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# THE FUTURE OF ASIAN MOVIES

CULTURE, MARKET, ITS PRESENCE AND DEVELOPMENT OF  
RELATED INDUSTRIES

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# How Could Art and Commerce Shift Their Frontier?

Asia will attract more attention as Asian people and Asian companies take greater control of industry's destiny. But how to keep the competitiveness in globe through producing and distributing the Asian culture and movies.

Moderator: Patrick FRATER Asia Editor, Variety

MR PATRICK FRATER:

Good afternoon. This session has been very grandly called "Cultures and Markets: the Future of Asian Cinema". My name is Patrick Frater and I am the Asia editor of Variety Magazine which is an industry trade paper that is hundred years old this year and shares its anniversary with the centenary of the Chinese film industry. I am new here actually, and so is Variety. We opened our first truly Asian office in Hong Kong only a few months ago and the reason we did this is very simple and goes beyond the boring statistics we hear regularly about demographics, speed of economic growth in China and the rise of the affluent middle class in India or in Indonesia.

We did it very simply because I believe that Asia is already the most interesting place in the world in terms of film industry's creativity and that it will become even more so as Asian people and Asian companies take greater control of industry's destiny.

## Close attention to Asian films

Will they ever come to replace Hollywood as the dominant force in the sector? I do not know, but I am pretty sure that more and more consideration within Hollywood is going to be given to Asian issues. "Hollywood" is probably wrongly demonised as an American institution. It is probably better considered as an opportunistic, capitalist force dealing in cultural goods. Already Hollywood studios are learning that box office in the international sector which they call "foreign" can outstrip its domestic market and its domestic revenues. And I can assure you that Hollywood pays attention to money. It is not illogical to think that the Asian film market alone will be bigger than the US market. Perhaps that is utopianist on my part. We will see.

I got back from the American film market in Los Angeles last night. I am very pleased to report from there that the most interesting activity at this market, where rights are brought on the territorial basis, was all concerns Asian films and Asian companies. Of my colleagues at Variety I was kept much the busiest.

I will give you a few examples. The new film called "*The Banquet*" by Feng Xiaogang was sold to a Japanese distributor for US\$5 million this week. That is pretty impressive for a film that is still in production and it is even more impressive in that this film is not a martial arts action film which has been the staple of Chinese exports in the last couple of years.

Another example was a very strong series of Korean films to Japanese distribution companies. These were also done at prices that guarantee that the films will be profitable for the producer even if the picture is a flop with audiences. Still another interesting deal last week was the sale of Hong Kong's "*SPL*" and "*Infernal Affairs* & ", to the Weinstein Company, that is an American distributor run by the two brothers who used to head a company you probably all know, Miramax.

Sounds pretty healthy right? But are these big ticket exports to Japan and occasional sales to the US the way to build a sustainable Asian film industry? Especially if the audience reactions to the film do not meet the fancy prices paid by distributors.

### Politicians can not leave it alone

This afternoon's presentations and discussions will ask a number of questions about the shape and the direction of the Asian film industry or industries, plural. We are going to ask about the continually shifting frontier between art and commerce. Film is an art form but it is simply too expensive to be immune from the issues of profitability and returns on investment. It is too powerful as a medium, on the other hand, because it seizes our imagination like no other medium for politicians to ever leave it completely alone.

Even if this afternoon we are able to agree among ourselves where we want to take the Asian film industry, we then have to take a look at the issue of how we make the progress towards those goals. Is it government initiatives that are going to make this work or is it going to be a private sector responsibility? This afternoon, we are going to take a particular look at China and its rapidly evolving industry. Is government policy in China as negative as it is portrayed in the US? What

Film is an art form but it is simply too expensive to be immune from the issues of profitability and returns on investment.



difference does the latest incarnation of CEPA make? And will the Chinese industry actually need Hong Kong in five or ten years?

We are going to take a look at companies that are in a position to champion intra-Asian filmmaking and distribution. It is already the case that one of the big seven Hollywood studios is in the hands of a Japanese-domiciled multinational. But what will it take for a firm to become world player like Sony through the production and distribution of Asian cultures and Asian films?

Do not look at me, I do not have all the answers. But we have today assembled a very distinguished group of speakers to think about it.

(After the moderator introduced the four speakers, the session was kicked off.)





# How to Develop the Asian Films?

As filmmakers, hoping for sort of a new way to put Asia together is not just out of a vision or anything but it is out of a necessity. But does the Pan-Asian film really exist? Will we have a Pan-Asian studio in the future? It is not an easy job.

Peter CHAN Ho-Sun

Film Director, Producer; Chairman of Applause Pictures

MR PATRICK FRATER:

First is Chan, film director, film producer and currently flying the Hong Kong flag in the Oscar race with his film "*Perhaps Love*". Peter is also one of the pioneers of co-production and five years ago launched a company called Applause Pictures which ambitiously sets out to change the way the industry works. He is one of the most clearheaded and articulate film philosophers I know.

Mr PETER CHAN HO-SUN:

Let me start with the fact that, being a Hong Kong filmmaker, the reason we are pioneers of the Asian film collaboration is because we indeed are the first, if not the territory or country or city, whatever you would call it in terms of where we are, in terms of the film industry, we are actually the industry that desperately needs the international collaboration because we simply have too few people, population wise, to actually sustain a reasonable business model for an industry. Even if every single Hong Kong person goes to see a movie, it is not enough to sustain a big budget film.

## 1960s: Asian Film Festival

So basically this has been going on for the last 30, 40 years. There are actually a few ways of Asian co-production, starting with the late 1950s, early 1960s, with companies that make the initiatives from Japan, Towa Tei and Cathay Studio in Hong Kong and later the Shaw Studio - there is a lot of collaboration between Japan and Hong Kong and that also leads to further collaboration with the cane Koreans. I remember when I was a kid we used to see Korean tearjerkers that were actually quite popular in Hong Kong in the 1970s.

Although few, those were very good examples of how Asians do go to each other's movies. Back then the giant was always Japan, with film masters and also with a very healthy domestic market.

For any Asian films to be exported out of their countries, it seems like the first and foremost, and most important thing to do is they have got to attract their own people. I have not seen any example of films or company that could actually sustain, business-wise in the long run, in an international market without satisfying the needs of their own people. So I think it is very important that as you are going international, as you are going on whatever collaboration you want with your fellow or country filmmakers you have to be very strong domestically.

Those were the things that happened back in the 1960s with the collaboration of Japan and Hong Kong filmmakers which resulted in the Asian Film Festival back then, and has become the Pan-Asian Film Festival now, it is probably desperately in need of a revival or a redefinition of where it is at in the Asian film industry today. But that was something that was from 30-35 years ago.

After that collaboration which sort of slowly died down, eventually in the 1960s or even the very early 1970s, with Shaw studio hiring directors from Japan to make Hong Kong musical. I am not very sure of the local Japanese distribution possibilities for some of those movies but they definitely were very successful movies in Hong Kong because back then, Japan was sort of like the trend setting or the leader in terms of commercial, film and pop art in Asia. So that sort of works for the greater Chinese market.



### 1980s: kung fu genre

Then the collaboration starts to die down in the 1970s. And then with the build-up of the Hong Kong kung fu sort of genre, first with Bruce Lee and then eventually with Jackie Chan, back in the days with seasonal film with Yuen Wo-Ping, before Jackie joined Golden Harvest, and all the way into the 1980s where basically there is a revival in Hong Kong film based on

You are going international, as you are going on whatever collaboration you want with your fellow or country filmmakers, you have to be very strong domestically.



the fact that we know what we are really good at. We finally found our own groove in the 1970s and 1980s with action film and then it sort of slowly diverged into different genres with what we called the new wave back then, in the late 1970s, merging with the old school. And there are companies like Cinema City, Golden Harvest, BoHo which is a subsidiary of Golden Harvest with Sammo Hung and Jackie Chan's company, and eventually D&B Films.

So in the 1980s, Hong Kong did produce a lot of very interesting movies and then eventually we brought it into James Bond comedies, gangster genre, whatever, and sort of gave Hong Kong film a revival in the 1980s.

Of course we all know that trend actually started with the fact that we had a very strategically important position in a way where we were actually making Chinese language entertainment for Chinese all over the world. That was not really intended for the Asian market or even for the international market. It was really intended for Chinese and overseas Chinese in Southeast Asia, Taiwan, Hong Kong and then probably, you know, Chinatowns all over the western hemisphere.

Then eventually, because some of these films were well made and it did make its way out of Chinatowns of Thailand, Malaysia, and it became films that even local Thais, the Malays would enjoy and eventually it also made its way back to Japan and Korea.

## The successful model of the Fifth Generation Directors

Ask: Today in China there is a director's group called the Fifth and Sixth Generation Directors. They have produced a lot of good films just like Mr Zhang Yuan and Mr Lu Chuan, his "*Kekexili*" is quite popular now. The films they produce are very popular, not only in Asia but also are quite popular in western countries as well. What do you think about their achievements and whether you think their popularity reflects some of the trends of the film industry in China, to a certain extent in Asia as well.

MR PETER CHAN HO-SUN: "*Kekexili*" is quite successful on the art house circuit all over the world. It is a little bit different from most of the movies that we are talking about today. The topic today is about how China goes commercial and global, like Tsui Hark's movie or "*Initial D*" or Chen Kaige. I think what Zhang Yuan and Lu Chuan are doing is still a model that has been successful in China from the 1980s, with the Fifth Generation. As we see, most of the Fifth Generation has actually turned commercial, has actually turned into a different market as a whole. Commercial might not be the right word because to some people it is not kosher. But I think it is still two very different ways of how the industry operates in China.

### Early 1990s: the leading role of the Hong Kong films in Asia

So by the late 1980s and early 1990s, I would say that actually Hong Kong film was the Asian film back then. It was not co-production, it probably had no talent from all across Asia but you can look at it in two ways: you can look at it as a creative collaboration between different Asian cultures and different Asian filmmakers in the industry; but more importantly, it has always been to me a collaboration, of different markets by trying to break through the market barrier, the culture barriers and the language barriers so we would have enough population to sustain a healthy industry.

