Interactive Entertainment, which debuted on the Nasdaq Stock Market earlier this year.

Last week, private equity giant the Carlyle Group announced it was investing US\$14 million in game developer 9you along with partners China Merchant Fortune Ventures and Sino-Korean Wireless Fund. More than 70 operators offer as many as 130 games in China.

While not questioning Carlyle's investment specifically, several industry watchers suggested a herd mentality was developing among venture capitalists wanting a piece of the action.

"There's too much capital floating around in China right now. So what's happening is if you have a good company [like

Shanda], all the VC guys want to pump money [into similar companies]," said Shaun Rein, a former researcher at Inter-Asia Venture Management.

"Online games – it is a huge market. It is a sector supported by the government. I'm just worried that there's a herd mentality."

James Levy, who founded Activision in the late 1970s and now advises start-up companies, has seen it all before. In the early days of console gaming, there were as many as 50 game publishers vying for the fast-growing market of home digital entertainment. Now there are just a handful of names, one of which remains Activision.

"Whenever you have a rapidly growing market, it sucks in a lot of money, and a lot of that isn't smart [money]," Mr Levy said.

The inevitable result is consolidation. But that does not mean venture capitalists are unwilling to fund game start-ups. They are looking for fresh concepts and new ways to approach the market.

That was the message James Savage, associate director of HSBC Private Equity's technology fund, brought to a venture capital forum held at Cyberport last week. "You guys have got to come up with an imaginative idea and then bring it to us," he told the assembled crowd of more than 200 entrepreneurs.

New ideas, however, are in short supply. Few of the multiplayer, role-playing titles on offer today break from the sword-fighting genre that is popular with young Chinese gamers.

Gobi Partners co-founder Lawrence Tse said: "Why is every game a fantasy game? Why is every game

a kung fu game? Why is it always fighting swords and magic spells?"

Gobi, which has US\$30 million to invest in incubation and early-stage digital media companies, believes new entrants must offer something extra to compete with incumbents such as Shanda.

The venture capital fund has poured money into a Chinese start-up which is developing a 3-D movie to be launched at the same time as its online game counterpart. Mr Tse said to expect more cross-promotion strategies as the game sector became more competitive.

Mr Levy also saw another way to play the online game market: communities. Considered by industry peers to be the godfather of home video game software, Mr Levy is advising a start-up – XFire.com – which aims to stitch together the fragmented online game community in the United States.

While the mainland market is less fragmented, the same model could be applied there.

Mr Rein, whose forte is education investments – he is now the chief executive of e-learning company WebCT in China – also advocated approaching the games market from a different angle. "I would love to see someone come in and set up a training school for programmers," he said.

At the end of the day, few investments are likely to pay off like Shanda, and fewer still are likely to go public – although a "trade sell" is always an option for venture capitalists looking to exit their investments. (For example, Electronics Arts is seeking a mainland partner.)

Shanda has a commanding lead and rivals were unlikely to close the gap, according to Brandon Lin, director and

general counsel at SAIF Advisers, the advisory company for Softbank Asia Infrastructure Fund, which put US\$40 million into Shanda. Softbank earned 13 times its Shanda investment.

Mr Lin pointed to the prospectus of mainland game operator The9, which is also planning a Nasdaq initial public offering.

The company's scale was far smaller – 189,000 peak concurrent users, compared with 1.7 million for Shanda – and earnings were dropping. Furthermore, its smaller size put it at a disadvantage when negotiating licensing terms with South Korean game developers.

"It's very difficult to challenge the incumbent. You need the scale to develop your own games," Mr Lin said.

The9 has promised more than US\$50 million in royalty payments to license *World of Warcraft*.

"If they don't get this IPO off, they're done," Mr Lin said.



## Kingsoft plans new titles in assault on No 1 spot in mainland

Sherman So

Most game operators hope their titles will be No 1, or at least in the top five. Beijing-based Kingsoft does not aim to top the charts with single game offering, but hopes a smorgasbord approach will make it the No 1 portal in China.

It is planning to introduce three new titles next year, bringing its total to five.

"While it is difficult to produce

the absolute No 1 game, we hope that, with all our games combined, we can have the largest number of users," Kingsoft vice-president Zhang Zhihong said.

