Report on the Hong Kong and Macau Online Game Industry 2010[1]

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Content

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1 Research Background

According to a source from the Korean press, the scale of the global online game industry boasts 857.4 billion Hong Kong Dollars (HKD), which are far more than film market (worth 662.6 billion HKD) and the music industry (worth 123.9 billion HKD). At the same time, the game industry demonstrates enormous potentials for further development and it is estimated to reach 1114 billion HKD by 2014. The online game industry possesses huge potential and room for further development at global, regional and local scale. In other words, the online game industry, along with animation and film as well as culture and art become the three core pillars of the creative industry in Hong Kong.

Given the enormous potential of the online game industry, the Hong Kong government has founded several departments to boost its development. For instance, the office of “Creative Hong Kong” manages a fund worth 300 million HKD called “DesignSmart Initiative”, and the fund sponsored 1.32 million HKD to the Hong Kong Game Industry Association for the “Marketing the Hong Kong Online Game Industry and Talent Recruitment Scheme” and “Hong Kong Online Game Show” in 2009 as well as “Asia Online Game Awards” in 2011. In addition, with the mission to subsidize the industry to develop potential technology initiatives, the Innovation and Technology Commission once invested 8 million HKD to Menfond Electronic Arts & Computer Design Co. Ltd to develop 3D digital animation. The Business and Service Promotion Unit of Hong Kong Trade Development Council also organizes events occaionally, such as overseas field trips, local exhibitions and conferences. Last but not least, the Hong Kong Productivity Council also sets up special units to support the creative industry with marketing research and products promotion campaigns.

Meanwhile, the Hong Kong Game Industry Association was founded in 2004 and its founder and chairman remains Mr. Shi Renyi. There are 35 council members in the association. The Association not only facilitates communication and collaboration among members, but also coordinates many initiatives to promote the industry, such as the “Asia Online Game Awards”. The association undoubtedly has great contributions to the online game industry.

In terms of talent development, the School of Design at the Hong Kong Polytechnic University offers a Master’s program in Multimedia & Entertainment Technology, which aims to develop the capacity of R&D in game. In addition, the Hong Kong Institute of Vocational Education (HKIVE) also offers higher diplomas in Computer Games and Animation that focus on multimedia production, information technology application, computer game, animation design and innovation.

Nevertheless, baseline study on the online game industry in Hong Kong and Macau is yet to be developed, and only a few studies on the synergy among industries, talents and products are done, lacking comprehensive understanding of the market potentials and social impacts of online game. The two SAR governments have yet to develop a set of integrated cultural policy to support and develop this growing industry. Meanwhile, the existing education overemphasizes the skills of research and development, losing sight of the knowledge in marketing and industry research. In other words, the current curriculums fail to meet the demand from the industry.

The School of Journalism and Communication of the Chinese University of Hong Kong was founded in 1965. Research on creative industry has long been one of the focus areas of the school. In the bachelor program, students not only can declare their concentration in journalism, advertising and public relations, but also creative and new media. In the meantime, the school also offers master program in new media which aims to provide new media and creative industry related professional training. The current report is part of the project entitled project of "Mapping the Hong Kong Game Industries: Cultural Policy, Creative Cluster, and Asian Markets", which is supported by the Research Grant Council. Coincided with the annual research on the Hong Kong online game industry by the Game Industry Association, we seek to offer an outsider insight and objective viewpoint.

In view of the pressing needs of more market information and policy support, the report intends to review the Hong Kong game industry from a comparative perspective. Based on the empirical data from Hong Kong, Mainland China, Asia and other regions,we will draft a proposal of cultural policy to develop the game industry and regulate its social impacts. In addition, with our data of our survey to the gamers and other game companies, we will propose several business strategies of expanding operation scale and market share in China, Asia and other regions. The importance of these strategies is not only to boost economic development and export, but also to establish Hong Kong as the regional hub of creative industry. In other words, this study seeks to propose effective public policy, to offer business strategies to the industry, to realize the market potential of Asian and Chinese games and to balance among policy, business and cultural aspect. In the long run, we aspire to build up synergy in the creative sector, as well as between the creative and other sectors.