As you know, the population in Asia and the culture is very diversified and each country probably has maximum 30 to 40 million people: Thailand, 60 million; Korea, 40 million; Taiwan, 20 million; Hong Kong, 6 million; Singapore, 3 million; and Japan, over 100 million. If you add all these places together, if we can, probably not as a long run, but for any single film, if you add all these countries together, you would actually have a very sizeable market that actually has a competitive edge with our Hollywood counterpart which is really dominating the whole world in its entertainment and other consumer products simply because they have the biggest population, and the population with buying power, which could actually dictate what the rest of the world probably will consume. Especially in the film world because their film has the biggest buying power population and their film could afford to cost more and in that respect, they would make better quality entertainment, whether it be special effects or big disaster films, King Kong, whatever you call it, but these films could actually become world culture in a way, which today Hollywood film is indeed dictating what the whole world is watching.

### Late 1990s: the rising of Thai and Korean films

The second wave of the collaboration, or not exactly collaboration, of what I call Malaysian film with the emergence of Hong Kong film as being one of the top producers in the 1980s and early 1990s in Asia, sort of slowly wanes down toward the mid and the late 1990s. That is with various reasons; internal problem with Hong Kong, a lack of a vision in terms of building a long-term industry and a lot of local film investors, the old studios, Golden Harvest, stopped production and distribution and Cinema City and their investors, Golden Princess, pulling out of both exhibition and production.

So there actually is a lack of vision in terms of the long-term development of the Hong Kong film industry. And also, with the emergence of some new industries

It recruited actors from different countries and reached to the markets in whole Asia. It had elements from everywhere, so everyone treated it as if it was their own baby.



and new and interesting movies out of Korea and out of Thailand and also out of other places where everywhere is trying to have their own industry and the fact that the second generation of Chinese in a lot of these local territories – I mean a lot of these different countries are not so desperately in need of Chinese language entertainment because they all learned the local language or they are watching Hollywood film; all this attributed to the reasons why the Hong Kong film was winding down by the mid to late 1990s.

### Since 2000: try to unite the markets in different regions

When I came back to start Applause Pictures in the year 2000, I was hoping for sort of a new way to put Asia together because we do need it as Hong Kong film-makers. It is not just out of a vision or anything but it is out of a necessity. Like what I said, the Hong Kong filmmaker would be the first to be desperately in need of an Asian collaboration because we simply do not have enough of the market.

I approach it on both levels. I approach it on the level of co-production and also in the level of hopefully putting the markets together, talking to different distributors to see if we can work together.

We started with – again, the philosophy behind it or the necessity behind it stems from what – I was doing the addition a while ago of the different populations in Asia. If you could put all these people together, you could easily have a 250 to 300 million population. Of course we all know when you are watching film in different languages you do not necessarily draw the mainstream crowd of all these places but what we were trying to do is to start on different levels in attracting mainstream crowd.

The first thing we did was we invested in a few local movies. We invested in a Korean film "*One Fine Spring Day*" by the director of "*Christmas in August*", Hur Jin-ho. It was just something we were trying to learn, how to work with the Koreans and without a lot of involvement on our part and producing the movie. Then we worked with Huang Jianxin on a film called "*Marriage Certificate*".

Eventually we were more hands on, called Jan Dara with Nonzee Nimibutr and we put a Hong Kong actress in it, Christy Chung. That was certainly was a very Thai film that became Pan-Asian simply because of the stars that were put together and also the marketing that we actually were trying to contribute in terms of in different regions and different parts of Asia, trying to sell it both as a Thai film and it does have a Chinese twist or touch with the actress that actually could draw an audience.

## Self-sustained market in Bollywood

Ask: Why has no one mentioned Bollywood yet? Is India not part of Asia and should we not be including it? But where are the limits of Asia?

MR PETER CHAN HO-SUN: That is a tough question. We have to be very realistic of certain cultural similarities with east Asian, which is when I started Applause Pictures, the countries that I included in the preliminary stage were China, Japan, Korea, Singapore, possibly Malaysia - I think there are certain similarities between all of us but I did not go further. I looked at Filipino films but I was not even sure we could go any further than that because it is still in terms of a market place situation. Like I said earlier, the question of the day is whether co-production is an exchange of talent and exchange of culture because we can do that in a cultural centre.

When you are doing it in the movie theatres, you need the support of the movie ticket-buying public and there are certainly not enough exchanges in the past few decades between India and the rest of east Asia. India itself is a very self-sustained market.

## The influence of the film language

Ask: The Japanese, Koreans, and Chinese may have certain similarities. But they are not linguistic similarities. How much does language matter?

MR PETER CHAN HO-SUN: Language really does matter. For example, I was talking about "The Eye" earlier in Thailand. The film was dubbed in Thai, but like all films, all films are dubbed in Thai, in Thailand, so that is almost something they take for granted, that even foreigners can speak Thai on the big screen.

But not in Korea, you do not dub films in Korea and you do not dub films - but the thing is that in Korea and Japan and Hong Kong, I think all of our audience are used to seeing each other speaking their own language. Koreans have watched Hong Kong films in the 1980s and the 1990s speaking Mandarin, and we have watched Korean films certainly speaking in Korean in the last five or six years, and almost Japanese films, even from way back in the 1950s and 1960s.

It is not what we invented, it is not our generation. Like I said earlier, this is all stuff that your forefathers have done in the 1950s and 1960s.

These are all the first steps which we knew were not real collaboration or real co-production. Then we went on to make a movie called "Three" which was a collaboration between three filmmakers from three different countries. The first movie was done with a Hong Kong, a Korean and a Thai part and the second movie was done with a Korean, a Japanese and a Hong Kong part.

## Changes in the market of Japanese films

Ask: It reminds me of a major missing figure here in Asian co-production, which is Japan. What position do you think will Japan stand in the future of Asian co-production?

MR PETER CHAN HO-SUN: At all times, the market in Japan is very Hollywood-centric. Other than Hollywood films, nothing works in Japan. Not only Japanese films but also Hong Kong films. But that has changed in the last two or three years. For example, Pai An Jin's new movie, the Korean trendy drama and *"My Sassy Girl"* did over US\$25 million in Japan - \$20 million. We have to understand that Stephen Chow's movie *"Shaolin Soccer"* and then eventually *"Kung Fu"*, probably surpassed any Hong Kong film in the history of Japanese distribution, other than again, Jackie Chan, which is something that never happened. Besides, films like John Woo's *"Better Tomorrow"* was a huge hit there.

So I think it is an indication from the Japanese audience that they are more and more tired of Hollywood films, and I think the reason why Asia is coming together and a lot of things we are discussing today are really the fact that Hollywood films have become worse and worse in the last ten years. If Hollywood films kept up and could be as good as they were 15 or 20 years ago, I still think we would have a much harder time.

## The fusion of Asian culture

Ask: How can the Asian cultural co-operation actually enhance the integrity and the authenticity of the culture of each country and the diversity of it, rather than just mix things together?

MR PETER CHAN HO-SUN: I think the Asian thing coming together is not necessarily a fusion of things that are so diversified and then trying to put into one pot. Like I said, it is really market driven in terms of putting together. I think fusions are good, especially in the world today, because the thing is the reason that Koreans and Chinese and Japanese can communicate more now than ever before is because we are all westernised. Basically we use - sometimes we use English in the medium, we all drink Coke and eat McDonald's and stuff like that. We are all westernised. If you look at a present-day Korean drama, not period ones, could you really tell? You go down the streets in Beijing and some of the fashion areas are exactly like Chung Dam Dong in Seoul.

It is not really that different between Korea, Japan and China. I think there are ways to actually put actors in a way which Koreans and northern Chinese look very, very similar. Northern Chinese and Koreans look more similar than southern Chinese and northern Chinese. So I really think the language barrier could be overcome. Jang Dong-gun speaks every line in *"The Promise"* in Chinese. He dubbed it and worked really hard, and I do not think he will be perceived as a Korean in the movie. If you are trying to put the markets together, there are ways and things you could do that could be fusion.

So it is an omnibus film which is actually a curse for film sellers because it is always difficult to keep the quality of the three the same and people, when they buy into a movie, are always attracted to one part of the three and they get stuck with the two parts. But that is precisely the idea of working behind these collaborations. Because we know that for each foreign market or each of these local countries, the tendency is more and more that we would really love to watch their own film. The tide has changed from the 1980s to the late 1990s to the early 2000s that when I went to Thailand and Korea, all my producers and distributor friends keep telling me that if I can convince my audience that the film is Thai or Korean, I could put it on more screens, which means more people will see it. It is not about how good the movie is but if it is in a foreign language, if it is a movie that is perceived as Chinese or Hong Kong, it is almost like something from the 1980s, which are the old days.

As sad as it sounds to Hong Kong filmmakers, we need to find a way out of it so we will do all we can to make that collaboration work.

So it is really a scheme. I would not say, but the thing we did was we tried to hope that the Korean part with the Korean director and the Korean local movie star would actually attract more than the foreign language film audience, but the mainstream film audience to come into the movie in Korea, and they will get stuck with the Thai part and the Hong Kong part, which could re-introduce the new generation of Hong Kong or Thai filmmakers into the Korean market. The same will happen in Thailand and the same will happen in Hong Kong because no matter how good Korean films are doing in Hong Kong, it is still limited to a very small group of audience as opposed to a local Chinese language Hong Kong film. So we are using local stars, local directors. The plan was to use big-name directors so they could attract the stars and the local stars could attract the audience.

We did all right with both sequels and we went on to do our third and probably one of the more sort of merging or ambitious attempts to do a film which we were selling as local films almost everywhere we went, and the film was "*The Eye*". There is a reason that "*The Eye*" was a horror film because horror films do translate easier into different cultures and it is easier to attract the audience into a foreign language film when it is horror and we have examples before that to prove it, whether it be it from Korea, or from Japan. But "*The Eye*" became an instant hit all over Asia. In Thailand, just to give an example, a Hong Kong film usually gets exhibited in about 15 to 20 screens, the max probably 25 to 30 screens. But "*The*

There must be an assembly line in the movie industry or a studio. But for Pan Asian films, not a single film could be coming out of it.

