

The Economic Contribution of the Hong Kong Film and Television Industry

Prepared by Artisan Gateway for:



Film | Research | Cinema

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TABLE OF CONTENTS

I	Executive Summary	1
II	Methodology and Approach	2
	1. Scope & Definitions	2
	2. Economic Impact	4
	3. Filmed Entertainment	5
	4. Data Sources & Restrictions	8
III	Results	11
	1. Economic Impact of the Film Production Sector	12
	2. Economic Impact of the Film and Television Distribution Sector	14
	3. Economic Impact of the Film Exhibition Sector	15
	4. Economic Impact of the Home Entertainment Sector	16
	5. Economic Impact of the Television Production and Broadcasting Sector	17
IV	Background	18
	1. Film Production	19
	2. Film Distribution	21
	3. Film Exhibition	24
	4. Television	25
	5. Home Entertainment	25
	6. Digital Entertainment	26
	7. Government Support	27
V	Appendix	30



List of Tables

Table 1.1	Total Economic Contribution of Hong Kong Film & TV Industry (2008)	1
Table 1.2	Comparison between Film & TV Industry and Advertising & Related Services Industry (2008)	2
Figure 2.1	Economic Activity Accounting Framework	3
Table 3.1	Total Economic Contribution of Hong Kong Film & TV Industry (2008)	11
Table 3.2	Total Economic Impact by Film Production Sector (2008)	12
Table 3.3	Total Economic Impact by Film & TV Distribution Sector (2008)	14
Table 3.4	Total Economic Impact by Film Exhibition (2008)	15
Table 3.5	Year-on-Year Comparison of Cinemas and Screen Numbers (2007-09)	15
Table 3.6	Total Economic Impact by Home Entertainment Sector (2008)	16
Table 3.7	Year-on-Year Comparison of Import & Export of Video Discs (2007-08)	17
Table 3.8	Total Economic Impact by TV Production & Broadcasting Sector (2008)	17
Table 4.1	Hong Kong Theatrical Statistics (2008)	18
Table 4.2	Hong Kong Film Production – Comparison by Decade	20
Table 4.3	Local Films Released and Combined Box Office Receipts (2006-08)	22
Table 4.4	Local and Foreign Film Box Office Receipts (2006-08)	22
Table 4.5	Top 10 Films, China (2008)	23
Table 4.6	HKIFF Financial Activity (2008)	28
Table 4.7	Tourism Impact of Film Festivals and TV & Film Production	29
Table 4.8	Hotel Revenue Impact on Selected Sectors	29



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I. EXECUTIVE SUMMARY



This study, *The Economic Contribution of the Hong Kong Film and TV Industry*, provides a snapshot of economic impact and job creation derived from the production, distribution and exhibition of film and television content. The filmed entertainment industry of Hong Kong comprises 1,170 businesses and in 2008 was responsible for:

- Over 32,000 total jobs
- More than HK\$3.4 billion in wages
- HK\$33 billion in gross output
- Value added of HK\$6 billion

Industry Sector	Gross Output (HK\$M)		Value-added (HK\$M)		Labour Income (HK\$M)		Employment (Persons Engaged)	
	Direct	Total	Direct	Total	Direct	Total	Direct	Total
Film Production	1,729	4,323	801	1,634	714	942	5,020	10,341
Film & TV Distribution	1,805	3,610	639	1,150	155	222	1,090	2,158
Film Exhibition	1,909	4,982	289	445	146	388	1,030	1,627
Home Entertainment	442	712	302	417	138	193	2,000	2,100
TV Production & Broadcast	7,089	20,062	1,512	2,525	913	1,698	6,420	16,499
Total	12,974	33,689	3,543	6,171	2,066	3,443	15,560	32,725

Table 1.1 - Total Economic Contribution of the Hong Kong Film & TV Industry (2008)

Of the industry's total impact on the Hong Kong economy, film & TV production and film festivals generated HK\$238 million in tourism-related spending. Of this total, 73,000 room nights generated over HK\$89 million in room revenue.

To put the scale of the Hong Kong film and TV industry into context, its economic contribution is comparable to that of the advertising industry. The advertising industry can be broken down into the following primary promotional channels used by companies to market their products: television, newspapers, magazines, radio, cinema and outdoor advertising. Although advertising revenue is also included in the gross output of the TV broadcast and film exhibition sub-sectors in this study, the overlapping of these two industries is not significant given the sectors' overall size nor does it make this industrial comparison less relevant.

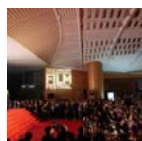
2008	Film & TV Industry	Advertising & Related Services Industry
Number of Establishments	1,420	334
Number of Direct Persons Engaged	15,560	17,694
Gross Output (HK\$ billion)	13.0	9.0

Table 1.2 - Comparison between Film & TV Industry and Advertising & Related Services Industry (2008)

Source: Hong Kong Census & Statistics Department

II. METHODOLOGY AND APPROACH

1. Scope & Definitions



This study analyzes the direct and indirect economic impacts generated by the filmed entertainment industry which collectively represent its total economic contribution. In estimating this economic contribution, there are four widely used components of economic activity, namely:

- Gross output – the total value of goods and services supplied by all industry participants attributable to filmed entertainment activity;
- Value-added – the value of output generated by industry participants’ factors of production as measured by the income to those factors of production;
- Labour income – a subcomponent of value-added. It represents the value of output generated by industry participants’ direct labour inputs; and
- Employment – a measure of the number of workers employed by industry entities, rather than the value of the workers’ output.

Gross Output

Direct gross output is the collective total of sales for the goods and services provided by the firms and individuals operating in the filmed entertainment industry. Gross output includes fees, commissions, margin on re-sale of goods and rentals received. The value of output is equal to the value of all goods and services used as inputs to generate that output, referred to as intermediate inputs, plus the value of payments to labour and capital within the film entertainment industry.

The following illustration provides a useful summary of the components that make up gross output. Gross output is the sum of value-added and intermediate inputs. Value-added can be calculated directly by summing payments to the primary factors of production, labour (i.e. salaries) and capital (i.e. gross operating surplus, or profit). The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.



Figure 2.1 Economic Activity Accounting Framework¹

Value-added

Value-added is equal to the value of output generated by the industry's factors of production, i.e. labour and capital. It's the difference between the value of gross output and the cost of the intermediate inputs used in the production process. The sum of value-added across all industry participants in the economy equals gross domestic product. Given the relationship to GDP, the value-added measure can be thought of as the increased contribution to welfare. A simple equation to express the concept:

$$\text{Value-Added} = \text{Gross Output} - \text{the cost of Intermediate Inputs}$$

¹ Access Economics, 2008

Labour Income

Labour income is a subcomponent of value-added. It's the value of the payment made by the filmed entertainment industry to its labour inputs. This is measured by summing total salary and wages payments to those employed carrying out the activities that generate filmed entertainment production, distribution and exhibition. This is expressed as a dollar amount to give it monetary value.