The school of Journalism and Communication at the Chinese University of Hong Kong is very indebted to the Hong Kong Game Industry Association and its members for their assistance in obtaining useful statistics and arranging interview appointments.

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2 Research Schedule

The report consists of two sections, namely "Game Market Report" and "Game Consumer Report". The research is executed in six different stages

Stage 1:	Since December 2010, the researchers have been designing and coordinating the methods and content of the research project.
Stage 2:	Since January 2011, the researchers discuss the details with the convener and six standing committee of HKGIA.
Stage 3:	Since February 2011, the researchers start circulating the questionnaires to the 30 members of HKGIA and collecting data.
Stage 4:	Researchers conduct in-depth interviews with online game companies, network service providers and payment system providers from February to May 2011.
Stage 5:	Draft the Game Market Report by 1st April, 2011.
Stage 6:	Since May 2011, researchers draw 800 samples by random sampling and investigate the cyber game culture in Hong Kong through telephone survey.
Stage 7:	Since June 2011, researchers draw 300 samples through the Centre for Communication Research at the Chinese University of Hong Kong and interview gamers at cyber café. The gamer report will be ready by the end of July.

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3. Government Policy: Policy Address and CEPA

After the sovereignty handover of Hong Kong, coincided with the Asian Financial Crisis in 1997 and 911 terrorist attack in 2001, Hong Kong faced economic recession. To restore citizens' confidence in the future of Hong Kong and to salvage Hong Kong economy remains top on the government's policy agenda.

As early as in 2002, during a meeting of the legislative council, a council member proposed that developing online game may lead Hong Kong to overcome the economic depression. In the policy address published in January 2003, there was a section "Opening Up New Horizons" which sought to support creative industry and introduce new elements to Hong Kong economy. Creative industry is defined as an umbrella term that includes performing arts, film and television, publishing, art and antique markets, music, architecture, advertising, digital entertainment, computer software development, animation production, fashion and product design.

In 2003, the outbreak of SARS further threatened the Hong Kong economy. To stabilize the politics and economy of the two special administrate regions, Hong Kong and Macau, the Chinese government signed the trade agreement of *Mainland and Hong Kong Closer Economic Partnership Arrangement* (CEPA) in June and October of 2003. The arrangement created new investment opportunities for the investors, expanded the market of consumer products and service and facilitated close economic collaboration among Mainland China, Macau and Hong Kong.

In the January of 2005, there was a revision of terminology in the policy address from "creative industry" to "cultural and creative industry". The rationales behind are to clarify the direction of public policy and to transform the Hong Kong economy with the elements of the cultural and creative industry. To support the video game production, training center plays an important role. In the same year, the Supplementary Agreement III of CEPA was signed which allowed "Hong Kong companies to set up internet online service business premises, with the Mainland party holding majority shareholding".

The Supplementary Agreement six of CEPA specified that as long as the application materials are complete, the time span for content censorship (including expert censorship) of online game products developed in Hong Kong will be within two months.

In 2009, the Hong Kong government has passed a budget of 300 million HKD to found the CreativeHK Office to support the creative industries in Hong Kong. The convener of HKGIA, Mr. Shi Renyi, served as one of the funding committee members on behalf of the industry.

After several years of development, the online game industry has made some progress. In the policy address published on October 2009, Chief Executive of HKSAR government Donald Tsang Yam-kuan listed “Cultural and Creative Industry” as one of the six core industries in Hong Kong, serving as an important impetus for Hong Kong to transit to knowledge-based economy.

The Chief Executive once visited Gameone, one of the online game companies in Hong Kong, and learned about the situation of the industry. He demonstrated a gesture of support to the online game industry.