*Eye*" was released on 150 screens. And it did 80 million in Bangkok and 80 million Thai baht in Bangkok is the third highest grossing film of the year and the first two were both Thai films. We were on the third and we sold the film as Thai films because there were the Thai elements, which we had Thai actors in it.

We also had Oxide and Danny Pang who were considered Thai directors in Thailand even though they are really from Hong Kong originally, they worked in Thailand. That is just to show you how different ways of distributing movies actually could impact on the local reception of the film. It became the highest grossing Hong Kong film in Thailand ever, even surpassing the 1980s, when Hong Kong film reigned in Thailand in 1980s. So that was a real boost of morale for us.

Some of the places we could use the sort of the message that it is a local film in a way because the film had elements from all over. The leading actress is a Taiwanese pop star from Malaysia, and we have Singaporean actors and the Singaporean company, Raintree, that worked on the distribution and co-financing of the film. So it had elements from everywhere, so everyone treated to it as if it was their own baby, and it is that TLC in distribution that really helped the film break through. But of course, we had to do it with a horror film. We probably would not be able to do it with a love story or with the kind of film that is not action or martial arts or horror.

### The future: break the barriers of conservative ideas

The Pan-Asian film is what we talk about. But to be honest, it is very difficult for a true Pan-Asian film to recruit the whole actors and staff to collaborate for a long run.

For example, I see an question of whether there will be a Pan-Asian studio. I think it will be very difficult because the population I was talking about, the 250 million or 300 million population that we can put together – and not including China – it is very hard to put this population together for 30,40, 50, 60 popular films a year.

You could probably have a couple, maybe four or five films of Pan-Asian hits that you could produce in a year, but that is not enough to sustain an industry. I do not believe there will be a Pan-Asian industry but I believe people should try to break out of the box, break out of the conservative conventions that they believe that only local language would work because it is proven over and over again that there are break-out hits if you try to think out of the box, and of course, it is very

difficult because when having an industry or a studio, you have to be able to have a assembly line and for Pan-Asian films, not a single film could be coming out of the assembly line because you have to be very creative in each project to try to make it work for all the different audiences.

It is a very difficult thing and we, being from Hong Kong, we're used to that because we have always been trying to balance our own tastes as filmmakers to the needs of foreign buyers all over the world.





# How Will CEPA Gain Its Profits?

Hong Kong signed the document “The Mainland and Hong Kong Closer Economic Partnership Agreement” with the Mainland. The main aim is to facilitate development of economic links by reducing or eliminating tariffs and non-tariff barriers and in terms of trade, to eliminate discriminatory measures and to promote trade and facilitate investments.

Charmaine KOO

Partner & Head of Commercial IP and Entertainment, Deacons

MR PATRICK FRATER:

Charmaine Koo is one of this territory's leading lawyers specialising on movie industry matters. When I hear talks that say the film industry is dead or dying, it is worth taking a look at Charmaine's client list, clever companies making interesting films and striking interesting alliances. And maybe, I think, sometimes that Hong Kong suffers from bad publicity more than bad filmmaking. Charmaine will today speak on one of her many specialist subjects, CEPA.

MS CHARMMAINE KOO:

Good afternoon, ladies and gentlemen. Today I am going to speak to you about CEPA and its impact on Hong Kong's film industry and how countries outside Hong Kong and China may be able to take advantage of it. So today, I will give you a free seminar about what CEPA is about, how to proceed under the provisions of CEPA to take advantage of it, the pros and cons, and how foreign countries can take advantage of the provisions.

So first of all is the purpose of CEPA. As you know, CEPA is "the mainland and Hong Kong Closer Economic Partnership Agreement". It is a document signed between Hong Kong and mainland China to promote the economic prosperity and development of both sides of the border. The main aim is to facilitate development of economic links by reducing or eliminating tariffs and non-tariff barriers and in terms of trade, to eliminate discriminatory measures and to promote trade and facilitate investments.

Actually, this came about because mainland China is under WTO obligations anyway to liberalise a lot of its trade barriers and service industry, but this agreement gives Hong Kong a head start so that prior to the mainland's timetable to comply

with the WTO, Hong Kong will be able to take advantage of some of these reduction or elimination in barriers.

There are three phases of CEPA. CEPA I was actually signed on 29th June 2003 and became effective on 1st January 2004 and subsequent to that, in the first next year, we signed CEPA II on the 27th October 2004 and that became effective on 1st January 2005. Just last month, we signed CEPA III, which will come into force on 1st January 2006. Basically, this is an ongoing process and each stage of CEPA basically continues or furthers the relaxation that the previous CEPA gave to Hong Kong. One important thing to note is that the CEPA benefits are applicable to something called a "Hong Kong service supplier".

### Open up in three phases

So what benefits does CEPA provide to the film industry in Hong Kong? What impact does it have on many different areas of services in Hong Kong?

First of all, in the video, sound recording and product distribution category, CEPA states that a Hong Kong service supplier may provide video and sound recording distribution services in the mainland in the form of a joint venture. More importantly, the Hong Kong company can have a majority shareholding of not exceeding 70 %. This is important because prior to CEPA, it was not that easy to get into China, particularly if you wanted to hold a majority shareholding in a company or to wholly own a company. Wholly owned companies were only allowed in very specific industries and certain ones such as the media, film industry, which were quite sensitive to the mainland authorities which were often quite restrictive. So CEPA I actually allows Hong Kong to have a majority shareholding in a distribution company for videos and sound recording products. In terms of cinema and theatre services, CEPA I states that the Hong Kong service supplier can construct, renovate and operate cinemas on an equity joint venture or a contractual joint venture basis. So you still have to partner with a mainland company, but here, it allows the Hong Kong company to have a majority shareholding of not more than 75 %. Again, this is an improvement to the existing arrangement.

CEPA II actually improved a little bit by stating that Hong Kong service supplier may now construct or renovate one cinema on a wholly owned basis. So now you do not have to partner with a mainland company. However do note that this is only for renovation and construction, it is not for operating a cinema. So in terms of operation, you still have to do it as a joint venture with a mainland company.

In the first phase, the Hong Kong company must own more than 75 % of the copyright in the film. Till the third phase that requirement is reduced to 50 % ownership.

CEPA III again improved on that slightly by stating that you can now - a Hong Kong service supplier can now establish a wholly owned company in the mainland to construct or renovate, but more than one cinema and more than one location. Again, this is not for operation, it is only for construction and renovation.

More importantly, in terms of Chinese language motion pictures and jointly-produced motion pictures, CEPA has also implemented some relaxation of the barriers. In CEPA I, it is stated that Chinese language pictures produced in Hong Kong may now be imported for distribution on the mainland on a quota-free basis. This is very important because previously, Hong Kong films are considered as non-mainland films, they are considered as foreign films, so they are subject to the yearly quota of 20 films only.

So as you can imagine, Hong Kong films would be competing with all the big Hollywood blockbusters to try to get into China and that was quite a big barrier for Hong Kong films. So under CEPA I, Hong Kong films now do not have to fall under that quota system anymore. It can be imported on a quota-free basis.

### Limits in the collaboration of filmmaking

However, there is a proviso because it has to be vetted and approved by the relevant mainland authorities. I will elaborate a little bit more on that later, but we should know that this does not mean that every single Hong Kong Chinese language film can go into China automatically. It would still be subject to approval by the relevant mainland authorities.

CEPA II then went on to state that pictures co-produced by Hong Kong and the mainland may be processed outside the mainland after obtaining approval. There are a lot of Hong Kong films made as co-productions with mainland Chinese companies. That is a separate scheme which has been in existence for a very long time and it does not apply just to Hong Kong companies, this applies to all foreign studios or foreign companies which are interested in making a film in China.

You can make a film in China either as an assisted co-production or an official co-production, and there are certain restrictions as to what you have to comply with and one of the things is that the pictures produced must be produced within China. According to the industry people, we know that if you obtain approvals from the relevant authorities, some of the pictures can be processed out of China. CEPA now makes it absolutely clear this can be done under the admission.

In respect of the relaxation I just spoke about, they actually apply to pictures that are made by production companies set up in Hong Kong. But there are restrictions as well because the Hong Kong production companies must own more than 75 % of the copyright. As you know, this CEPA arrangement is here to benefit Hong Kong companies, so that is why there is this restriction here that the Hong Kong companies must own more than 75% of the copyright. So you cannot have a foreign studio coming to Hong Kong, hiring a Hong Kong production company to make the movie, but continuing to own 100% of the copyright in the film and then trying to utilise the CEPA provisions to access the China market because here, it is stipulated that the Hong Kong company must own more than 75% of the copyright in the film. Further, the principal personnel involved in the production of the film – 50% of the personnel must be Hong Kong residents, so Hong Kong people must be involved in the production of this film.

CEPA III, which was just signed a month ago, reduced that requirement to 50% ownership. So to qualify, as long as the Hong Kong company owns more than 50% of the copyright in the film, that would fall within the CEPA requirements. We talked about the requirement that the personnel must be 50 % Hong Kong residents, so there are certain definitions as to what "principal personnel" means, "creative personnel" means and "leading artist" means, but more importantly, we can see that for ownership -we noted just now that a Hong Kong company must own, under CEPA I, 75 % or under CEPA III, over 50 % of the ownership. But the interpretation by the government states that "ownership" actually means contribution to the budget of over 50%. So you cannot try to get around it by just signing an agreement stating that the Hong Kong company will own more than 50 % of the copyright when the Hong Kong company does not actually contribute to the budget in the same amount.

### New measures of relaxation in film

There is further relaxation under CEPA for Chinese language motion pictures. Under CEPA I, it is stated that pictures jointly produced by Hong Kong and mainland will be treated as mainland films for distribution. I believe that under the existing scheme for co-production, that is the case anyway. So if you jointly produced a film with a mainland Chinese company as an official co-production, it would automatically be treated as a mainland film for distribution anyway.

