# A SNAPSHOT OF CHINA'S CREATIVE INDUSTRIES

Canada

Cultural exchange has always been an important aspect of diplomacy, deepening mutual understanding and facilitating collaboration. During my visit to China earlier this year, I was impressed by the breadth and vitality of China's modern cultural scene. Rooted in ancient traditions, it is evolving rapidly. It was also clear just how important a market China had become for creative products and services – a market in which Canada does well, but can still grow its presence.

Canada has tremendous leadership, ingenuity and talent in our creative industries and they make significant contributions to our economy. Our Government is committed to helping Canadian creators and creative entrepreneurs seize opportunities in key global markets – including China. This is particularly timely as the Chinese government is shifting its planned economy towards consumption-driven growth and high-value jobs, including in the creative sector.

During Prime Minister Trudeau's visit to China in 2016, Canada and China signed a film coproduction treaty, as well as a program of cooperation (2017-20) under the bilateral Cultural Agreement, encouraging exchanges of artists, performers and exhibitions, as well as support for each country's film and television industry.

Since then, in collaboration with my colleague, the Honourable François-Philippe Champagne, Minister of International Trade, we have increased the services provided through our Trade Commissioner Service in China to promote our Canadian artists, creators and cultural industries and to help Canadian creators and creative entrepreneurs advance their international business objectives.

This publication is one example. *A Snapshot of China's Creative Industries* highlights the tremendous opportunities that are now opening up in China for foreign artistic and cultural content. In the coming months, we will be providing additional resources with information specific to sub-sectors and subregions of China.

The business landscape in China is expanding rapidly, and I encourage Canadian artists and creative entrepreneurs to seize the resulting opportunities and to avail themselves of the support offered by our team in China.

*The Honourable Mélanie Joly*
*Minister of Canadian Heritage*

As Minister of International Trade, I am pleased to join my colleague, the Honourable Melanie Joly, Minister of Canadian Heritage, in presenting *A Snapshot of China's Creative Industries*.

A comprehensive relationship with China is a priority for the Government of Canada. A deeper relationship between our two countries will unlock the untapped potential in our commercial ties, grow the prosperity of our middle class, and create new opportunities for Canadian businesses of all sizes.

As Canada's "Chief Marketing Officer", I am keen to support this effort by doing everything I can to open more doors for our world-class Canadian creative industries.

Canadians produce some of the world's most innovative technologies and content, with a reputation for excellence in areas such as gaming and visual effects.

With China's growing demand for creative content, and Chinese familiarity with Canada's quality and innovation in the sector, there has never been a better time for Canadian creators of all stripes to pursue export opportunities in this fast-growing market.

The Canadian Trade Commissioner Service is present in 15 cities throughout China, with more than 100 trade commissioners on the ground who are eager to help Canadian exporters navigate the Chinese marketplace, make informed business decisions, and ultimately succeed in the world's second-largest economy.

This *Snapshot* builds on our Trade Commissioner Service's existing efforts in China. We hope that it will be useful for Canadians in the creative industries wanting a better understanding of potential opportunities in China, as well as encourage Canadian creators who have not yet considered business development in China to enter the market.

Our team in China will update this *Snapshot* on an ongoing basis with additional sub-sector business intelligence tools so it can continue to be a timely and valuable source of information.

*The Honourable François-Phillippe Champagne*
*Minister of International Trade*

# INTRODUCTION

There is booming demand for creative and cultural products and services in China. In 2015 the Chinese 'Cultural Industries' grew 11% to a value of 2,723.5 billion CNY (approx. $525.7 billion CAD). In 2015 they contributed 3.97% to China's GDP, with an ongoing target of 5%. The cultural industries are central to the government's plan to move away from a manufacturing based economy to an innovation and knowledge based economy. Yet if this is to be achieved, the capacity of the sector must be built through international-standard training and educational programmes.

As a creative and cultural industries powerhouse, Canada is well placed to succeed in China.