In 2010, the CreativeHK Office has sponsored HKGIA with more than 4 millions for the establishment of the “Asian Online Game Awards”. The awards are supported by Mainland China, Taiwan, Korea, Philippine, Vietnam, Thailand, Malaysia, Hong Kong and Singapore. The event sought to brand Hong Kong as the regional hub of the game industry in Asia Pacific.

In 2010 the CEPA Supplementary Agreement Seven (10. A Cultural and Entertainment service) reinstated that Hong Kong service providers are allowed to set up internet cultural enterprises and online service business premises with the Mainland party which holds the majority of share.

4 The Market of Online Gaming in Hong Kong and Macau[2]

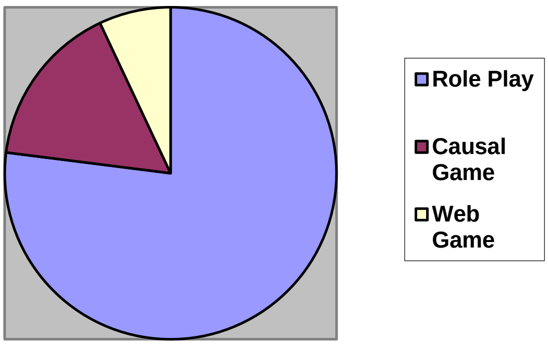
4.1 Market Environment

A survey conducted by HKGIA in 2009 suggested that the total annual revenue of Hong Kong online game industry was 530 million HKD, which was estimated to reach 630 million in 2010 and 700 million in 2011. Compared with the results of the current research, the total revenue of the industry hit 650 million in 2011, an increase of 130 million from last year and 20 million more than the estimation before, and yet the revenue only accounted for 0.03 % of the GDP. It is estimated the revenue of the Hong Kong online game in 2011 will be 80 millions, leading to the total sum of 703 millions.

With reference to the *KGDI White Paper 2010*, the global sales revenue of the Korean game industry in 2009 was 44.2 billion HKD, accounting for 0.6 % of its GDP with 56.4% of the revenue from the online games. In other words, the online game industry accounts for 0.3 % GDP of Korea. There is much potentials of the Hong Kong game industry.

4.2 Types of Games[3] and Market Share

Figure 1 Types of Games and Market Share



[2] Macao's players share the same servers with Hong Kong, so online sales information provided is a combination of Hong Kong and Macau markets.

[3] MORPGs and Casual Games are all online games, meaning players need to first install the game program on their computers before playing online. But web games do not need to install the game programs, just through an Internet browser the game can be played. While visiting the game companies, researchers asked the companies if they develop or publish MORPGs, if not, researchers classified them as casual games or web games.

Regarding the game products available in the market, online games can be categorized as role play and causal games. In addition, web game is another type of Internet-based game. The market share of role playing game is 77%, of causal game is 16% and of web game is 17%.

4.3 The Most Popular Online Games

According to the top four game media, namely 2000 fun, Nakuz, PC Game Weekly and G-Zone, the 10 most popular games in Hong Kong and Macau in 2010 are as follows:

World of Warcraft	Game First International Corp
Frontier Online	Game Flier
Dragon 8 Online	Gameone
CS Online》	Gamania
Dragon Nest	Gamania
FantasyEarthZero	Gamania
Run Online	Fun Town
Chinese Hero Online	Chinesegamer
SD Gundam Online	Gameone
Seal Online	GameCyber Technology

4.4 Real and Estimated Sales Revenues

The sales of online game are growing in Hong Kong and Macau. There are approximately 0.8 million active gamers in the two regions. According to the statistics last year, the average spending of gamers is between HKD 250 and 350, which is estimated to increase to the range between HKD 350 and 400 this year. Nevertheless, the concurrent user number record remains the same as last year at HKD 120 thousands.