But CEPA went further on to say that translated versions in other Chinese dialects would be allowed as well because normally it would only be the Mandarin version

The qualified Hong Kong service supplier is a legal entity duly constituted under Hong Kong law, such corporation, a trust, a partnership, a joint venture or sole proprietor all included.

of the film and that would be allowed to be distributed in China. Now they have relaxed it a bit to say that other dialects would also be allowed. This is, I understand, useful because obviously China is a very big country. Even though most of the provinces do speak Mandarin, a lot of the audience in the various provinces would find it much more comfortable if the films were actually shown in their own dialect. So this would actually hopefully increase the appeal of the movies if they can be shown in the local dialects.

CEPA II went on to say that the Hong Kong service supplier can establish wholly owned companies in the mainland to distribute mainland produced pictures after approval. Previously, Hong Kong companies were not allowed to set up wholly owned distribution companies in China, but now this is allowed, but again, it is after approval. Approval is subject to mainland authorities, rules and regulations which are enforced at that point in time, so it is a bit difficult to say now what those requirements may be.

CEPA III then went on to relax a little bit in respect of Cantonese versions of co-produced films. Now it says that Cantonese versions of films co-produced by Hong Kong and mainland are allowed to be distributed and screened in Guangdong province after approval. So again, this will hopefully increase the appeal of these co-produced films because obviously, people in Guangdong province would probably prefer to watch films in Cantonese.

One of the improvements under CEPA is that now, pictures jointly produced do not have a restriction on the percentage of principal creative personnel anymore. Under the normal co-production requirements in China, at least one-third of the principal creative personnel must be mainland Chinese residents, but now there is no such restriction anymore. The only restriction is that one-third of the leading artists must still be from the mainland, but this is much more relaxed compared to the previous requirements. There is also no restriction on where the story takes place. So the story does not have to take place in China anymore. Part of the movie can be shot outside of China. However, the plot must still relates to China.

### Regulations in other fields

We are moving on to other services then.

For technical services of Cable TV, CEPA III now states that the Hong Kong service provider may provide technical services for Cable TV network of Guangdong after

approval. So previously, only licensed mainland operators may provide such technical services.

Moving on to TV dramas, TV dramas which are co-produced by Hong Kong and mainland are now permitted to be broadcasted and distributed in the same way as mainland TV dramas after examination. Previously, Hong Kong produced TV dramas could not be shown during prime time, which is between 7 pm and 10 pm, so this provision actually relaxes that requirement so that co-produced TV dramas may now be shown during prime time.

There are requirements with respect to how much percentage of the creative personnel must be from the mainland. As we can see, one-third of the creative personnel must be from the mainland and over 51 % of the share of the production company must be owned by a mainland enterprise. CEPA III, which was just signed, then further reduced the restriction by saying there is now no limit as to the number of episodes for TV dramas co-produced by Hong Kong and mainland companies. Again, previously, there was a limitation that if it is a co-produced TV drama by Hong Kong and mainland companies, it cannot be more than 30 episodes, so it is small changes and small relaxations to the previous requirements.

Now moving on to talk a little bit about who will qualify as a Hong Kong service supplier. Basically, a Hong Kong service supplier is any legal entity which is duly constituted under Hong Kong law, so any companies which are registered under Hong Kong law, whether it is a corporation, a trust, a partnership, a joint venture or sole proprietor would qualify. If you are registered in Hong Kong properly as one of these types of companies, you will be qualified. You must have engaged in substantive business in Hong Kong, so you cannot be just a shell company. You cannot be just a representative company of a foreign studio which does not actually conduct any business in Hong Kong. You have to have substantive business in Hong Kong. Moreover, the nature and scope of your business must encompass the scope of business that it intends to provide in the mainland. What this means is that if you are a distribution company in Hong Kong, you cannot then go to China under CEPA to engage in construction of a cinema because your business in Hong Kong does not include the construction of cinemas in Hong Kong.

Further, your company must have been incorporated and have engaged in substantive business in Hong Kong for over three years. So a foreign company cannot just come to Hong Kong and set up a company and then take advantage of the

CEPA provisions to enter into China. You have to have been in substantive business in Hong Kong for over three years. You must have paid profits tax, so if you have been avoiding paying tax, you would not be able to qualify under CEPA. You must own and rent premises in Hong Kong, and further, you must have 50 % of your staff as residents in Hong Kong without limitation of stay.

Also, if you are not a company and if you are just a person, then a permanent resident of Hong Kong will also qualify as a Hong Kong service supplier.

### Application for permission

So what are the procedures to qualify under CEPA? First, you have to apply to the Hong Kong Trade and Industry Department for a certificate to prove that you are in fact a Hong Kong service supplier. They will ask you for all the relevant documents to prove the points I mentioned just now, for example, your business incorporation certificate, your tax returns, your rental agreement or, you know, your ownership of premises and other information that is necessary to prove that you comply with all the requirements I just spoke about. All these documents must be attested to by a China-appointed attesting officer and there are lots of these attesting officers in Hong Kong. They generally work in law firms so we have been doing a lot of business on this basis.

You also have to swear a statutory declaration to swear that you comply with the requirements. I have been speaking to some industry people and sometimes they say, "It is easy enough to get around it. We can make all these side agreements about ownership or whatever", but you have to be careful because they actually make you swear a document to say you actually comply with the requirements. If you have signed additional agreements or made additional arrangements with knowing that you end up not complying with the requirements, then you might be breaching the rules.

After you have got the certificate from the Trade and Industry Department, you will have to apply to the mainland authorities to obtain treatment on the CEPA. So the Hong Kong department will examine and issue a certificate and then you have to go to China, the relevant authorities in China to apply for their treatment. Then after all that, you still have to obtain all the usual licences and permissions from the mainland authority. So depending on which industry or which services you are engaged in, there are already existing permits and licences that you need to get from China, so you are not exempt from that.

Is CEPA only for the benefit of Hong Kong companies? Can foreign companies take advantage of it? Well, there is actually no requirement that a Hong Kong service supplier must be owned or controlled by Hong Kong residents. So a Hong Kong company can actually be owned by foreign parties. It could consist of majority foreign directors or shareholders. That is not a problem. So definitely, foreign companies can take advantage of CEPA as long as they establish a company in Hong Kong which conducts substantive business for over three years.

### Loophole in the provision

However, I think the Government realises that there may be a little bit of a loophole here because a lot of foreign companies can then come and acquire an existing Hong Kong company, which might qualify under CEPA, to take advantage of the provisions. So the government has now issued re-interpretations to say that if a Hong Kong company is acquired by a foreign entity after CEPA has come into force, and they acquire over 50 %, then that company will have to wait one year before it will be considered a Hong Kong service supplier. So this is to avoid people trying to cut corners by just coming in to acquire a Hong Kong company in order to take advantage of the benefits.

But there are still little bits of what I call "loopholes" because, for example, if you acquire majority holdings in the holding company but not the actual company that is applying for qualification, that would not be in breach of this provision, so you would not have to wait the one year, or obviously, if you obtain less than 50 %, if you purchase 49 % of the shareholding, then again, you will not have to fulfil this requirement.

Obviously, foreign companies can also benefit from CEPA by investing in Hong Kong firms, but obviously, over 50 % of the ownership must still be owned by the Hong Kong service company.

### Relaxation still lag behind the wishes

So CEPA looks quite good, but obviously, there are still a lot of considerations that may not make it as open or as the Hong Kong company's dream might wish. For example, distribution of videos in the mainland still requires partnership with a mainland publishing company because if you want to distribute videos or audio/visual products, in China, it is considered publishing, like publishing a book. So you need to have this number which only certain mainland publishing companies have, so you have to partner with a mainland publishing company in order to

CEPA is an ongoing document, as we see every year, there has been improvement, and my understanding is that the Government is constantly in talks with the industry and with the Chinese Government to try to see if further relaxation can be made.





distribute. So despite CEPA says you can have a wholly owned distribution company in the mainland, you would still need to partner with a mainland publishing company.

Another area where a lot of film industry people feel that it is still quite restrictive is that the sole importer of non-mainland films is the China Film Group, so there is only one importer of non-mainland films. And Hong Kong films, despite the fact that we are not under the quota

anymore, is still considered a non-mainland film. So if you want to import Hong Kong films into China, you would still need to go through this importer, and obviously, they may or may not take your film depending on market demands or other relevant factors that they would take into account.

The next point clearly is censorship still applies. It does not mean that just because you are a Hong Kong film, just because your film passes the Hong Kong censor, it will automatically be allowed to be shown in China. As we all know, mainland censorship is quite strict. They do not have a rating system at the moment, so all films shown in the mainland must be suitable for all audiences, so that is quite a restriction in terms of what films may be shown in China.

In terms of TV programmes, we talked about removing the restrictions on prime time and on the number of episodes, however, obviously, your TV programme must still be attractive to the mainland TV station and it is still subject to their discretion, as to whether or not they want to put your TV programme on during prime time.

Obviously another point of concern for a lot of Hong Kong filmmakers is whether or not we can share profits when we distribute our films in China. This is obviously still based on commercial agreements with the mainland distributor, so it is not something you automatically have a right to.

Finally, I'll show you some statistics. So far, by the end of the year 2004, 468 companies in 18 service sectors have obtained Hong Kong service supply certificates

and 20% have set up operations in China, however, that is including all service areas. So in terms of the audio/visual sector, which is what is of interest to us here, only 6 companies have applied for Hong Kong service supply certificates and only 20 %, which means two companies have actually set up operations in the mainland based on the CEPA provision – and as we understand, it is Media Asia and Golden Harvest, and both of them are set up as joint venture operations in China.

So it would seem that, at the moment, despite the encouraging signs of CEPA, in practice, not a lot of companies have been able to take advantage of the provisions. However, CEPA is an ongoing document, as we see every year, there has been improvement, and my understanding is that the Government is constantly in talks with the industry and with the Chinese Government to try to see if further relaxation can be made. So hopefully, we may see more improvements in this area. Thank you.



# What's the Difference in the Oriental Culture?

I wanted to make an Asian film, like "*Crouching Tiger, Hidden Dragon*" I had a big dream but also a few problems. The first was the cultural difference even the food is one. From Hong Kong, Mainland and Korea, people collaborate as a team but they eat separately every time.