This document outlines several opportunities for Canadian cultural and creative industries stakeholders in China, with a focus on the following four key sectors:

- Visual arts, museums and exhibitions
- Theatre and live entertainment
- Film and video
- Video games and VR

The aim of this work is to support Canadian companies that are considering the Chinese market to better understand the opportunities in these four sectors. For information and assistance beyond what is provided in this report, the Canadian government, through its offices in Canada and across China, is here to help.

# PROMOTING CANADIAN CREATORS GLOBALLY

The **Canadian Trade Commissioner Service (TCS)** is Canada's most extensive network of international business professionals. No matter which country you're targeting or what industry sector you are in, the TCS has information and tools designed to support your company's success. The TCS is located in over 160 cities worldwide, providing you with key business insight and access to an unbeatable network of international business contacts.

With a network of regional offices across Canada, 15 trade offices across China, colocation with provincial partners as well as collaboration with other governmental departments, the TCS provides the following services:

- Preparation for international markets
- Market potential assessment
- Qualified contacts
- Problem solving

Find a Canadian Trade Commissioner at:
tradecommissioner.gc.ca

Or contact our team in China at:
shngi.creativeindustries@international.gc.ca

The **Canada Council for the Arts** is Canada's public arts funder. Its mandate is to champion and invest in artistic excellence through grants, services, prizes and payments to Canadian professional artists and arts organizations.

International activities are mostly funded through Arts Abroad (including travel and touring). Some program components are open to foreign artists / arts organizations (e.g. foreign artist tours, festival directors, international translation, etc.).

**Arts Abroad Programs include:**

- Travel
- Representation and Promotion
- Translation
- Circulation and Touring
- Residencies
- Co-productions

# CANADA'S FOOTPRINT ON THE GROUND


★ **Embassy of Canada to China:** Beijing

● **Consulates General:** Shanghai, Guangzhou, Chongqing, Hong Kong

▲ **Canadian Trade Offices:** Shenyang, Qingdao, Nanjing, Wuhan, Chengdu, Shenzhen, Xi'an, Xiamen, Hangzhou and Tianjin

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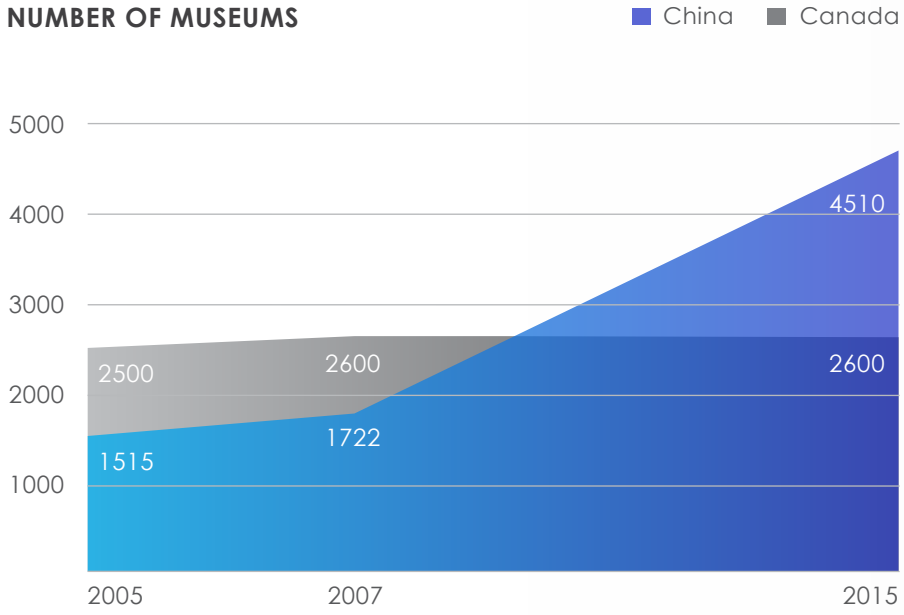
# 1 VISUAL ARTS, MUSEUMS AND EXHIBITIONS

# MUSEUM SECTOR BOOMING IN CHINA

In just eight years, the number of museums in China more than doubled – from 1,722 museums in 2007 to 4,510 museums by 2015.