The population of Hong Kong and Macau is about 8.07 million. Compared with another market of traditional Chinese, Taiwan, whose population is about 23.16 million, its market size of online game is about 12.37 billion HKD (roughly around 3.38 billion TWD). While Taiwan's population is 3 times more than Hong Kong, its online game sales volume in 2010 is 19 times more than Hong Kong. There are 9 listed game companies in Taiwan, including Chinese Gamer, Wayi Entertainment, International Games System, User Joy, Oh My God, Soft-World International Entertainment, Soft Star, InterServ International Inc. and Gamania but there is yet to be a listed game company in Hong Kong. In other words, there is much room for further development of the game industry in Hong Kong and Macau.

4.5 Potentials of Chinese, Asian and Overseas Market

The game industry is a globalized industry and Asia plays an important role. As the research and development of the online game in Mainland China, Taiwan, Japan and Korea is getting mature, and the market of southeast Asian countries such as Vietnam and Malaysia is also developing in a fast pace. The localization of online game is getting more and more common in the market.

According to statistics from the Market Intelligence & Consulting Institute (MIC) in 2009, the market scale of Taiwan game industry was HKD 10.4 billion. And the online game industry report from the General Administration of Press and Publication (GAPP) counted the sales revenue of the greater China region as 25 billion HKD, which generated HKD 60 billion revenue for the telecommunication and IT industry.

The experience of other markets in Asia (especially Korea and Japan) revealed that the online game industry and its secondary market, like other creative industries, is to the key driver of the growth of GDP. According to the press from Korea, the global online game now boasts an industry scale worth around HKD 857.4 billion , which is far more than the film industry (around HKD 662.6 billion) film market and the music industry (roughly HKD 123.9 billion). Still, the game industry has enormous potential for further growth, which is estimated to reach HKD 1114 billion by 2014.

4.6 Market Opportunities of Mobile Phone Games

The popularity of smart phone in the local market reaches 48%, which is 8% more than last year and almost a double than the international average[4]. Those smart phones such as I-Phone and Android usually provide data platforms for users to purchase and download applications, e-books and mobile games. In view of the growing popularity of smart phones, mobile games undoubtedly emerge as a new opportunity for the online game industry.

[4] Refer to the 2010 research report of Taylor Nelson Sofres (TNS) http://tech.sina.com.cn/t/2010-06-03/11594267093.shtml

5 The Online Game Industry Chain in Hong Kong and Macau

5.1 The Industry Chain: Developer, Publisher, Distributor and Retailer

The industry chain of online games mainly consists of the developer, publisher, distributor and retailer.

5.1.1 Game Developing and Publishing

So far there are about 36 sizeable companies in Hong Kong and their total capital investment has reached HKD 132 billion.

In accordance with the sales volume, the game companies in 2010 are ranked in the same order as the one in 2009:

1st Gamania Hong Kong
2nd Gameone
3rd Chinese Gamer
4th Game First International Corp
5th New Flier

Take the top three, Gamania Hong Kong, Gameone and Chinesegamer, for example: they position themselves differently in the market. Gamania Hong Kong is the Hong Kong branch of a listed game company in Taiwan. With a decade of history since it was founded in Hong Kong, its product diversification remains its competitive edge. Korean games have long been the focus of Gamania and typical examples include Dragon Nest and CSonline. Gameone is the most distinctive local company in Hong Kong which is recognized by the chief executive of Hong Kong. The company has combined R&D, agent and media, and it is good at taking adventage of spokesperson, comics and animation. Most game products the company operates are innovated and developed in mainland China. Chinesegamers is the Hong Kong branch of Taiwan’s largest game developer with four to five independently developed games per year. The games mostly feature swordsman stories or comic adaptations and Legend of Emperor Online is one of their most popular products.

5.1.2 Sales Channel and Retail Market [5]

[5] The game retailer market mainly includes gaming operators and retailing outlets.