Jonathan KIM

Chairman, Korean Film Producer's Association; President, Hanmac Films

MR PATRICK FRATER:

Jonathan Kim, like Peter, Jonathan is another multi-tasker who could appear before you today wearing any number of hats. Alone as a representative of the Korean industry he will be worth listening to. For the Korean film industry, he is blazing a trail in terms of quality, in terms of creativity, box office success and sheer determination that others would do well to watch. He is the producer of "*Silmi Island*", or "*Silmido*", which last year became the second most watched Korean film of all time and although he is head of the Korean Film Producers Association, I am pleased to report that he is also a contrarian. He likes to take highly individual perspectives that often make him a fascinating panellist.

MR JONATHAN KIM:

My name is Jonathan Kim. I can stand here today because I had a film called "*Silmido*" three years ago which was a very, very big hit in Korea, but before that movie, I had a movie called "*Thousand Year Lake*" ("The Legend of the Evil Lake") which I shot in China for six months, spent US\$7 million on it and it was a big flop in Korea. I lost \$5 million. The investors actually put *Silmido* and "*Thousand Year Lake*" together and had very little money left afterwards, but I can still wear my pants, so that is why I am here.

I want to tell you a little bit about my experience in China, since we are talking about this co-production. Mr Chan, you said something about in the 1970s, you watched a tearjerker from Korea, right?

MR PETER CHAN HO-SUN:

Yes. It was a little Korean kid.

MR JONATHAN KIM:

I thought that was a Hong Kong movie. We can do this again. In Hong Kong, they thought it was a Korean movie, in Korea we thought it was a Hong Kong movie. Still, it worked in both places, I believe.

### Collaboration under the cultural differences

Anyway, I went to China with a Korean director and Korean actors and we used a Chinese DP and some of the Chinese crews and also we had an action director from Hong Kong, a very famous one, and also prop people and special effects people from Hong Kong. I wanted to make an Asian film, the next "*Crouching Tiger, Hidden Dragon*". I wanted it to be the next Bill Kong. I had a big dream. But everything went wrong. We had a few problems. The first problem we ran into was the cultural difference.

We may think that oriental culture is similar in a way, but it was not. Actually it starts from the food. Even I thought Hong Kong people are very similar to Chinese people, but, no, they were eating separately. We had three groups of people eating separately every time. Of course, Koreans had different food. As you know, they are very adamant about their kimchi. They have to have kimchi.

In fact, we have the same rice. I thought it was the same rice, but Korean people did not think it was the same. So we had to bring different rice from Korea to cook for Koreans and different rice for Chinese, but I could never understand why that is so. The main actor could not eat anything but Korean. I swear, the sweet and sour pork tastes exactly the same as in Korea. He would not eat it. This was when the



Asian countries have been the biggest market for American cultural product for the longest time, so Asian people need to work together , co-promote and exchange cultures.



SARS started and somebody told him that SARS was caused by food. I was away in Korea and came back in about three weeks and he had lost six kilos. He did not eat anything. So things like that.

The thing is, by the time the six months was over, we did not have groups of people eating separately. They were all eating together – Chinese and Hong Kong people eating kimchi. Anyway, besides that, they were getting used to each other. They were working, even though they spoke different languages. Also, what I felt was that although the production was a mess, every time we had a very good scene shot, everyone was hugging each other and clapping. They were all from different countries, but they all love the movie. That is what I felt.

### Hope under the frustration

Although it was a really bad experience, I actually left China with a hope. Most of the people would not go back to shoot there again, but I think \$5 million is a very, very high tuition to pay. I think I will go back some day with this experience and I

## Respect each other's culture

Ask: How does the Asian co-operation affect the content of the movie? I can see one of the secrets of the success of Korean movies and TV dramas in China is the authenticity of it. It is the integrity and respect for your own culture. So when Chinese audiences see this, they really appreciate the difference and they find a lot of inspiration. How can the Asian cultural co-operation actually enhance the integrity and the authenticity of the culture of each country and the diversity of it, rather than just mix things together?

MR JONATHAN KIM: I think one of the reasons that Korean soap operas are popular in every country is because Korea still has this "Confucius" mind, culture and maybe some of the neighbouring countries may have lost it through their different ideology or something. Maybe now they are looking at Korean dramas and Korean movies and they find, "Wow, we used to be like that", or they are saying, "They are the same as us, maybe they only speak different languages".

There is a long standing history in Korea and it is shared between Japan and Korea or between Korea, China and Hong Kong. I think history is part of us. No matter it's good or bad, I think we can always make that as part of our culture and let the history be in the past. I mentioned something about the Japanese earlier, but we are trying very hard to actually work together with the Japanese also, trying to forget what happened in the past and trying to do co-productions together. I think that is how we get together and it is better than accepting western culture and they have taught our children about western culture and our own. In all Asian countries, we should all work together to respect each other because we know - our history is old and we know other people's history is old, so we can respect each other's culture.

will probably do better next time. I will probably study each country better, study the people better and probably get together beforehand and plan things much better. That way, I think we are able to actually be more commercial in the western world. I think the reason Asian people need to work together and co-produce, co-promote and exchange cultures is because we have been the biggest market for American cultural product for the longest time, right? I think it is time they pay us a little bit of money for ours.

I think we have the potential to do that because, as you have seen from "*Crouching Tiger, Hidden Dragon*", I think most Asian people did not think that movie was that great of a deal, but the Americans went haywire with this. They had never seen people fly before, besides Superman. It is not possible to do that from government help or with subsidies. Even with the effort of the people in the industry, it has to come from the audiences.

### Competition in educating the audience

It is very important to educate your audiences. Like in Korea, 10 years ago, people talked to each other and said, "If you watch Korean films, you are stupid. It is not worthwhile." A lot of it had to do with the heavy censorship that we had. Up to 1996, we were under very severe censorship. If King Kong steps on a policeman, they have to cut it out, because policemen are not supposed to be stepped on. Of course, there were the sexual matters and all that.

Once it was ruled that censorship was unconstitutional, it became a rating system and all these ideas that were oppressed for 70 years started coming out. That is why we have all these weird movies coming out of Korea. That is because we do not have any limitation for our creativity. I think we will see this happen in China when the censorship lapses a little bit and finally goes away and becomes a rating system in China. We are going to see the same kind of phenomenon in China. I do believe that.

Korean film is now doing well in Asian countries. Like I was saying, it is not because of government, it is not because of us in the film industry working hard and the effort, it is because of our audiences. Korean people are very, very impatient. They say what they want. They are not courteous. Put it this way: if we have a scene where the actor is a little bit awkward, they will laugh right away, so we have to cut that out. We do a lot of test screening. Because we do not expect this thing to happen, unless we put a lot of people in the room and show them the

Do you ever have people come out of the theatre and ask for their money back? In Korea, it really happened.

movie to see whether they will laugh at this thing or not. Also, do you ever have people come out of the theatre and ask for their money back? That does not happen here, right? In Korea, it really happened. Three weeks ago, there was a movie called "*Open Water*" It showed in 2,700 screens in America. It did quite well. It was an independent movie. In Korea, it lasted for one day because in one of the cities, 30 people came out and asked for their money back. They said, "How can you charge \$7 for a movie with two people and one shark?" Obviously, they have not seen "*Castaway*" with one guy and a volleyball. That is the kind of audience that we have. They are very very tough.

Also, we do a lot of American-style movies. We are bull headed about our own style. When you look at Japanese movies, they have a lot of fixed shots. Their cameras do not really move very much, so Japanese movies did not really do well in Korea. People think they are very, very boring. Instead, we have to make our films very fast paced and interesting, otherwise they will come out and ask for their money back.

Educating your audiences is very, very important. I think, at the same time, educating each other in order to work together. At the Busan Film Festival, we hold a conference between the producers' associations of Japan, Korea and China. It has been two years and the first year we talked about our financing and distribution system, which we did not know anything about. This year we talked about budgets, how do we budget our movies and what percentage goes to the actors, what percentage goes to this and that.

### Make the production system more efficient

We found something very, very interesting in Korea. Our average shooting day in a week is 3.4 days. We learned that Korea is very, very director-driven. In other words, the producer does have control, but cannot really control the director. The director can go 20, 30 takes and can spend a few days for one scene. Probably it is not allowed in Hong Kong or Japan. This is the kind of thing we need to learn from Hong Kong and Japan and make the production system better. Without this kind of conference and talking to each other, we probably would never know.

I am shooting a film called "*Monopoly*" right now. I told the guys, "Okay, we are going to have at least five days a week." The director went to the hospital and he stayed there for three weeks. He just came out and we started shooting again last week. They are not used to this kind of thing. He is better, so we are doing it

again, but this is something that we need to learn. Maybe shooting slowly brings a little better quality, but probably not efficient.

We need to have more meetings, we need to meet each other more often and talk about each other's industries, so that once we meet and do things together, we can do better and not make a mistake like what I did with *"Thousand Year Lake"*. Thank you very much.





# Build up an Asian Studio?

Some Asian companies are now listed. With core business in the internet sector, they are aggressively pursuing opportunities in the content area or the building up of their own studio business.

Timothy SHEN

Acting CEO and Executive Director, Universal Holdings Limited

MR PATRICK FRATER:

Timothy Shen is possibly the least well-known character here on stage to the film industry. He has a glittering background in finance and I suspect the situation will not be the case for long in the film industry. He is going to be very well known. Timothy runs stock market listed company called Universal Holdings, that among other things made a large step this year when he bought control of Asia Union, one of China's most active private sector production companies.

MR TIMOTHY SHEN:

Distinguished guests, ladies and gentlemen, my name is Tim Shen. I have the least experience in this industry. That is why today I hope I can present my perspective from a layman's angle and also from the financial investor perspective. I think one of the key elements to building an Asian studio successfully is to be able to tap into the right financial resources. For myself, I am going to go through these points and hopefully this will present a brief overall picture.

Minimal background on myself. I am now an acting CEO for a listed Hong Kong company, also involved in the content production and the operation of a domestic TV station in China. The business model for this listed company operation is in terms of the conventional advertising business model. For myself, I am also operating two online advertising businesses jointly with some venture capitalists. That is why I have exposure to working with both conventional mutual funds and venture capital investors.