**NUMBER OF MUSEUMS**

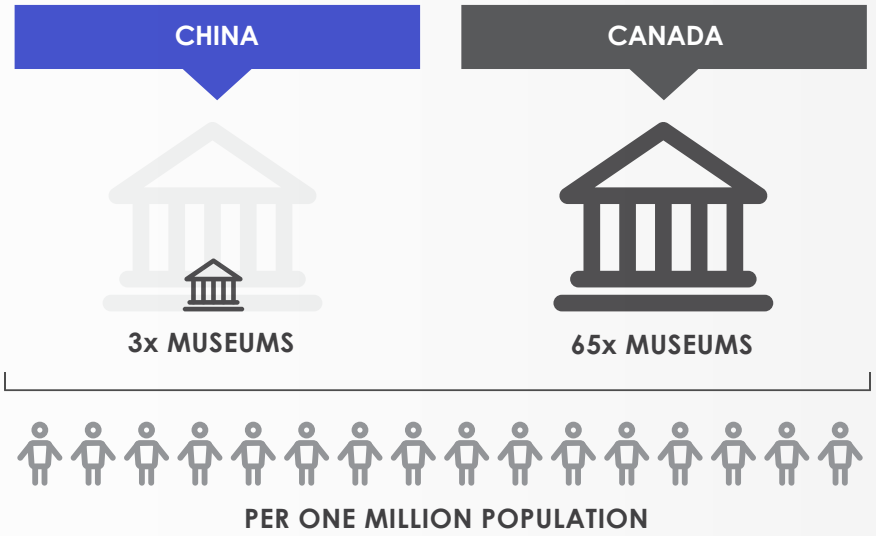



Source: Canada Museum Association, 2015;
State Administration of Culture Heritage, 2015

**STILL ROOM FOR EXPANSION**

Despite this dramatic expansion, China's cultural infrastructure still lags behind many developed countries.

While Canada has 65 museums per million people, China still has only 3 museums per million people.

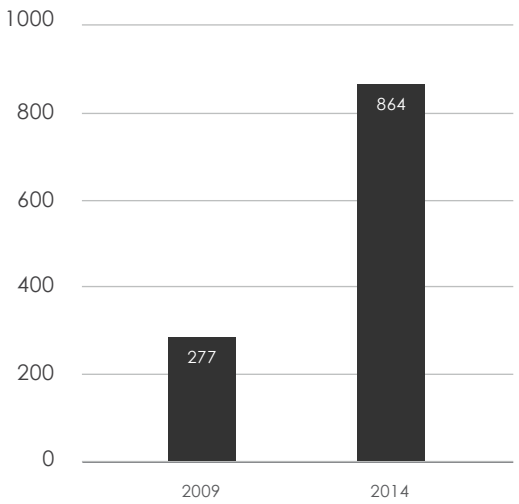


# MUSEUM SECTOR BOOMING IN CHINA

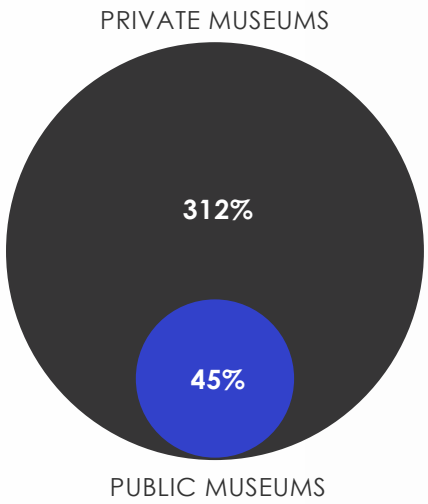
## PRIVATE MUSEUMS IN CHINA TRIPLED OVER FIVE YEARS

One of the most remarkable developments in the Chinese cultural sector is the explosive growth in the number of private museums and galleries. In 2009 there were 277 in the country; by 2014 there were 864. This is an increase of 312%, compared to a 45% increase in public museums in China over the same period.