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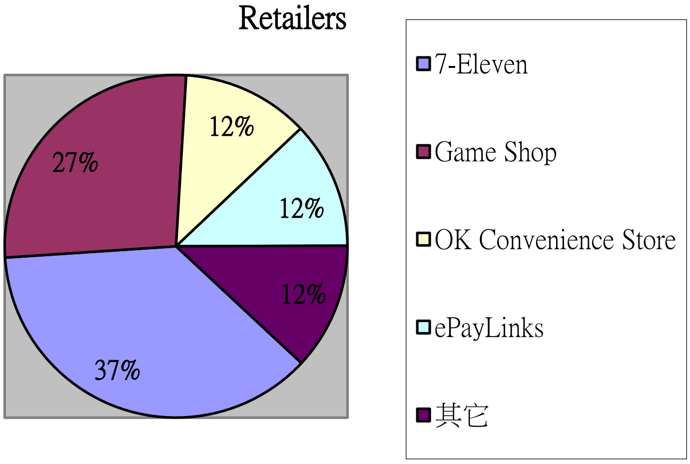
Internet Café is an important distributor of online games. For every one million gamers, 10% play online games in the Internet café. Among the 141 Internet cafés in Hong Kong, 28% are owned by I-One and 20% by Msystem.com.hk Limited. In terms of sales volume, I-ONE accounts for 20% while Msystem. com.hk occupies more than 10%, and the rest are taken up by small and mid-sized Internet cafés. The customers of Internet cafes are not confined to the student group but also include professionals depending on where the café is located. However, the government has started drafting regulations of Internet cafes that restrict the opening hours of those located outside business buildings to 8am-12:00pm, which might cause some Internet cafes to lose revenues or even to go bankrupt.

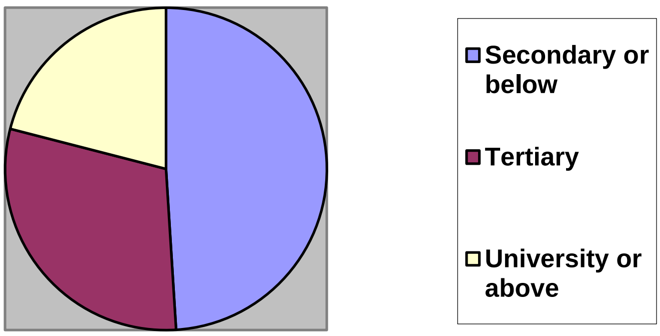
Figure 2 Market Share of Top Five Hong Kong Retailers



According to the data provided by online game companies, the largest game retailer in Hong Kong and Macau is 7-Eleven (963 stores), which accounts for 37% of the market, followed by Game shop (77 stores) with 27% market share, Circle K (313 stores) with 12% market share, and ePayLinks with 12% market share. The rest of the retailers occupy another 12% of the market.

5.2 Industry Advantages and Talent Training

Figure 3 Academic Qualification of the Online Game Industry



According to the survey results, there are roughly 250 employees in Hong Kong with aged between 20 and 36. The average age is 28. Simply put, the industry is mainly occupied by young people. 49% of them hold high school diploma or below. College-degree holders take up 30% while university graduates only occupy 12%. Although employees with advanced degrees are increasing, they still account for a small portion of the industry. The average income of the industry employees is HKD 12400 but some can earn up to HKD 22000 per month.

5.3 R&D Products in Hong Kong and Macau

Most game companies in Hong Kong and Macau focus on publishing games, Only Gameone gives equal weight to developing and publishing. Up till now, Gameone had developed five online games, including *Menghuan Gulong* [夢幻古龍], *Guhuozai 2* [古惑仔 2], *Guhuozai Huaijiuban* [古惑仔懷舊版], *Shifang Modao* [十方魔道] and *Qunlong Luanwu K1* were published in 2010. In addition, Gamania Hong Kong has taken over Firedog Studio, a local design and developing company. It is expected that there will be more locally-developed online gaming in forseeable future.

5.4 Advantages, Challenges and Difficulties of the Online Game Industry

The steady growth of the online game industry in Hong Kong and Macau reveals the competitive edges of Hong Kong and Macau. And yet there are some challenges and constraints, which may hinder the further development of the industry.