Employment

Employment, a fundamentally different measure of activity to those above, determines the number of workers employed in the filmed entertainment industry, rather than the value of the workers' output in monetary terms.

2. Economic Impact



Economic impact studies measure the production and costs of an industry or project and the impact of these on a given region or country. This study intends to measure the direct consequences that the filmed entertainment industry has on gross output generated from business activity, economic value-added, salaries, and labour.

Indirect economic impact, on the other hand, is generated when the filmed entertainment industry purchases goods and services from other suppliers in the course of producing its own output. In other words, it is a measure of the total additional contribution that the filmed entertainment industry makes over and above its direct impact.

Calculation of total economic impact is the sum of direct and indirect net impacts.

Direct Impacts

Direct impacts include the sales revenue and operating expenses incurred in the business activities that can be specifically attributed to the filmed entertainment industry. For instance, a television producer employs a crew for producing a film which he then sells to a broadcaster.

Indirect Impacts

Indirect impacts occur when there are changes in the level and value of sales for suppliers of goods and services to the filmed entertainment industry. For instance, when a producer/theatrical distributor orders a 35mm film print, it generates greater demand for raw film stock and processing chemicals which consequently produce demand for electricity by the film processing company, and so forth.

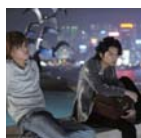
Multiplier Effects

Indirect impacts are collectively measured as a result of the multiplier effect. When projecting the contribution from an additional or new investment, economists use data on indirect impacts to calculate a multiplier which can then be applied to the direct impact to calculate the total impact. In that sense, the multiplier shows the relationship between the direct and total economic impacts.

Leakage

When there is interaction with other national economies and the value chain of the filmed entertainment industry extends outside Hong Kong, the net impacts of the industry may not be accrued to Hong Kong only. In this case, there are economic leakage effects where funds “leak”, out of money spent on purchases, in order to pay taxes to governments or to purchase goods or services from entities resident in other countries. Such leakage limits the multiplier impact to a finite number.

3. The Filmed Entertainment Industry



Horizontal and vertical approaches are used to define the filmed entertainment industry. The former defines the horizontal boundaries of what type of output is measured consistent with goods and services for other sectors. The latter places value-added activities into different stages in a value chain in a discrete manner, i.e. from an idea’s conception, through its distribution and to consumption.

Horizontal Approach - Types of Output

The types of content output adopted in this study include the following components of the Hong Kong filmed entertainment industry:

- Feature films and short films;
- Television programmes;
- Television commercials; and
- Other non-broadcast media (e.g. optical disks).

The above-mentioned sources of revenue in the filmed entertainment industry describe what are considered to be key outputs of the industry. Since the filmed entertainment industry is always changing, so its range of outputs is increasingly transformative as a result of innovation; for instance, television-related video gaming, film-driven mobile phone applications, and so forth. Theoretically, analysis of the economic impact by the filmed entertainment industry should include those innovative outputs but Hong Kong's traditional accounting framework does not incorporate such changing patterns of outputs.

Digital Entertainment, under the scope of this study, is defined as a vertical technological alignment in production, post production, distribution, broadcast and exhibition. This includes, but is not limited to, the use of high-definition digital cameras and computer animation in film & TV production; digital graphics and visual effects in post-production; digital distribution of content via cable, conventional phone lines, satellite and pre-recorded optical disks and hard drives; DTT (Digital Terrestrial Television) broadcast; and exhibition in cinemas via networked servers and digital projection systems.

Hardware related to film and TV viewing by the consumer, such as televisions, DVD and Blu-Ray players, and so forth, is excluded from Hong Kong's national accounting framework and hence also as a direct impact component of this study. Since this paper's focus is on content rather than the platform of displaying said content, we will assume the pre-existence of such viewing and playback hardware. Additionally, such hardware has significant offshore manufacturing components, multiple uses, varied distribution patterns and market dynamics. Thus, we would treat incremental audio-visual hardware purchases as a factor covered under indirect impact.

Although the production of television commercials is included in this study, several creators of value are excluded. For instance, services from advertising agencies are not directly included in the determination of value both as advertising agencies provide services over multiple media and as statistics provided by the Census and Statistics Department does not provide a relevant break down. Television and film merchandising income is also not included in this report's scope.

In Hong Kong, over 95% of all legal downloading of film/television entertainment is managed by the major TV and IPTV companies. Hence, it is captured under this study. Data on the balance of 5% of this sub-sector is not available and these smaller companies, moreover, have not proven to be sustainable enterprises.

These limitations lead to the assumption that the actual impact of the industry is larger than is estimated and described in this study. By definition, the economic impact derived by the approach in this study is a conservative estimation.

Vertical Approach - Stages in a Value Chain

The estimation of value can be broken into five sectors:

1. Film and television production
2. Film, television, home entertainment and digital distribution
3. Television broadcasting
4. Film exhibition
5. Home entertainment rental and retail

Film and television production: Production involves the activities of development, pre-production, principal photography and post-production. Post-production includes editing, audio & visual effects, computer graphics, and animation; developing, processing and printing; captioning and sub-titling; film & video transfers and duplication.



Film, television, home entertainment and digital distribution: Distribution delivers and markets filmed entertainment content to customers but excludes retailing.

Television broadcasting: The distribution of programming as performed through media such as television (terrestrial, cable/satellite, pay/subscription & video-on-demand) and the Internet (IPTV).

Film exhibition: Film exhibition is the display of a filmed entertainment product to the public at a fixed location, such as a cinema or film festival.

Home entertainment rental and retail: This is the rental and sales of film or television content on any tangible format (e.g. DVD, Blu-Ray or VCD), to be viewed by the consumer in private.

4. Data Sources and Restrictions



In this study, data that was researched and evaluated was mostly publicly-available. Data was collected from government bureaus, published materials, online resources and through other publicly-accessible means. Additional data was obtained via direct communications with various government sources, industrial organizations and associations.

Our analysis is limited by the availability of official data on Hong Kong's filmed entertainment industry. Informal reference data was obtained from various senior industry professionals for evaluation and sector calculation purposes. The outcome of our calculations was verified using alternate calculation methods as recommended and supervised by an academic who specializes in studying the local filmed entertainment industry.

For the purpose of this study and based on the available discriminated data, the economic impacts of television production will be incorporated into those of television broadcasting and not film production. Economic activity from home entertainment distribution will be combined with that of home entertainment rental and retail activity.

Estimates versus Actual Figures

All calculations are hereunder based on actual, officially published data where possible. Hence, the official statistics do not fully specify all component parts of the film entertainment industry. For these sub-sectors of the industry, the calculations in this study are treated as estimates in order to distinguish them from official statistics published by the Hong Kong Government Statistics Department or other sources.