Kingsoft is the publisher of *JX Online*, which routinely ranks among the top five online games in China. The title has 120,000 average concurrent users and brings in an estimated 200 million yuan yearly.

The company foresees just

three to four operators taking 80 per cent of industry revenue in the coming years.

In a market where "the strong get stronger", Kingsoft planned to focus its marketing efforts to ensure survival, Mr Zhang said.

"To make a popular game, you need a large investment in research and development as well as in marketing, and only the large companies can afford that."

Kingsoft has spent about 10 million yuan marketing *JX*

*Online*. It plans to spend twice that to promote its new game, *Feng Shen Bang*.

Meanwhile, Fuzhou-based NetDragon Wuzoft is focusing on distribution after its *Monster and Me* title flopped. The game had 30,000 average concurrent users at one point, but this dropped to 6,000 after an upgrade failed to excite players.

NetDragon's strategy is to circumvent the networks of sales agents who distribute prepaid

game cards in China. Such agents usually take up to 50 per cent on the sale of a prepaid card.

"We want to sell the game cards directly to the retailers on the street, bypassing the middlemen," NetDragon general manager Joe Wu Zhiming said.

NetDragon will explore handling games for other operators. But it is committed to the market as a game publisher, boasting a research and development team of 400, with

800 employees overall. It plans to launch four to five multiplayer role-playing games next year and diversify into "casual" games.

It has just three titles, most popular of which has 20,000 average concurrent users, and it recorded 50 million yuan in revenue last year.

Mr Wu said the firm had reached a deal with France's UFIsoft to develop an online game, and was in talks with Microsoft and Bandit.

## Siemens denies it plans to sell

Reuters in Frankfurt

Siemens has denied a report in a German newspaper that the company had taken a preliminary decision to dispose of its loss-making mobile phone division.

Germany's Siemens, the world's fourth-largest mobile phone maker, said there had been no preliminary decision and no final decision on the business. The division needed to be restructured, it said.

The *Frankfurter Allgemeine Sonntagszeitung* had reported, without naming its sources, that the company was at the very least looking for a partner in the sale of part of the unit.

Chinese cellular phone manufacturer Ningbo Bird, which cooperates with Siemens on the mainland, would be a possible buyer, it added.

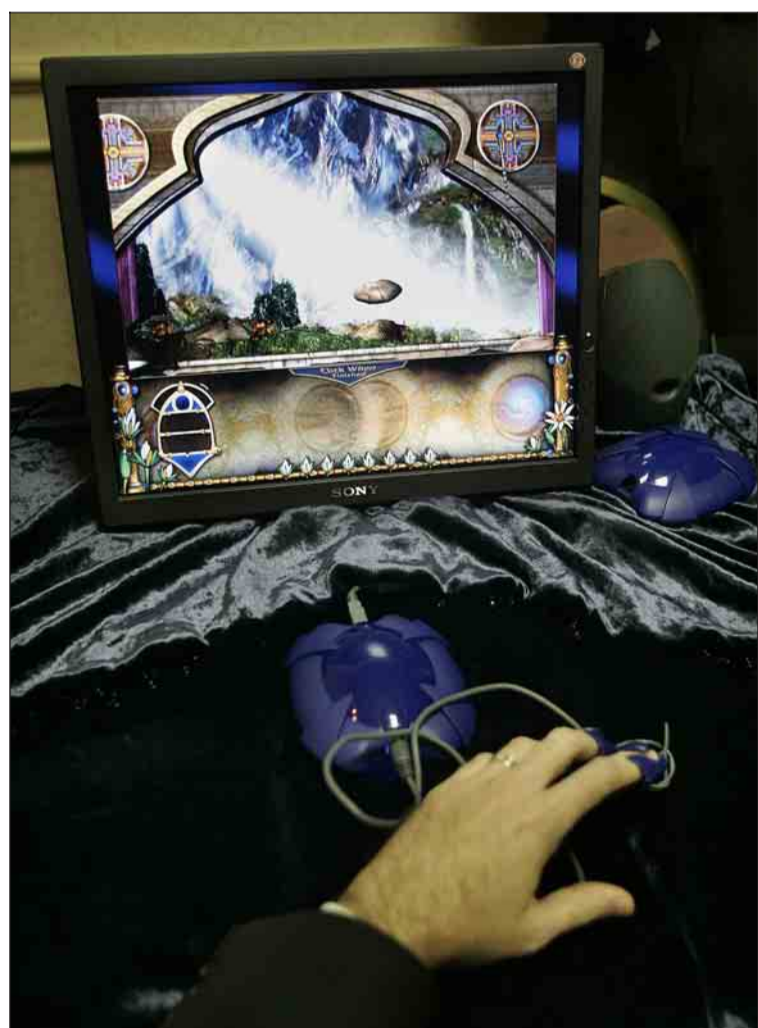
Siemens posted a 141 million euro (\$1.45 billion) loss at its mobile handsets division for the three months to September 30 because of a product recall and pricing pressure.