5.4.1 Strengths of the Industry

As one of the metropolitan cities in East Asia, Hong Kong offers various advanced channels ranging from conference facilities to exhibition venues for marketing purpose. The sound and transparent legal system (particularly in protecting intellectual property) and financial system are two core strengths of Hong Kong to further develop the online game industry.

5.4.2 Opportunities of the Industry

With reference to the game market in Taiwan, the scale of the Hong Kong online game industry is expected to reach one billion HKD in five years. Hong Kong can position itself as the game trading centre for the greater China and Southeast Asia regions. On the one hand, Hong Kong can rely on its linguistic advantages to develop a multilingual market. On the other hand, with the help of CEPA, it can enter the mainland China market with the benefits from the CEPA policy. Last but not least, its cultural proximity with the Pearl River Delta region can facilitate collaboration with the Canton and Shenzhen market, expand product line and target 70 million consumers in the Pearl River Delta region.

5.4.3 Contraints of the Industry

Given the fixed connection between credit card and e-payment according to the laws, a large group of gamers, who are not eligible for a credit card, cannot consume on the virtual platform. In addition, the social stereotypes of online game and the incoherent curriculum lead to huge challenges in promotion and recruitment to the game industry.

5.4.4 Challenges of the Industry

Operation cost remains one of the biggest challenges faced by the industry. First, the cost of promotion, from advertising to spokesperson, is very high. Second, the rising rent becomes a great financial burden of the onlie game company. Also, the keen global and regional competition should always be an alarming threat.

6 Recommendations to the Online Game Industry in Hong Kong and Macau

6.1 Implementing CEPA and Realizing its Benefits to Online Game Companies

Although CEPA policy offers certain benefits to the game industry, there are some restrictions in term of implementation. Censorship is one of them.Even if Hong Kong games are allowed to be sold in mainland China through the policy of CEPA, the games still have to undergo the same censorship procedure as foreign games, which have made it difficult for Hong Kong games to enter Chinese market. The Hong Kong government should strengthen communication with mainland China to simplify procedures of censorship and make it easier for Hong Kong game products to enter Chinese market.

6.2 More collaboration between the industry and education institutes in talent development

Many people in the game industry have talked about how the lack of talents becomes a major difficulty of their business. It is mainly because of the negative stereotype of the game industry and the insufficient training programs. Despite some related programs available, such as the Master in Multimedia & Entertainment Technology offered by the School of Design at the Hong Kong Polytechnic University and the higher diplomas in Computer Games and Animation provided by the Hong Kong Institute of Vocational Education, the content and focus do not meet the industry needs. The government should encourage communication and collaboration between educational institutes and the industry to provide customized training programs. In addition, the government should organize some initiatives such as public lectures to build up a positive image and to attract more talents for the industry.

6.3 Taking advantage of cultural proximity to develop Southeast Asia Market

Southeast Asia is an emerging market of the game industry, and some Hong Kong companies have already started to developed their business in the region, especially in Vietnam and Malaysia where considerable profits have been generated. The growing Southeast Asian market brings opportunities to Hong Kong game industry in two aspects: on the one hand, the Chinese population in Southeast Asia is mainly Cantonese speaking. Hong Kong can export game products which are produced in collaboration with the Pearl River Delta region to the overseas Chinese market. On the other hand, Hong Kong companies can take advantage of the cultural and geographical proximity between Hong Kong and Southeast Asia to develop games which are localized to the regional market.

6.4 Developing the Multi-platform Market

Given the growing popularity of smart phones, mobile phone games offer enormous business opportunities for the industry in foreseeable future. Since the current mobile phone platform is yet to be linked to the online game business, the industry may cooperate with mobile phone service providers, such as I-phone and Android to develop the multi-platform market.

6.5 Developing Online Payment System

The majority of gamers are young people who are not eligible to use credit card for payment. The government and the private sector may collaborate and develop e-payment channels, such as EPS (via bank account). Alipay from Mainland China is a valuable case study.

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