Year 2008

Year 2008 is selected as the reference basis for calculating the economic impacts because it is the most recent full set of annual data available. The amounts of impacts are related to this fixed period, but some of the value-added impacts may have been generated by activity engaged over preceding years. The filmed entertainment industry has a relatively longer product life cycle which often lasts for more than a single year. This is due to the fact that the production and window-driven distribution (“exploitation”) cycles for film and television can extend over several years.

Multiplier Effects

Data from indirect impacts are used to calculate multiplier effects which are applied to direct impacts to calculate total impacts. As there is no publicly-available precedent of multipliers used in Hong Kong, the corresponding figures being used, to the best of the research team’s knowledge and with reasonable assumption, make reference to published multiplier effects from other developed countries’ filmed entertainment industries. The following is the range of multipliers that apply to the four main economic components under this study:

Gross Output	Value-Added	Labour Income	Employment
1.6 - 2.9	1.3 - 2.1	1.3 - 2.7	1.0 - 2.6

Please note that these multipliers do not take into account any unused capacity that the industry may have, nor do they make allowances for other possible responses by businesses (e.g. if more production capacity is required, it is assumed to occur, rather than prices increasing or incremental demand being met by imports).

Employment

Normally employment is expressed as the number of Full Time Equivalents employees (FTE) and is estimated by official statistics. However, information on FTEs is not collected or published in Hong Kong. Rather, data related to “persons engaged” as provided by the Census and Statistics Department of Hong Kong (HKCD) is used for the purpose of this study. According to the HKCSD, “persons engaged” is defined as individual proprietors, partners, full-time salaried personnel, working directors of limited companies and part-time employees.

Taxation

The taxation system in Hong Kong is one of the simplest in the world. Corporate tax is assessed at 16.5% of declared profit; individual tax does not exceed 15% of assessable income; and there is no Goods & Services tax. Corporate tax is calculated based on the aggregated net income of all business activities of the relevant entity. Hence, unless the entity is solely focused on the filmed entertainment industry or one of its sectors, it would not be possible to accurately assess the actual tax impact of the relevant business activity of that entity. As only pre-tax revenues of each sector are being examined in this study, corporate tax impact is covered under total impact.

Individual tax is calculated based on total annual income at the end of the fiscal year and there is no tax deduction made from monthly pay. Therefore, for casual or part time labour, there may not be individual tax payable at year-end. Hence, to estimate total personal income tax of workers engaged in the Hong Kong film & TV industry is equally difficult. As an estimation, it would likely fall within the range of HK\$150-250 million which is statistically not significant relative to the industry's total gross output. However, because of low individual tax rates in Hong Kong, domestic spending/consumption activities can be assumed to be higher than in other countries. Hence, the economic impact would be reflected in other forms.

As there is no Goods & Services tax in Hong Kong, there is no impact from VAT in the total impact evaluation.

Hong Kong Dollar

All figures and amounts showed in this study refer to Hong Kong Dollars. If any, calculations with respect to exchange rates are performed using an average 2008 exchange rate as sourced from the published rates of a local bank.

III. RESULTS



1. *The Economic Contribution of the Hong Kong Film and TV Industry*

The following illustrates the results of this study of the Hong Kong filmed entertainment industry's economic contribution on the overall Hong Kong economy in 2008. Sequentially, a complete picture will firstly be tabularized to highlight total economic impact to be followed by the impact of individual filmed entertainment sub-sectors.

Total Economic Contribution of the Film and TV Industry in 2008

- Total gross output generated in 2008 by the Hong Kong filmed entertainment industry was **HK\$33.7 billion**
- Total value-added to the Hong Kong economy in 2008 by the filmed entertainment industry was **HK\$6.2 billion**
- Total labour income in Hong Kong generated by film and television content production and delivery was **HK\$3.4 billion**
- Total employment in Hong Kong as a result of filmed entertainment activities in 2008 was more than **32,000 persons**

The totals reflect direct and indirect activities incurred, which project the full economic impact attributed to the filmed entertainment industry:

Industry Sector	Gross Output (HK\$M)		Value-Added (HK\$M)		Labour Income (HK\$M)		Employment (Persons Engaged)	
	Direct	Total	Direct	Total	Direct	Total	Direct	Total
Film Production	1,729	4,323	801	1,634	714	942	5,020	10,341
Film & TV Distribution	1,805	3,610	639	1,150	155	222	1,090	2,158
Film Exhibition	1,909	4,982	289	445	146	388	1,030	1,627
Home Entertainment	442	712	302	417	138	193	2,000	2,100
TV Production & Broadcast	7,089	20,062	1,512	2,525	913	1,698	6,420	16,499
Total	12,974	33,689	3,543	6,171	2,066	3,443	15,560	32,725

Table 3.1 - Total Economic Contribution of the Hong Kong Film & TV Industry (2008)

Total Economic Impact: Film Production Sector

In summary, activities incurred by the production sector of the filmed entertainment industry in Hong Kong have generated total gross output of HK\$4.32 billion in 2008 with total value-added of HK\$1.63 billion, including HK\$714 million of salaries paid to labour directly employed by the production sector (5,020 persons engaged). As a result of the multiplier effect, such direct employment creates further opportunities that employ 10,341 additional people in Hong Kong.

Industry Sector	Gross Output (HK\$M)		Value-added (HK\$M)		Labour Income (HK\$M)		Employment (Persons Engaged)	
	Direct	Total	Direct	Total	Direct	Total	Direct	Total
Film Production	1,729	4,323	801	1,634	714	942	5,020	10,341

Table 3.2 - Total Economic Impact by Film Production Sector (2008)

Direct Impact

With reasonable estimation, a single major local feature film shot in Hong Kong injects an investment of approximately HK\$40 million into the local economy. When a film is in its principal photography production stage, daily spending is approximately HK\$250,000 and a production takes on average 60 days to complete. For foreign film productions, such as *The Dark Knight* or the *Rush Hour* series, the economic impact can be greater than that created by local film production. As such, the average daily spending can be more than HK\$1 million which covers accommodations for approximately 50 crew members and 10 principal actors, a per-diem allowance of approximately HK\$800, craft services, permits, rental expenses of vehicles and equipment, and catering.

The nature of the filmed entertainment industry is that it is a labour intensive industry which leads to immediate employment opportunity. For every person directly employed on a film production, a further 1.7 jobs are created through the multiplier effect in the local economy.² In addition to their core film crews, foreign film companies employ between 100-120 local workers during location shooting. These may include, but are not limited to, electricians, carpenters, security guards, caterers, drivers, casual labourers, and general administrative employees.

² Economic Benefits of Film Activities in Hong Kong, Film Services Office (September 2006)

Ancillary services would also be required by a film production, such as accounting, medical services, the hiring of equipment and vehicles, costume supply and catering. While the requirements for television production are lesser than that of feature films, the basic principles and scaling apply.