## New media faster, infrastructure more convenient

Just a very simple analysis. I think it is a turnaround situation for Asian studios, at least for the past two to three years, mainly because during the Asian financial crisis, there has been a lot of instability but, after that, both economies and the local currencies stabilise. Along with that, there has been a continuing improvement in the per capita income and living standards.

This is especially true for China because China officially achieved the US\$1,000 per capita income two years ago. Since then, as you can see, there has been substantial demand for everything from automobiles to housing to luxury goods, et cetera.

The last two points are more about the trend which is now evolving, which is the involvement of these new media means, like IPTV and DMB in Korea, DVB in China, et cetera. Especially for China, the penetration rate for TV and mobile phones actually has already exceeded 100 %.

Also, on top of that, in terms of infrastructure, China, by the end of this year, will have more than 60 million broadband subscribers, so that will facilitate a lot of content to be delivered through this platform.

Also it may be useful for audiences to just have a peek at the comparison between the Asian versus the global media operators. By classification, most publications or research will have at least five classes of media practitioners. As you can see, they are in advertising, TV, broadcasting, publishing and the internet. I trust a majority of these will have to rely on the conventional advertising business model.

### Aggressive companies, developing business

Just an apparent trend was that for 2000, the average EV/EBITDA – that is sort of evaluation ratios – is higher than the present ratio, probably because of the few increases in interest rates, which increases the cost of capital and requires a return for most investors.

As you can see, out of these five categories, the internet enjoys the highest valuation. Also, in general, people are expecting much substantial growth in terms of the online advertising business for these internet operators.

Probably you will think: what does this have to do with building an Asian studio? Another apparent trend evolving is for some Asian companies, especially Chinese, are now listed. With core business in the internet sector, they are aggressively pursuing opportunities in the content area or the building up of their own studio business, going on mainly because they will need all this content to supply to their users through the internet or through their broadband platform.

Recently, if you have followed PCCW, Netcom has become one of their shareholders. In the future, probably you will have PCCW and Netcom aggressively devel-

The larger the company, investors in general will perceive there is a better chance for getting successful. It does not matter in which area, because they have more resources to make things happen.

## Separation of game industry and film

Ask: I know in the United States, the game, the volume of sales in games is bigger than film now. So what is the impact, for example, in China for the investment and the technical support on games? For example, if you are going to invest the money in the entertainment industry then you might go to the game rather than to the film.

MR TIMOTHY SHEN: My understanding of the household name in terms of the gaming industry in China and of course Chen Tianqiao has been rendered one of the top 20 richest men in China. Other than that, probably is NetEase, who recently have invested a lot of financial resources into game development.

I am not sure how to tie in game operations with the film but I suspect going forward, for example, we are planning to produce a movie next year, on the sideline we are also thinking aggressively about developing related games because this movie is called "chek pik chi jin", a story of "sam kok". So this again is one of the like isolated cases. I trust that going forward in these two areas should remain separate.

oping their IPTV businesses in China.

Two more comparisons. Just by looking at the market cap, we still consider those five categories as suitable for comparison. Google has already achieved a 100 billion plus market cap and expected P/E going forward is over 60 times. In terms of the smallest market cap, it is a Thailand company by the name of Nation Multimedia, with only about nine times P/E. So I think the implications for this comparison is the larger the company, investors in general will perceive there is a better chance for getting successful, it does not matter in which area, because they have more resources to make things happen.

If we just try to compare the studios, i.e. ignoring the other media, general practitioners, again we see that US companies prevail with Time Warner, with about a 60 billion plus cap and an expected P/E of 23 times, versus the smaller ones. Of the studios, there is CJ Media listed in Korea, with only about seven times P/E. There is another one, a Hong Kong listed company, which is also listed in Singapore, which should have a smaller cap and a smaller P/E.

This again tells you the same scenario. The larger the operation – although Time Warner is not, strictly speaking, a content provider, because they are a conglomerate which is already involved in publishing, cable and AOL, which is the internet business as well.

The top four economies that support these market leaders are, respectively, the US, the UK, Japan and France. In terms of their competitive niche, basically it will be such that all these market leaders have quite a broad scale and span of operations. Because they have established themselves long enough, they also successfully built up a comprehensive infrastructure, which includes the distribution channel, the talent management and they also annually try to lobby legislation to protect their business interests.

### Asian culture varies, subsidies cross

These are the micro parts. In terms of macro, definitely these countries also will translate into better consumption power or higher per capita GDP. That is why the market leaders and operators in these countries are able to spend more and, hopefully, to recoup a better return, based on this platform.

Also, for example, in the States, definitely there is a more uniform cultural or consumer preference. That is why Superbowl prime time slots will translate into at least an audience of 8 million or 10 million. "The Apprentice", a lot of the US audiences will stick to the screen whenever it is on. The reason I bring this up is because, in China, or in Asia, because of the diversity of the cultural and consumer preference – actually, in China, there are more than 100-plus dialects currently spoken all over the country, so that is why it may not be able to deliver a programme which has this mass support, the same as in other developing countries.

Of course there are some pros and cons associated with these structures. On the positive side, because of their leading market position, their huge market cap and their wider scale of operation, they can cross-subsidise these different operations, co-brand the whole thing and easily achieve a critical mass.

Also, in terms of attracting capital, definitely they should be the better candidate to attract funding from either the general fund managing area or venture capitalists. That is why, for them, they will be much more willing to budget very high-budget productions compared to their Asian counterparts. On the negative side, of course, because each of these studio executives, I suspect, will make a minimum of, say, US\$1 million per year, so that is why the tendency will be to go for these high budget productions, which may or may not turn out to be as lucrative as some of our Asian productions.

Actually, the statistics I have for last year, productions in the States, in terms of

The big company successfully built up a comprehensive infrastructure which includes the distribution channel, the talent management and they also annually try to lobby legislation to protect their business interests.



movies, the average cost for making one movie in the States is about US\$96 million, with US\$65 million attributable to normal costs and US\$32 million, or something like that, attributable to promotional costs. That is why, in order to make any product successful, from that perspective, they have to spend a sizeable percentage in promoting that product also.

### Negative piracy to be remedied

In terms of trend-wise, definitely I think, in Asia, there is a clear pattern evolving in Korea. You will find this comprehensive platform media group, for example, like CJ, which operates in cable, they own theatres, their content, et cetera.

Also in China, the Shanghai Media Group has been going through more or less the same process. Especially in China, because in terms of some licensing aspects, it has been strictly controlled. For the time being, there are only two IPTV licences that have been issued - one to CTV and the other one has been issued to SMG. That is why it would make sense for SMG to try to not only aggressively JV with foreign companies, in terms of the content production, but also to try to work out a more comprehensive and longer term planning. In terms of major media companies like Time Warner, NewsCorp and Viacom, they all have JVs with SMG already. In terms of future trend, definitely you will see everywhere - especially in Asia, which has been substantially negatively affected by the piracy issues - the situation trying to be remedied, either at the government level or in terms of public education.

My observation in this area is that it does not matter how strict the legislation will be against any piracy acts because in China now, on average, 95 out of every 100 copies of audio or visual products are pirated. The most important element for this to improve is the price difference between the pirates and the original ones. In major cities, I find that actually this difference has come down a lot. You are going to get a DVD pirated copy for somewhere between RMB8 to RMB10, and the original copies are only selling at around RMB16 to RMB20. Percentage-wise, it is still about a 70 to 80 % difference, but we are only talking about 5 to 6 difference in RMB.

To sum up, strategy-wise, definitely I think Asian studios should try to focus on

productions which should have a mass audience support. Again, a recent very successful case would be the SuperGirl Contest in China, although it is a TV production show and, lately, the Kung Fu film which, on my understanding, has a gross 300 % profit.

Those countries that have an advantage or lead in these technologies will also create some entry barrier and also maintain a minimal market for these studios or media companies to prosper.

I think, going forward, with strong support, especially from the Korean or Chinese governments, there will be the ability for companies in these two countries to raise funding from the normal channels.

Korean movies are, I would say, full of creativity, because the last movie I watched, by the name of "*3-Iron*". I appreciated it a lot because for the whole duration of the movie, there was no oral exchange between the actor and actress but, you know, I still find it very interesting. So this kind of creativity will definitely enhance the appreciation level by audiences.

To conclude, that is why, given this backdrop and this platform, I suspect we will see very soon, in the next three to five years, both China and Korea will come out as the birthplaces for a few substantial Asian studios, with the support, of course, from the investment industry. This concludes my presentation. Thanks very much.



# Pan-Asia Become Pan-China Eventually?

After four experts offer their different opinions for the Asian films respectively, the moderator and all speakers had a deeper discussion about the ultimate film market in the world, share more Korean experiences and talk about the advantages under the CEPA.....

Moderator: Patrick FRATER  
Asia Editor, Variety

(after the short break about 20 minutes, the session processed the cross discussion and the question time)

MR PATRICK FRATER:

Thank you for coming back. There is going to be plenty more good value on show in a few seconds.

We have had four interesting and very, very different presentations. I just wanted to pick up right back to the beginning of the session and go back to a question for Peter.

You were about to say, I think, why Applause Pictures is now moving into China. My question for you is really very simple: what is it that you see is changing in China at the moment that makes you feel this is the right moment?

## China will be the ultimate market in the world

MR PETER CHAN HO-SUN:

I think, ultimately, in the back of our minds, since the mid 1990s, we all knew that, somewhere along the line, not necessarily just for Chinese filmmakers, but probably for all Asian filmmakers, the ultimate sort of market that has not been penetrated that will eventually be the biggest market in the world, not only in Asia, will be China.

My personal experience is I have just done my first film in China last year. It was conceived and we were going to move on it since the end of 2002. We were stopped by SARS, among other things, and finally we made the movie early 2005.

I could be probably one of the last Hong Kong directors to be making a film in China. We started making films in China in the early 1990s. I always thought that, because I do not make martial arts or action films, which has less of a censorship problem, when you make films with contemporary settings, there are bound to be more sensitive hot buttons that you might actually push or touch on.