Chief executive Heinrich von Pierer said last month that a solution was urgently needed for the business and that the options were to fix, close or sell it, or to co-operate with a partner.

Wolfgang Mueller, the IG Metall union's representative on Siemens' supervisory board, told the *Frankfurter Allgemeine Sonntagszeitung* that Siemens' management had not yet announced a long-term strategy for the division.

"We are waiting for a commitment to the mobile unit," he was quoted as saying.

The company has said it was planning to bring out its first third-generation phone in the second half of next year.



Video games can help patients achieve tranquillity. Photo: Reuters

## Doctors say video game is as good as a tranquilliser

Associated Press in Trenton, New Jersey

Letting children play video games on a portable device such as a Game Boy in the operating room before undergoing surgery can help relax them better than tranquillisers or holding mum's hand, researchers say.

Doctors found that allowing children a few minutes to play the games reduced their anxiety until the anaesthesia took effect.

Dr Anu Patel conducted the study after noticing a friend's seven-year-old son was so absorbed with his Game Boy at a restaurant that he ignored the adults and the food.

"We find that the children are just so happy with the Game Boy that they actually do forget where they are," said Dr Patel, an anaesthesiologist at University Hospital in Newark. She said the findings could be helpful because many parents did not want their children to be given tranquillisers.

Youngsters who are traumatised before surgery run the risk of long-term psychological problems,

including nightmares, bed wetting and the fear of being alone.

In addition, strapping a restless, frightened child to an operating table could cause a temporary rise in blood pressure, make the heart race and trigger stress hormones that could delay healing, said Dr Patel, who is also an assistant professor at the University of Medicine and Dentistry of New Jersey.

Other hospitals have long used teddy bears and games to distract children before surgery, but these techniques are employed in patient rooms, playrooms and waiting areas, not in the operating room.

At the Children's Hospital of Philadelphia, children are encouraged to play in waiting areas before surgery and to take a "comfort item" – occasionally a Game Boy – into the operating room.

Boston company Design Continuum is testing a combination anaesthesia mask and headset that would allow patients to play video games or listen to music, but distribution is years away.

Dr Patel studied four- to 12-year-olds in three groups of 26 children each. All had parents with

them in the operating room until they were anaesthetised. One group was given tranquillisers, and the third played with a Game Boy.

On average, the Game Boy group showed no increase in anxiety before surgery. But on a standard, 100-point scale for measuring pre-operative anxiety, the tranquilliser group jumped 7.5 points and the parents-only group 17.5 points.

Shani Willis, whose 10-year-old daughter Nykia had a cyst removed at the Newark hospital, said the girl was nervous until she got a Game Boy. She then relaxed and played with it until she was anaesthetised.

"It was like she put everything out of her mind," Ms Willis said.

The hospital is considering making Game Boy use standard before paediatric surgery.

Dr Erin Stucky, head of the American Academy of Pediatrics' committee on hospital care, said Game Boys should be used more widely in hospitals if a larger study produced the same results.

"This is great because this offers a wonderful ability to have the child's attention immersed elsewhere," she said.

## Shortage of Sony PS2 consoles could dent fun season

The New York Times

A shortage of PlayStation 2 consoles has left retailers scrambling to meet demand.

Sony's explanation for the shortfall is tied to the popularity of a new, slimmer version of the original PlayStation 2 that became available on November 1.