Indirect Impact



A multiplier of 2.5 is normally adopted to estimate the total economic activity generated by location filming, including flow-on benefits.³ When applying the multiplier, production spending creates a total annual economic impact of HK\$4.32 billion in Hong Kong’s economy. This figure encompasses direct and indirect economic impacts.

Location shooting in Hong Kong on a single major feature film production would bring in a total economic impact of approximately HK\$40 million based on the following assumptions:

- Total production budget: HK\$40 million
- Amount spent on location filming: HK\$16 million (40% of total budget)
- \$16 million x multiplier of 2.5: HK\$40 million

Improvement in production technology also requires an upgrading of infrastructure, whether conventional (optical processing) or those utilizing digital animation and processing methods. Such purchases of advanced equipment, hiring of trained technicians and development of associated ancillary infrastructure eventually contribute to an acceleration of economic activities and add to Hong Kong’s gross domestic product. Other indirect benefits that take place as a result of domestic production activity include the technology transfer resulting from experience gained by local film crews who work for foreign film and television productions. As a result, these crews are positioned to command higher future salaries.

Another significant (but hard to discriminate) indirect impact is Hong Kong feature film and television programming’s role as tourism promotion. Initial destination awareness and motivation are said to be created by organic images – film and television are both sources of these images and are seen as “definers of reality.” While determining the impact of locally-shot film or television productions on tourist arrivals in Hong Kong would be the subject of a separate study, an example of this benefit can be illustrated by research done in New Zealand.

³ Association of Film Commissions International

As a result of the worldwide release of *The Lord of the Rings* film trilogy, awareness of New Zealand was raised and influenced the travel plans of overseas residents. It's been reported that 65% of potential visitors noted that they were more likely to visit New Zealand as a result of the films or associated publicity.⁴ As Hong Kong hosted more than 29.5 million visitors in 2008⁵, the potential tourism impact of films and television programming shot locally is significant.

Total Economic Impact: Film and Television Distribution Sector

Activity incurred by the distribution sector of the filmed entertainment industry in Hong Kong generated total gross output of HK\$3.61 billion in 2008 with total value-added of HK\$1.1 billion, including HK\$155 million in salaries paid to labour directly employed by the distribution sector (1,090 persons engaged). Through the multiplier effect, this direct employment creates further employment for 2,158 people.

Industry Sector	Gross Output (HK\$M)		Value-added (HK\$M)		Labour Income (HK\$M)		Employment (Persons Engaged)	
	Direct	Total	Direct	Total	Direct	Total	Direct	Total
Film & TV Distribution	1,805	3,610	639	1,150	155	222	1,090	2,158

Table 3.3 - Total Economic Impact by Film & TV Distribution Sector (2008)

Direct Impact

Distribution is the process of delivering finished audio-visual goods to market, i.e. films, TV programming, home entertainment software, film library operation, and film leasing. The process involves physical distribution and supporting marketing activities such as advertising, publicity and promotions, but excludes retail distribution.

Indirect Impact

The multiplier for filmed entertainment distribution activity estimates the total economic activity generated by both local and overseas distribution of Hong Kong-origin works. The above multiplier projects that spending in the film distribution sector creates a total economic impact of HK\$3.61 billion in the Hong Kong economy. This figure encompasses direct and indirect economic impact.

⁴ NFO New Zealand LOTR Market Research Summary Report (2003)

⁵ Tourism Commission, Commerce & Economic Development Bureau, Hong Kong (2008)

Total Economic Impact: Film Exhibition Sector

In summary, activities incurred by the Hong Kong film exhibition sector have generated total gross output of HK\$4.98 billion in 2008 with total value-added of HK\$444 million, including HK\$146 million of salaries paid to labour directly employed by the film exhibition sector (1,030 persons engaged). When applying the multiplier effect, such direct employment creates further employment for 1,627 people in Hong Kong.

Industry Sector	Gross Output (HK\$M)		Value-Added (HK\$M)		Labour Income (HK\$M)		Employment (Persons Engaged)	
	Direct	Total	Direct	Total	Direct	Total	Direct	Total
Film Exhibition	1,909	4,982	289	445	146	388	1,030	1,627

Table 3.4 - Total Economic Impact by Film Exhibition Sector (2008)

Direct Impact

Film exhibition is the business of displaying filmed entertainment content in a fixed venue at traditionally the earliest opportunity or “window”, prior to the same content being available in other media. Exhibition is marked by heavy upfront capital requirements and extended commitments in terms of real estate contracts and investment recoupment periods.

Hong Kong Exhibition	2007	2008	+/- %	2009	+/-%
Cinemas	49	48	-2.0	44	-8.3
Screens	192	190	-1.0	194	+2.1

Table 3.5 – Year-on-Year Comparison of Cinemas & Screen Numbers (2007-09)

While the number of cinema complexes in Hong Kong is decreasing due to the re-development of older cinemas, the number of screens is increasing as a result of the trend of multiplex development. The approximate set up cost per modern multiplex screen in Hong Kong is HK\$6 million, including equipment, and the estimated employment per screen is 22 persons.⁶ The expansion of the multiplex model has led to increased attendance and customer service-supported premium pricing and food & beverage offerings which consequently has a positive impact on gross output from the sector.

⁶ Hong Kong Theaters Association Limited

Indirect Impact

The multiplier adopted to estimate the total economic activity generated by the exhibition sector, including flow-on benefits, reflects spending in the exhibition sector that creates total economic impact of HK\$4.98 billion. This figure encompasses direct and indirect economic impacts.

The development and construction of new cinemas brings about additional business activities. For example, the purchase of foreign-sourced new cinema equipment and furniture leads to an increase in revenue for the relevant logistics company. As the majority of new cinemas are sited in shopping malls, indirect benefits include increased mall visitor count and incremental retail sales outside the cinema environment. While shopping mall footfall and incremental expenditure data are not available for further analysis, anecdotally selected retail and restaurant tenants in Hong Kong have reported decreases in revenue as high as 25% when cinemas are closed for extended periods due to renovation.

Total Economic Impact: Home Entertainment Sector

In summary, activities incurred by the home entertainment sector of the filmed entertainment industry in Hong Kong have generated total gross output of HK\$0.71 billion in 2008 with total value-added of HK\$417 million, including HK\$138 million of salaries paid to labour directly employed by the home entertainment sector (2,000 persons engaged). As a result of the multiplier effect, this direct employment leads to the employment of an additional 2,100 persons in Hong Kong.