For example, one of my previous films, *Comrades*, almost a love story, even back then was banned. There were many rumours. Some said the emigrants from mainland – Leon Lai and Maggie Cheung – living a too easy life. But some said the film degrading the emigrants. So you never know that the real reason of prohibition in China.

That was my first attempt, hoping that it would have a co-production. As you know, when a film is co-produced with China, it is automatically qualified almost as a mainland production, in a way, and then you can actually have profit sharing out of China, otherwise you could only sell your film to China Film. You know what happens when you can only sell it to one person? Then the price is really up to them.

I have always been of the mindset, when I started Applause Pictures, that ultimately China would be the biggest market and would ultimately be the final stop. But to subject ourselves to the kind of situation of co-production in the last few years would be horrendous, because we have seen a number Hong Kong films being made for China in some sort of a co-production.

That is why a lot of people keep asking the question: is the opening of the Chinese market a hindrance or actually a bad thing that is happening to Hong Kong film? Because we lost a lot of creativity, because a lot of Hong Kong films were made to cater to the Chinese censorship system, so you lose all the good parts of what Hong Kong film used to represent. But I do not think that is necessarily the case because when you make a film with China, first of all, the whole objective of making the film is that you have to make sure it gets through the Chinese censors. There are two parts of it. One part is the fact that Chinese censorship, whether it be the political side, which is still a very different system compared to the rest of the world, you cannot really be doing things that touch on their nerves. If you are making a Chinese co-production and your movie is about something that is politically sensitive in China, you are just asking for trouble, so why would you even think of doing something like that? The second issue would be if you are making a film that would not be able to be seen by five year old kids, you know that you are

You know what happens when you can only sell it to one person? Then the price is really up to them.





automatically in trouble, because China has no rating system. That means that all movies, technically, have to be approved for all audiences. So you cannot be making films that are against them principles. It is as simple as that.

As I said in the beginning of my presentation, we do not have enough of a population in Hong Kong to support an industry. When you want to make a film and you need the Chinese market, you have to make films that could work in the context of the Chinese censorship and the Chinese market.

I did "Perhaps Love", which is a love story. The direction of the whole film was not sensitive, but there were parts of it that were a bit more sensitive than things that usually would have been passed. My experience in China last year was great. People quite high up in the Film Bureau told me that it is their job to try to get you passed, as opposed to, in the old days, where it was their job to guard.

I think the Chinese government is very sensitive to the fact that the market is opening up very, very quickly and then the population will be exposed to commercial entertainment instead of propaganda films made by the state-owned studios and it is the beginning of a whole new commercial cinema in China, as opposed to the state-run studios.

### The lower cost of filmmaking in China

MR PATRICK FRATER:

I am going to ask the same question of Jonathan. Apart from "*Thousand Year Lake*" which did not really work, you said you were still encouraged to look at China. What is it encouraging you?

MR JONATHAN KIM:

I think the purpose of my going to China a little bit different than producers from Hong Kong going to China. For them, I think it is more for income reasons but, for us, it is more of less cost reasons. For example, the reason we went to China for "*Thousand Year Lake*" is that it is a period piece from the Shilla Dynasty, which was about a thousand years ago. We studied it a little bit and its constructions and costumes are very similar to the Tang Dynasty in China. First of all, we do not have any construction or buildings left from the Shilla Dynasty in Korea. I have to ask so many provinces or cities to build this thing for us and it will have a very big educational value for our children also, not only as a set. Everybody said they did not have enough money to do that.

I almost actually did not make the movie, but I found out there were numerous sets in China, so we went to China. Not only the sets, but I found that making costumes was cheaper and people were more skilled. Of course, labour is much cheaper than Korea, so we thought that would be a good way to go to shoot films with the same amount of money and with better skills in China, but that is if everything goes well.

Another thing was that I was trying to seek some kind of co-production opportunities with China, but we had a ghost in the movie, so it did not pass censorship, so it had to go assisted co-production.

MR PETER CHAN HO-SUN:

I would like to add a little bit on what Jonathan was saying, I think that of all the Asian countries, the Koreans are the most forward thinking, in terms of working in China, especially for the movie industry.

MR JONATHAN KIM:

Our problem is all the script writers want to be directors and all the assistant directors want to be directors. When I went to China, I noticed that people who were carpenters had been doing that for 30 years. We do not really see that in Korea.

### CEPA not a positive role yet

MR PATRICK FRATER:

I am going to ask Charmaine now to pick up a little bit of her last point from her presentation, which was spreading the benefits of CEPA.

MS CHARMAINE KOO:

I think, in terms of going under CEPA, CEPA is not limited to Hong Kong residents, in terms of the sense that Hong Kong companies can be owned by foreign parties. If you do want to take advantage of the benefits offered under CEPA, you can actually set up a company in Hong Kong or co-operate with a company in Hong Kong to take advantage of CEPA in that way.

As you can see from the figures so far, it has not really been that successful, in the sense that there have not been many Hong Kong companies taking advantage of the CEPA provisions.

Everything is still subject to approval by the government authorities. In terms of

We hope that by protecting intellectual property, we will be able to foster culture such that creative culture can be sustained forever.

making use of CEPA, it is not as straightforward as if you are a Hong Kong Chinese language film, you can go into China and show your film in China. It is still subject to censorship, still subject to the import system and all sorts of other restrictions. I think a lot of Hong Kong companies find that it is not actually as helpful, so far, as they would have hoped.

MR JONATHAN KIM:

How was the supposed sequel of *"My Sassy Girl"* taken into China? Did it fall under CEPA?

MR PETER CHAN HO-SUN:

No. I am sure it did not. It was probably bought by China Film at a flat rate and if anyone makes money, it would be them, not you.

MR JONATHAN KIM:

The reason I ask this is because ADCO had a big stake in this movie.

MR PETER CHAN HO-SUN:

That is true. You are talking about the sequel?

MR JONATHAN KIM:

Yes, the supposed sequel.

MR PETER CHAN HO-SUN:

Yes, the sequel, I do not know what ADCO would have done, because ADCO partly owns the film, but there was no Chinese element in it. I think the plot needs to be about China.

MR TIMOTHY SHEN:

Is there any advantage for these, say, multinational media companies to make use of CEPA to enter the Chinese market? My understanding is nearly all these US or Europeans, they just do it by themselves, the direct approach. How are we going to do anything good in this sense?

MR PATRICK FRATER:

Why do you not answer the question? I could ask you, why did you buy Asia Union and do you think other companies will be buying Chinese production companies rather than using CEPA?

MR TIMOTHY SHEN:

I think, for us, when we look at this past acquisition, it is one of the assets which we are specifically targeting, i.e. the TV station advertising business, which, strictly speaking, has not been opened up to any foreign operators yet.

If we are talking about the whole spectrum from one end of the content to maybe a JV operating within the structure because I just looked at the CEPA information now, so I am not sure what sort of benefits these multinationals can take advantage of.

MR PATRICK FRATER:

Do you think other people will attempt to buy Chinese companies? We have seen from your presentation that they can. You were saying they can buy Hong Kong companies.

MR TIMOTHY SHEN:

Right. In Hong Kong, if you look at the number of listed companies that are involved in the media sector, the chance of getting involved with a Hong Kong listed company having a focus on the China media sector is quite slim.

On the other hand, I think that there will be one visible trend in China, that more and more media groups are under the umbrella of the state-owned enterprises structure will evolve as a semi-entrepreneurial type of operation as mentioned earlier, likes SMG. Actually the Hunan Entertainment Group was the first one to be mandated to restructure and operate in a very business-like fashion back in the year 2000.

If you are talking about listed Chinese companies in the mainland that have sort of a media focus, again, there are only a handful - less than four. Actually, for these four, usually less than 50% of the assets or the revenue is coming from the media operations.

### The successful experiences in Korea leads the Asian films

MR PATRICK FRATER:

Peter, you said that the Koreans have possibly the most advanced China strategy. The Koreans actually seem to be leading the Asian film industry in many different ways. I wonder if Jonathan can help us explain a little bit why and how much of this has been government driven and how much of this has been free-wheeling private enterprise?

MR JONATHAN KIM:

Actually, it is not really government driven, it is in the private sector where everybody realises, like Peter said, that China will be the biggest market in the world. A lot of people are trying to get into the market. As you all know, the Japanese are trying to get into the Chinese market, but it is very, very difficult. I would say the reason we do better in China than the Japanese is because we are not Japanese. We are like fellow victims, so we are a lot closer.

I think they are trying to take advantage of that also, so a lot of Korean companies – and they see that. Chinese people have seen our products and they liked them. I heard that there are about 100 million copies of *"My Sassy Girl"* going around in China. They know our actors, they know our songs. So once the authorities crack down and this market opens up, it is going to be huge for the Korean entertainment industry. That is what they are waiting for and that is what they are hoping for. It has nothing to do with government.

MR PETER CHAN HO-SUN:

Let me add to that a little bit on the globalisation of Chinese film, to take off where I left off in the first part about how Pan Asia has finally become Pan China, which is not so different from Pan Asia, I believe, especially with the Korean element. For example, my company's original goal was Pan Asia. To be dealing with a Pan-China product, it does not mean that we are any less Pan Asia. He was mentioning Bill Kong and *"Crouching Tiger Hidden Dragon"* good example – from *"Crouching Tiger Hidden Dragon"* to *"Hero"*, to the recent non-Bill Kong movies like *"Seven Swords"*. All these films are really catered to the international market, but they could not have done so without the support of the mainland market, because nobody goes to make a RMB100 million Chinese movie for the international market without the blessing of your home market.

It is still a bet, it is still a big gamble when you want to go international and sell your film in Cannes. You have to have a strong domestic market to support part of that budget.

Every year for every three months, there is a new record being broken in China. Nobody thought *"Seven Swords"* was going to do over 50 million and *"Seven Swords"* did 88 million in China. Then nobody thought Jackie Chan's *"The Myth"* was going to do over 50 million, that is when the industry expert in the China film did 100 million. So most of the films did double of their expectations in China.

Because of that domestic support, they could now make bigger and bigger budget movies which in turn would be more attractive to the foreign market.