"Consumer demand for the new PlayStation 2 has exceeded our expectations, and we are doing all we can to fulfill the wish lists of people who want a new PlayStation 2 unit under their tree this holiday season," Sony said.

But some analysts believe an unexpected demand for the svelte PlayStation 2 was only part of the problem, and that a manufacturing problem may be to blame for low inventories. They point out that in November last year, Sony sold more than one million consoles. Since then, the price of PlayStation 2 has dropped US\$50. That, along with the new design, should have translated into even more unit sales than last year.

But the latest sales figures for November tell the opposite story. According to analysts and researchers who have seen the results, about 700,000 PlayStation 2 units were sold last month. Console hardware sales were down 21 per cent from last November.

"I think Sony has mis-executed," said Paul-Jon McNealy, an analyst for American Technology Research. "They knew that when they went to a new form factor, demand would be high."

Determining the cause of the slowdown is difficult. The PlayStation 2 has thousands of parts, and a flaw in anything from the chip to the assembly of the box could disrupt the manufacturing chain.

Whatever the cause, the PlayStation 2 shortage will have a ripple effect on the video game industry. A drop in console sales translates into fewer video game software titles sold overall.

If at the end of December, PlayStation 2 console sales were to drop by a million units worldwide, it would translate into a US\$40 million revenue shortfall for the entire sector, Mr McNealy said.

Still, that would amount to only 1 per cent of annual revenue for the top four video game publishers combined.

## Big Blue set to promote PowerPC

Sherman So

IBM should have an easier time selling its PowerPC chips to computer makers now that it has sold its personal computer division to mainland manufacturer Lenovo.

With the unprofitable division gone, the company can now woo major manufacturers such as Hewlett-Packard without a potential conflict of interest.

The sale comes as IBM steps up its efforts to popularise PowerPC chips. This month, it formed Power.org in Beijing to promote the technology.

The goal, said Nigel Beck, vice-president of marketing at IBM's systems and technology group, was to offer device manufacturers more choices, although he denied suggestions IBM was attempting to compete with market leader Intel.

Joining Power.org were mainland chip manufacturer Shanghai Belling, Singapore's Charter Semiconductor and Linux companies Red Hat and Novell, among others.

Market watchers described the formation of Power.org as a "gimmick" to draw attention to IBM's chip business.

"A few days before the Power.org event, IBM made public the Cell, a chip [which] it makes together with Sony and Toshiba for consumer electronics," IDC analyst Jonathan Gu said.

Sony is also expected to use PowerPC chips in the next generation of its PlayStation game console.

"Eventually, [IBM] will be aiming at the PC market," Mr Gu said.

To foster acceptance of PowerPC, IBM needs to build a community of enthusiasts who will help promote the chips in addition to shouldering the burden of development and manufacturing.

## Simulations guide OEM companies playing the brand name game

Sherman So

Original equipment manufacturers (OEMs) looking to make a name for themselves are turning to technology to design and make products under their own brands.

OEMs typically make products to others' specifications, a strategy that was once profitable for many Hong Kong manufacturers but is no longer as margins get squeezed.

To stay alive, OEMs are producing their own branded products.

"Without your own brands and marketing channels, you can be easily replaced by the next cheaper suppliers in the global competition," said Roy Chung Chi-ping, group managing director of Hong Kong-listed Techtronic Industries, which makes power tools in the mainland.

Techtronic relies on software

tools developed by United States-based PTC. The software allows engineers to test product designs in 3-D simulations that closely imitate the final working product.

"This tool can be very powerful in helping a company to transform its business," said PTC regional director Terrence Ng.

But Mr Ng cautioned that an OEM also had to change its mindset. "It is not just new tools. The

company also needs to learn new ways of doing business," he said.

A survey carried out last year by the Trade Development Council found about 41 per cent of companies were involved in original brand manufacturing, up from 36 per cent four years ago.

Benjamin Kwok, managing director of PTC client Kwonnie, a maker of small home appliances, said Hong Kong companies needed

to innovate, and technology could help in this effort.

"Most products we produce are for the western market, but our designers don't live there. They don't know what the conditions of the households are, and how the products should be used. Take, for example, the egg beater. Most Hong Kongers use chopsticks to beat an egg. How can they know what a good egg beater should be like?"