Industry Sector	Gross Output (HK\$M)		Value-added (HK\$M)		Labour Income (HK\$M)		Employment (Persons Engaged)	
	Direct	Total	Direct	Total	Direct	Total	Direct	Total
Home Entertainment	442	712	302	417	138	193	2,000	2,100

Table 3.6 - Total Economic Impact by Home Entertainment Sector (2008)

Direct Impact

The home entertainment sector refers to the rental and sales of film and television content in tangible formats which are intended for home use only, not public performance. Rental and sales of home entertainment content reached HK\$442 million in 2008 - owing more to the popularity of television drama series from Hong Kong, Korea and Japan than Hollywood releases.

The home entertainment sector in Hong Kong, however, continues to be threatened by the increasing availability of pirated content both in the form of counterfeit “hard goods” and as Internet downloads. The negative impact from piracy may also explain the downward trend in the import and export of video discs and recorded materials in 2007-2008 (see below). It’s estimated that piracy reduces home entertainment revenue by at least 20 percent and has forced multiple rental and retail outlets to close down.⁷

(HK\$ Million)	2007	2008	±%
Imports	342	296	-13.6
Exports	536	503	-6.1

Table 3.7 – Year-on-Year Comparison Import & Export of Video Discs (2007-08)

Indirect Impact

A multiplier has been adopted to estimate the total economic activity generated by Hong Kong’s home entertainment sector - both in terms of local and overseas activity. The above multiplier projects that spending on home entertainment content creates a total economic impact of HK\$712 million in Hong Kong’s economy. This figure encompasses direct and indirect economic impacts.

Total Economic Impact: Television Production and Broadcasting Sector

Activities incurred by the television broadcasting sector in Hong Kong have generated total gross output of HK\$20.06 billion in 2008 with total value-added of HK\$2.53 billion, including \$913 million of salaries paid to labour directly employed by the broadcasting sector (6,420 persons engaged). When using the multiplier effect, the sector’s direct employment creates further employment of 16,499 people.

Industry Sector	Gross Output (HK\$M)		Value-Added (HK\$M)		Labour Income (HK\$M)		Employment (Persons Engaged)	
	Direct	Total	Direct	Total	Direct	Total	Direct	Total
TV Production & Broadcasting	7,089	20,062	1,512	2,525	913	1,698	6,420	16,499

Table 3.8 - Total Economic Impact by Television Production & Broadcasting Sector (2008)

⁷ The Hong Kong Movie Industry - Jeffrey Hays (2008)

Direct Impact

In Hong Kong, television broadcasting is the sector of the filmed entertainment industry that plays the most significant role in generating an economic impact on the Hong Kong economy. Activities include the production of multi-lingual television programming, exporting said programming on a worldwide basis, importing foreign programming, generating advertising and subscription-based income, engaging labour and the selling of electronic set-top boxes. Television advertising revenue alone reached HK\$19.6 billion in 2007 representing 34% of that year’s total advertising expenditure in Hong Kong.⁸

Indirect Impact

Among various sectors of filmed entertainment industry, television broadcasting enjoys a comparatively high multiplier effect on employment because of its labour-intensive nature. Applying a multiplier delivers a total economic impact of HK\$20.06 billion on Hong Kong’s economy. An example of the sector’s indirect economic impact is the additional hardware and network-related purchases required by consumers for upgrading television equipment due to the introduction of digital and Internet-based broadcasting.

IV. Background

Hong Kong Theatrical Statistics (2008)	
Population	7.0 million
GDP per Capita	HK\$248 thousand
Annual Gross Box Office	HK\$1.1 billion
Annual Cinema Admissions	19.4 million
Annual Cinema Admissions per Capita	2.79
Average Cinema Ticket Price	HK\$57
Cinema screens	194
Population per Cinema Screen	36,979
National Film Market Share	23%

Table 4.1 – Hong Kong Theatrical Statistics (2008)

Source: European Audiovisual Observatory

⁸ Hong Kong Broadcasting Authority Annual Report

Film Production

There are 153 local film production companies⁹ registered with the Film Services Office in Hong Kong. The largest local film production company is Clearwater Bay Studio, owned and operated by the Shaw Brothers. Other major establishments in the production sector include Media Asia, Salon Films, Milkyway, Sundream, Film Workshop, Mandarin Film, Mei Ah and Universe.

While Mainland China is known in international film circles for artistic films, Hong Kong's reputation has been built on more commercial fare. Developed for a local market and addressing Asian-themed subjects, Hong Kong film production reached its zenith from 1986 to 1992 when it was the world's 3rd largest film industry behind India and the United States. In 1992, over 200 local films were produced, grossing a record of HK\$1.55 billion. Hong Kong films have traditionally performed well internationally and introduced local talent like Jackie Chan, Chow Yun Fat and John Woo to Hollywood and inspired Western filmmakers such as Quentin Tarantino.

In 1980's, the average Hong Kong film took three months and approximately HK\$1 million to make. This period was, however, marked by the involvement of organized crime as local triads bankrolled film production and demanded protection money from film crews to shoot on Hong Kong's streets. In the mid-1990's, an evolution occurred as some triad bosses started to take the film industry seriously and nurture the growth of legitimate entertainment companies. The industry fought back against triad extortion by calling in police to guard film sets and arrest gang members who demanded protection money.

In 1994, Hong Kong government passed legislation authorizing the police to expropriate the financial assets of triad members. As the triads' influence on film production waned, however, organized crime moved into the growing business of piracy, i.e. duplicating, distributing and retailing pirated VHS video cassettes, VCDs and DVDs. The flourishing of piracy was thus an unintended consequence of the crackdown on organized crime.

⁹ Hong Kong Film Services Office (FSO)

Hong Kong Film Production – Comparison by Decade

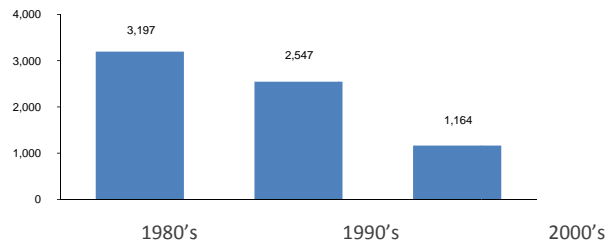


Table 4.2 – Hong Kong Film Production – Comparison by Decade

By the end of 1990's, the Hong Kong film industry had declined and was producing fewer than 50 films annually. 50% of local cinemas had closed since the start of the decade and Hong Kong films had lost their prominence in other Asian territories, the industry's traditional secondary market. By 2003, Korean films were more popular in Asia than those from Hong Kong. With piracy impacting local revenues as much as 40% and export markets atrophying, the Hong Kong industry applied further cost containment to shore up the bottom line.

With profit margins squeezed or negative, seed money for new productions dried up as the local industry could no longer leverage economies of scale. While foreign film box office receipts in Hong Kong grew as local audiences gravitated towards higher production values, it was not enough to reverse an overall slide at the cinema level. Film-going in Hong Kong hit its nadir in 2003 when the SARS crisis further trimmed cinema admissions with box office receipts falling to HK\$897 million, a 42% decline from 1993.