So it is like China needs foreign or international, but international also needs China to get international. So that has become a full circle. It is like any movie that is Pan China is actually Pan Asia, it is actually Pan World, and I think that is exactly what the Koreans could see.

Because I think the Koreans are split into schools – I have Korean friends on more the finance side. There is also another school of more creative director-producer, who is still very much into the new-found and with success in domestic market. I think they are really split into two schools.

Let us take a very solid example of their top star, Jang Dong-gun doing a Chen Kaige movie. I have heard two sides of the story. I think Jang Dong-gun must have decided on taking that project because of Chen Kaige and because of the international market, but also, I am sure, of the mainland market.

They think that in Korea that film might not be as big as a Jang Dong-gun film in Korea. A lot of my friends in Korea, the producer and director friends - "Korean film is the best now", that kind of attitude, they would say it is a big mistake for Jang Dong-gun to take a Chinese movie because a Chinese movie does not fly in Korea. The top box office of a Chinese movie in Korea could be, say, 1.5 million admission, 2 million, like *"Hero"*. But a Korean movie does 11 million. So there is no comparison.

But I believe that there are a lot of really forward thinking Korean producers who are looking at China both as a place for cheaper production costs and also an ultimate market. Now the market is not completely open. The CEPA is not really open to the Korean film industry, but I am sure with more collaboration, very soon, more films will be released in China.

## Two different concepts of "Pan Asia"

MR PATRICK FRATER:

Does China have a sufficiently commercial agenda? What you are talking about is you are almost suggesting that these big commercial Chinese films are being driven by non-Chinese people; is that correct?

China needs foreign or international, but international also needs China to get international. So that has become a full circle.



MR PETER CHAN HO-SUN:

I think there are both. *"The Banquet"* is totally driven by Chinese, although it is a co-production. There are projects like *"Seven Swords"* driven by a Hong Kong author and a Hong Kong filmmaker, but actually uses Chinese money, most of it was Chinese money. And like the film by Jacob Cheung right now with Andy Lau, it is driven by Japanese, Korean and Chinese money, and I think the Chinese part of it is actually less than the Japanese and Korean part of it. So a lot of these movies which could be totally Chinese theme are driven by money all over Asia.

MR PATRICK FRATER:

Do we have a Pan Asia market now?

MR PETER CHAN HO-SUN:

These films – you can call it "Pan Asian", but it could have as little Korean element or no Korean element or Japanese element, but the money is from all over Asia. So it is time to define whether Pan Asia means "market" or "talent". They are two different concepts.

MR JONATHAN KIM:

I find it interesting that I went to a film premiere a few weeks ago here in Hong Kong of the Japanese film *"Nana"* and they described this as the *"Asian premiere"*, so they were still thinking old mentality, whereas Japan and the rest of Asia. What you are defining is Japan, China and Korea working in and with China as well. What happened?

MR PETER CHAN HO-SUN:

I think the reason that we are actually putting all of this money, finance, talents together is because of China as a market. That is the most attractive or the new change of the climate in Asia, or maybe even in the world.

### Korean films competing with the neighbourhood

MR PATRICK FRATER:

Jonathan, I have a question for you. Korean filmmakers are extremely successful at the moment. They are able to charge high prices for their own films, particularly when they sell them to Japan. Because their local box office is so successful, they are actually becoming quite difficult co-production partners, I hear. Then recently, we heard of plans announced by the Busan Regional Government to bring the whole of the film industry down to there and launch a big new market. You are becoming a bit pushy and aggressive, are you not?

MR JONATHAN KIM:

I am not. Maybe they think they can. That is what Busan hopes for because our Korean Film Council is supposed to move to Busan whenever they can, but we do not see them moving in the near years because they need to actually finance themselves to move themselves there and, you know, the Korean Film Council actually helped quite a bit in the Korean film industry because they had studios and equipment for very cheap prices. But nowadays, we have private sectors that have all those studios and equipment, so even if they move, people are not going to move.

MR PATRICK FRATER:

But have Korean filmmakers not almost taken de facto leadership of Asia by their very strength and success and the amount of money that they can command? We have just been talking about how important China is as a market but the ones who have actually got the money to invest are actually in Korea at the moment, and that puts the Koreans in an extremely strong position. When other industries hear some of the plans that are being hatched in Korea, are they not going to get a little scared off?

MR JONATHAN KIM:

I do not agree with you about Korean films being leaders or whatever because this happened to do quite well. We do have a domestic market that can actually cover the cost of the budget. For example, a movie like Silmido could gross US\$60 million, so that is actually a pretty big market.



Even if we do not make any exports, we can still survive, but those exports become icing on the cake. Especially if you use some of these actors and actresses that are pretty popular in Japan, we can get more than the budget of movie, which in turn gives more parts to these stars, which I think is a very bad thing for the industry because they are going to start making their own movies because once they are cast, everyone is putting up their money.

So, you know, are we scaring other people? Maybe for the time being, but I think what we need to do – Korea has been invaded numerous times in past history and never invaded anybody else, so they do not really know how to scare other people. But the thing is I do not think people should be scared in neighbouring countries. I think it is good for other neighbouring countries that Korean products are popular because they will make more efforts to make their own local products better.

MR PATRICK FRATER:

Timothy, do you have a Korean strategy?

MR TIMOTHY SHEN:

During the Busan Film Festival, I have made this trip to both Seoul and Busan, and had some meetings with some of the Koreans companies in several areas, finding out how we can work together or where are the synergies, and I have noticed that at least there are one or two very apparent areas that companies like us or mainland China companies can work with our Korean counterparts in order to explore this market together.

But just one observation recently, relating to development in China, was that I found that more and more private entrepreneurs, they are interested in involving in this business - the media business. It does not matter if it is like publishing magazines or investing in movies.

But for China, because many entrepreneurs, their habit is to try to see where they can park their money, invest their money and hopefully they can get some return out of that. And especially, since last year, there has been measures in the real estate sector. That is why at least some of my business associates in China, they have been chasing after us for projects because now they have lots of cash, but do not know where to invest it. So I hope this will be a positive development even for Korean companies not only to contribute their certificate expertise in this production process but to try to tap into these financial resources.

MR PATRICK FRATER:

I have a question here is money in short supply or is it distribution really.

MR TIMOTHY SHEN:

It depends whom you are talking about. Because in China, the capital market is not that well developed so most operations will have to rely on bank lending and Chinese banks are more or less like banks all over the world; they are very eager to lend to you if you do not need the cash and vice versa. So that is why most entrepreneurs, especially in the media sector in the past, they will only resort to getting their own financial arrangements. But lately, I heard that for some major banks, they already have either started this lending programme to what we call tier 1 media operators. And also these private entrepreneurs, they are very much eager to be involved in media projects one way or the other.

### The importance of a good legal documentation system

MR PATRICK FRATER:

I have one last question. Are there lessons to be learned from other sectors, that we should be adopting here in Asia, whether they are from the Hollywood model, from the European model, or even from, dare I say it, the pirate model?

MR JONATHAN KIM:

I cannot speak for other countries but for Korea. We need to adopt a lot of things from Hollywood and European models. Today we still do not have completion bond and we hardly spend any money on legal fees. And, like I said earlier about the production system, it is still very director – driven, it is very short pre-production, so I think we have a lot of ways we can advance and actually decrease the amount of the budget that we are spending and become more effective with our money.

Earlier you asked me some money about a lot of money in Korea and all this, but when you look at the industry, it looks like it is doing really well but last year's statistics show we made 68 films last year, I think, that opened in the theatre. The average earning of these movies is minus half a million US dollars, actually US\$550,000 per movie. So the industry on the whole is not as good as you think it is.

MR PETER CHAN HO-SUN:

Let us just start with Korea, Hong Kong, the Pan-Chinese market right now versus the European model of co-production. I think the Korean method or the Korean way of making movies is exactly how we made movie in the 1980s because when

So it is time to define whether Pan Asia means "market" or "talent". They are two different concepts.



you have a very strong market that supports you and the market is based on either direct sales which does not need co-production, completion bond or anything like that, and when actors can command a certain popularity or a certain box office across Asia, that is how you make movies; it is very director - centric. The director decides we are making two or three days a week on average. We could shoot ten days straight but we could stop for ten days to think of what we are going to do in the next scene, which is totally not like America or Europe.

I think we have evolved, Hong Kong has evolved into sort of like the earlier European co-production method where it is not - we do not really have completion bond yet. Some of the films we do are the bigger budget movies. On most of the films we just work on a five-day, six-day schedule.

MS CHARMAINE KOO:

In the US or Asia, there is an increase in co-production with money. But I think one of the problems we have in Asia is that we do not have a very good legal documentation system. When you start dealing with people outside of Hong Kong – I mean, previously it was okay to just shake your hand and say, "You be the director and I own the film", but once you start wanting to exploit your films outside of Hong Kong, outside of this very small market, you have to get your legal documentation in order. I have seen a lot of deals fall apart because you cannot provide sufficient documentation to prove that you are the owner. Obviously, when you start making co-productions and having lots of different partners in producing a film, inevitably it is going to be led to a lot more dispute in the future, particularly when the film does well, like who is actually the owner? Who owns the remake rights? Who owns the sequel rights?

So from a lawyer's point of view, I think we can learn that from the western model, being the American model or the European model, to ensure that you do have proper legal documentation to make sure that the rights between the different partners are properly set out and the ownership is properly set out, the division of the profits are properly set out so that you can further exploit your films and to avoid disputes among partners when the film becomes successful.

MR TIMOTHY SHEN:

As mentioned earlier, according to statistics, the top, say, 200 or 250 movies released in the States last year had an average production cost of US\$96 million; so compared to Asian productions, it is only a very small part of that. But I am not saying the larger the budget, the higher the success rate, but at least I think in order for Asian studios to remain competitive, sooner or later, they will have to get close to this sort of international yardstick.

And the most direct way is to hopefully build up a platform attractive enough for various kinds of investors, both public and private investors, and one way to do that is at least to show them that this is a very well managed business with predictability in terms of earnings and dividends.

(While Q&A over, the moderator gave thanks to the participation of guests and the audience. Besides, he reminded that all contents in the session could be searched on the website: [www.accfhk.org](http://www.accfhk.org) )