In 2004, Mainland Chinese regulations were amended to allow Hong Kong films to be imported into China through CEPA (Closer Economic Partnership Arrangement) as an alternate route to the 20-title foreign film quota. By 2007, the top Chinese films were Hong Kong-originated CEPA co-productions such as *Curse of the Golden Flower* and *The Banquet*. At the local box office, moreover, seven of that year's Top 10 films were co-productions with the Mainland and three out of five of the Best Film nominees at the 28th Hong Kong Film Awards were produced under CEPA, including *Red Cliff*.



The impact of CEPA has been dramatic. Thanks to its preferential and quota-free access to the Chinese market, Hong Kong has once again become one of the most dynamic filmed entertainment industries in the world. A boom in Asian cable and satellite channels over the last few years has further provided a ready market for producers of domestic film and TV content - Hong Kong is now ranked as the first in Asia in per-capita film and TV production.

On the piracy front, the Hong Kong government intervened to address this threat and by 2003 had succeeded in cutting the piracy rate in half. Elements of the government's activist approach included increased anti-piracy enforcement by Customs, the establishing of sentencing guidelines for copyright offences, implementation of educational campaigns and the pursuit of convictions for Internet piracy.



In 2007 and 2008, several foreign productions made Hong Kong their preferred filming location. They included the United States' *The Dark Knight*, *Fantastic Four: Rise of the Silver Surfer* and *Push*; France's *I Come with the Rain* and *Largo Winch* and Japan's *Boys over Flowers*. A return to original storytelling led to Hollywood's acquiring remake rights of local films, including Martin Scorsese's *The Departed* (a remake of *Infernal Affairs*) which won four Academy Awards in 2007.

Film Distribution

There are 112 film distributors in Hong Kong registered with the Film Services Office. Film distribution is the intermediary business between film production and cinemas, whose function is to maximize box office sales and profitability. In Hong Kong there are several global theatrical distribution companies which are corporately connected to film production studios that, in aggregate, are commonly referred to as "Hollywood". They are Walt Disney, Warner Bros., Sony, Universal Pictures, Paramount Pictures and 20th Century Fox. There are also local film distributors such as Media Asia, Pansia/Golden Harvest Entertainment, Edko, Intercontinental, Newport and Sil-Metropole. Smaller distributors include Golden Scene, Lark Film, Sundream, Applause Pictures, Celestial Pictures, Gala, and Mandarin Film. Distributors have heavily precedential revenue-sharing agreements with both film producers and film exhibitors and typically advance the up-front costs for marketing and producing 35mm prints or digital copies of the film.

The trend in local film distribution in last 3 years suggests box office receipts are decreasing despite an increase in the number of Hong Kong films released.

Hong Kong Films	2006	2007	± %	2008	±%
Domestic Films Released	51	60	+17.6	67	+11.7
Box Office (HK\$ million)	282	283	+0.4	264	-6.7

Table 4.3 - Local Films Released and Combined Box Office Receipts (2006-08)

When adding in foreign film distribution, however, total box office receipts increased by 5.5% in 2008.

Hong Kong Theatrical Performance	2006	±%	2007	±%	2008	±%
Box Office (HK\$ million)	955	+0.8	1,051	+10.1	1,109	+5.5
Local Films	269	-12.7	220	-18.2	247	+12.3
Foreign Films	686	+7.4	831	+21.1	862	+3.7
Total Films Classified	1,186	-7.8	1,298	+9.4	1,296	-0.2

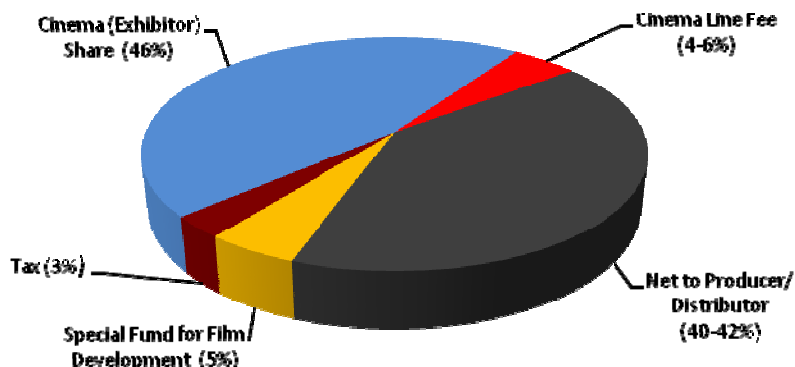
Table 4.4 – Local and Foreign Film Box Office Receipts (2006-08)

In fact, for the second year in a row, Hong Kong’s box office broke the HK\$1 billion barrier in 2008, resulting in a year-on-year increase of 8% to HK\$1.1 billion. Foreign films took a market share of 77% with local-language films falling to 23% from a recent high of 31% in 2006, despite domestic film production levels increasing from 50 to 53. Five of Top 10 local-language films in 2008 were CEPA co-productions.

While major film production companies and distributors have their own international distribution departments, smaller filmmakers normally rely on specialist distribution companies to sell their films in overseas markets. Key channels for international distribution are the three main film markets (Los Angeles, Cannes and Berlin) where producers, sales agents and distributors meet to initiate deals for regional and territory-specific distribution.

With the advent of CEPA, China has become the primary market for most Hong Kong-produced films. A sample break-down of the revenue-sharing agreement with Chinese exhibitors and producers/distributors is as follows:

Revenue-sharing Between Chinese Exhibitors and Producers/Distributors



From a film’s gross box office receipts, the Chinese government takes 5% off the top for the "National Special Fund for Film Development." Second, 3% of the remaining 95% will be deducted as business tax. Of the remaining 92%, theatres, "cinema line companies" and producers/distributors split the balance. "Cinema lines" are former state-owned film distribution companies each responsible for the distribution of films in a particular geographic zone. Of the remaining 40-42% of the gross box office, producers/distributors use this income to recoup advertising & publicity expenses and the cost to produce and distribute 35mm release prints and digital copies.

To illustrate the importance of the Chinese market for Hong Kong-produced films, the Top 10 grossing films of 2008 in China are listed below. CEPA films are underlined.

	Original Title	Country of Origin	Director	Box Office (US\$M)
1.	<u>Red Cliff</u>	<u>CN/HK</u>	<u>John Woo</u>	<u>45.7</u>
2.	<u>Painted Skin</u>	<u>CN/HK/SG</u>	<u>Gordon Chan</u>	<u>33.7</u>
3.	<u>CJ7</u>	<u>HK/CN</u>	<u>Stephen Chow</u>	<u>29.6</u>
4.	<u>Forbidden Kingdom</u>	<u>US/CN/HK</u>	<u>Rob Minkoff</u>	<u>27.2</u>
5.	Kung Fu Panda	US	Mark Osborne	26.4
6.	If You Are the One	CN	Feng Xiaogang	24.9
7.	Quantum of Solace	GB/US	Marc Forster	20.8
8.	<u>Kung Fu Dunk</u>	<u>CN/HK/TW</u>	<u>Yen-ping Chu</u>	<u>16.5</u>
9.	The Mummy 3	US/DE	Rob Cohen	16.1
10.	<u>Forever Enthralled</u>	<u>CN/HK</u>	<u>Chen Kaige</u>	<u>15.7</u>

Table 4.5 - Top 10 Films, China (2008)

(Source: Screen International)



Film Exhibition

The local Hong Kong cinema industry is tied directly to the film industry at large. There are four key cinema operators in Hong Kong (Broadway, UA, Golden Harvest and MCL) that are primarily locally-owned. Of the territory's total of 44 cinemas, 194 screens and 34,536 seats, these top 4 circuits account for 75% of the cinema locations, 86% of screens, 79% of total seats and 80% of total box office performance. Cinema operations in Hong Kong are seen as the base of a vertically-integrated business strategy which, along with film production and distribution, are a key element to control the film business overall. Hong Kong's current cinema business can be summarized by these key points:

1. The relevant appeal of films are the primary drivers of the business' top line
2. Real estate occupancy costs are a major determinant of business profitability
3. There is continued opportunity to upgrade and expand cinema infrastructure
4. Piracy has already being discounted in the industry's forward business model

The cinema operating model is based on various revenue streams of which ticket sales account for as much as 90% of top line revenue. This is the total of the number of tickets a cinema sells, multiplied by the price of each ticket. Ticket pricing in Hong Kong varies substantially, from top ticket prices of HK\$175 for premium cinemas to time-sensitive and concessionary pricing (for students, seniors etc.) as low as HK\$30. Other cinema revenue components include food & beverage and in-theatre advertising (both ambient and on-screen). Food & beverage revenue as a percentage of total revenue in Hong Kong cinemas varies by cinema offering and owner strategy, but historically lies between 10-15%.

Traditionally a cinema's biggest expense is film hire – a revenue-sharing based cost paid to a distributor that averages between 45-55% of gross box office. Other cost components are direct operating expenses such as real estate occupancy costs, labour and food & beverage expenses. Given Hong Kong's limited commercial space and competition from higher-yielding specialty retail, real estate occupancy costs in particular have a marked impact on cinemas' profitability in Hong Kong. Local fixed minimum rents as a percentage of total revenue are on the high end of the global cinema spectrum. In addition to rent, real estate costs include common area, technical service and building management charges, with initial investment and construction expense treated as depreciation costs.

Home Entertainment

In the Home Entertainment (HE) arena, DVD sales in Hong Kong are relatively modest. According to the Hong Kong Video Industry Association, there are only approximately 180 HE rental outlets and 100 HE “sell-through” (sale-purchase) outlets in Hong Kong including HMV, Hong Kong Record, CD Warehouse and Widesight. There are approximately 10 major video distributors in Hong Kong including IVL, Panrama, Mei Ah, Kam, Deltamac, Era and WHV.

While sales of Blu-Ray discs and a stabilization of the HE rental market offer a marginal mitigating effect on falling DVD sales, there appears to be a steady progression towards a slow-down in the building up of personal libraries. The next evolution in HE will come from the dematerialized consumption represented by the expansion of online rental services and video-on-demand (VOD). Much depends on which distribution channel (Internet, telecom, cable TV or IPTV) proves ultimately victorious in establishing the strongest VOD business model in Hong Kong.

Television



The TV broadcast market consists of terrestrial (free-to-air), cable, satellite and broadband/IPTV providers but is dominated in terms of viewership by domestic terrestrial TV, with Television Broadcasts Limited (TVB) being the leading player, estimated to account for 70% of total terrestrial viewership. Foreign TV content is distributed through channel package operators or local marketing and distribution representatives of the channel broadcasting companies. While free-to-air delivery dominates, technological improvements are improving the quality of picture quality - over 85% of Hong Kong’s terrestrial homes are capable of receiving DTT (Digital Terrestrial Television) signals.

Several global and regional pay TV companies such as BBC, National Geographic Channel, STAR TV, Turner and Walt Disney/Buena Vista have their Asian regional headquarters in Hong Kong. STAR TV, owned by News Corp., is one of the largest TV distributors in the region, controlling over 25,000 hours of content and offering programming related to entertainment, sports, movies, music, news and documentaries in eight languages. There are also home entertainment distributors that distribute TV content via optical disks, providing a valuable secondary revenue source for television producers.

There are currently four categories of television service licenses for broadcasters: domestic free-to-air, subscription-based domestic pay TV, non-domestic TV services not limited to Hong Kong and other licensable services. The television market in Hong Kong has an estimated customer base of 2.2 million households (a 99% penetration rate) with over 200 local and regional TV channels, broadcasting primarily in Cantonese, Mandarin and English.

Advertising is a key source of revenue for the television industry. Terrestrial TV as a medium accounts for approximately 35% of total advertising expenditure of all Hong Kong media while pay TV accounts for only 6.6%. The relaxation of sponsorship restrictions for drama programs and financial advertising on TV programs has led to an increase in the non-air time revenue for broadcasters. Hong Kong TV companies also derive a substantial portion of their revenue from overseas markets, targeting primarily Chinese-speaking populations. Hong Kong's television broadcasters sell their programming through licensing, subscription fees and satellite distribution landing rights, which are granted for Mainland China as a result of CEPA statutes.

Digital Entertainment

With the utilization of special digital effects becoming a worldwide trend in film production, Hong Kong is uniquely positioned given that it has the best design and multimedia capabilities in the region. Digital services which Hong Kong provides are content origination, packaging, distribution, service provision and network operation. Developing the digital entertainment industry in Hong Kong provides the local economy with an immediate impact by leveraging traditional industries such as advertising, financial services, property development and manufacturing.

The local digital entertainment industry comprises three major sectors in Hong Kong, namely entertainment software, computer animation, and digital effects in the production of film and videos. With China's entry into the World Trade Organization (WTO), the growth in Hong Kong's digital industry is fuelled by China's huge market for digital entertainment content. Extensive broadband penetration, well-trained IT and design workers, a financial infrastructure for funding technology ventures and support from government for research and development further provides Hong Kong with a competitive advantage.

The development of traditional manufacturing and the service industry in Hong Kong has resulted from their access to low-cost labour and proximity to China. As land and labour costs rise, manufacturing operations have migrated to China with Hong Kong operations focusing on management, design, and services. Digital entertainment production, computer-generated animation for example, has evolved in a similar manner with Hong Kong taking advantage of the migration of animation work to China from North America, Europe and Japan. The digital industry also impacts the conventional sectors of the filmed entertainment industry; Global Digital Creations (GDC) is one of the leading solution providers for digital cinema and has delivered and installed over 1,000 operating digital cinema servers worldwide.

Government Support

The Hong Kong government has actively supported and promoted the filmed entertainment industry since 1998, notably by setting up the Film Services Office (FSO) to facilitate film production and the Film Guarantee Fund to provide financial aid to local production companies. The Hong Kong government recognizes that creative industries are important economic drivers as they help to increase the innovation capacity of the economy and generate future economic growth. The following are the entities established to support the film industry and related creative industries:

Film Development Fund (FDF)

The HK\$300 million FDF was set up by the Government in 1999 to encourage more commercial investment in film productions, create a larger mass of film activity and more employment opportunities. The FDF generally supports small-to-medium films that are commercially viable with production budgets not exceeding HK\$12 million. As at mid-June 2009, a total of 13 film projects and 29 other film-related projects had been approved.

The Film Guarantee Fund (FGF)

The FGF Scheme was designed to assist local film production companies to obtain loans from local participating lending institutions for producing films and to help create an environment conducive to the development of the film financing infrastructure in Hong Kong. The FGF operates on a revolving basis and the current maximum commitment is HK\$235 million. Loans may not represent more than 70% of the budget for films with budgets not exceeding HK\$7.5 million.

Create Hong Kong

Create Hong Kong is dedicated to promoting the development of creative industries in Hong Kong and was established under the Communications & Technology Branch of the Commerce and Economic Development Bureau in June 2009. It's responsible for the administration and management of creative industries funding schemes including the Film Development Fund.

CreateSmart Initiative (CSI)

The \$300 million CSI aims at providing financial support to projects conducive to the development of creative industries in Hong Kong and provides financial support to projects not covered by the Film Development Fund and the Film Guarantee Fund.

Hong Kong International Film & TV Market (FILMART)



FILMART, organised by the Hong Kong Trade Development Council, has been held annually since 1997 and serves as the first-choice cross-media, cross-industry entertainment platform in the region. Promoting co-operation in areas of film financing, distribution, production, post-production, TV, digital entertainment and film/broadcasting equipment, FILMART 2009 attracted 505 exhibitors and more than 4,500 buyers from 50 countries and regions.

Hong Kong International Film Festival (HKIFF)

HKIFF is one of Asia's most reputable film festivals in Asia and provides a platform for filmmakers, film professionals and filmgoers from around the world. The HKIFF generated HK\$33.13 million in income from 586,015 attendees, of which HK\$31.69 million was reinvested into the local economy as expenditure.

HKIFF Financial Activity (2008)	HK\$M
Income	33.13
Expenditure	31.69
Surplus	1.44

Table 4.6 - HKIFF Financial Activity (2008)

Other events scheduled alongside HKIFF are:



- The Asia Film Financing Forum, a market that facilitates co-production ventures with top film financiers, producers, bankers, distributors, buyers and other film professionals through private meetings, networking events and screenings;
- The Hong Kong Film Awards, a presentation ceremony held annually since 1982, recognises excellence in the filmmaking industry in Hong Kong; and
- Asian Film Awards, the first film award program to honour outstanding achievement in Asian cinema, selects winners from various categories among eligible films produced in the region in that year.

The injection of government funding into the filmed entertainment industry generates an impact on tourism that's part of the industry's total impact on Hong Kong's economy.

Tourism Impact of Film Festivals and TV & Film Production - 2008

Film Festivals			
Number of Overseas Visitors Attending HKIFF/FILMART			2,452
Average Length of Stay (nights)			4
Overnight Visitor Per Capita Spending (daily average - HK\$)			3,264
Spending (HK\$'000)			32,013
Television Production	Productions	Crew	Visitors
Overseas Production Crews	7	10	70
Average Length of Stay (nights)			6
Overnight Visitor Per Capita Spending (daily average - HK\$)			3,264
Spending (HK\$'000)			1,371
Film Production	Productions	Crew	Visitors
Overseas Production Crews	91	23	2,093
Average Length of Stay (nights)			30
Overnight visitor Per Capita Spending (daily average - HK\$)			3,264
Spending (HK\$'000)			204,947
TOTAL SPENDING (HK\$'000)			238,331

Table 4.7 Tourism Impact of Film Festivals and TV & Film Production

Source: Tourism Commission, Film Services Office, HKECIA Economic Impact Study Report 2004

Hong Kong Hotels	Film Festivals	Film & TV Production	Total Visitors
Total Number of Room Nights	9,808	63,210	73,018
Average Achieved Hotel Room Rate (HK\$)			1,222
TOTAL ROOM REVENUE(HK\$'000)			89,228

Table 4.8 Hotel Revenue Impact on Selected Sectors

Source: Tourism Commission, Commerce & Economic Development Bureau, Hong Kong

Appendix

Source of Data

- ✧ Film Services Office – The Economic Benefits of Filming Activities in Hong Kong (September 2006)
- ✧ Hong Kong Census & Statistics Department – Statistical Digest of the Services Sector 2009; Report on 2008 Annual Surveys of Storage, Communication, Banking, Financing, Insurance and Business Services; various online statistic data
- ✧ Hong Kong Exhibition & Convention Industry Association – HKECIA Economic Impact Study Report – 2004
- ✧ Hong Kong FILMART – Fair Statistics 2007 & 2008
- ✧ Hong Kong International Film Festival Society – Annual Reports 2006, 2007 & 2008
- ✧ Hong Kong Television & Entertainment Authority – Consultancy Paper on Setting up Film Guarantee Fund
- ✧ Hong Kong Theatres Association Limited – exhibition data
- ✧ Hong Kong Tourism Commission, Commerce & Economic Department Bureau – Tourism Performance
- ✧ Hong Kong Video Industry Association Ltd – no. of video rental & retail establishments
- ✧ Information Service Department – Hong Kong Year Book (2006, 2007 & 2008) & Hong Kong: The Facts
- ✧ Interviews with industry associations and professionals
- ✧ Introduction: Updating the Creative Economy by Chow Kit Boey & Leo Kah Mun of the Intellectual Property Academy, Singapore
- ✧ Kadokawa Intercontinental Film Distribution – industrial data
- ✧ Published annual reports for major firms operating in the filmed entertainment sector
- ✧ Multiplier for Culture-Related Industry by the National Centre for Culture & Recreation Statistics of the Australian Bureau of Statistics (ABS)

Use of the Report

This report has been prepared solely for the purposes stated herein. Artisan Gateway Limited accepts no liability should it be used for any other purpose.

Most of the data collected for the preparation of this report is publicly available hence we have not conducted an audit in respect to various government departments or other organizations that have provided the information necessary to undertake this assignment. The statements and opinions expressed herein have been made in good faith, are based on information available as at the date of this report, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