**NUMBER OF PRIVATE MUSEUMS**




**INCREASE - PUBLIC VS. PRIVATE**




The Chinese government supports the growth of private museums through favorable policy. The 2010 Suggestion to Encourage Private Museums by the State Administration of Culture Heritage (SACH) included details of subsidy support for businesses, primarily property developers, who invest in private museums.

Private museums are usually founded and funded by wealthy individuals, famous art collectors or property developers.

## OVER 20% OF MUSEUMS IN CHINA ARE PRIVATE

Some private museums are better resourced and equipped than public museums, boasting substantial collections. They are able to host touring shows more often, and their flexibility means that they can bring in blockbuster high-profile exhibitions with the potential to be commercially successful.

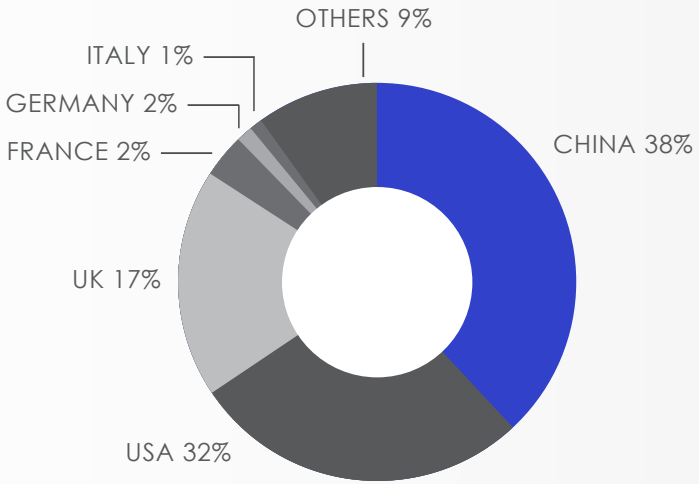
Source: State Administration of Culture Heritage, 2015

# CHINA IS THE WORLD'S BIGGEST ART MARKET

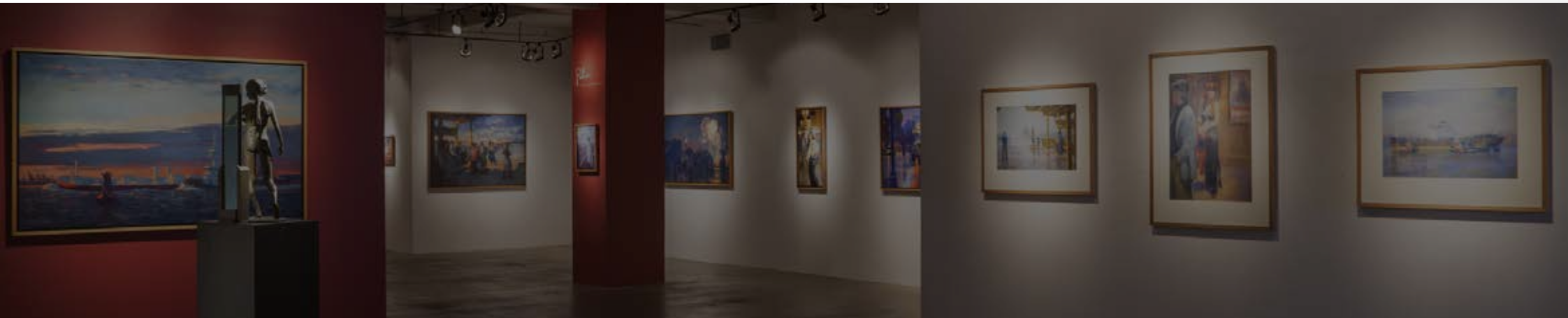
The US and the UK are traditional leaders in the art trade, but their arts markets contracted by around one-third between 2015 and 2016. By contrast, according to Artprice and Artron, sales in the Chinese market stabilized with total sales at auction in 2016 reported to be 4.79 billion USD (6.38 billion CAD), representing 38% of the world market with the US at 28% and the UK at 17%.

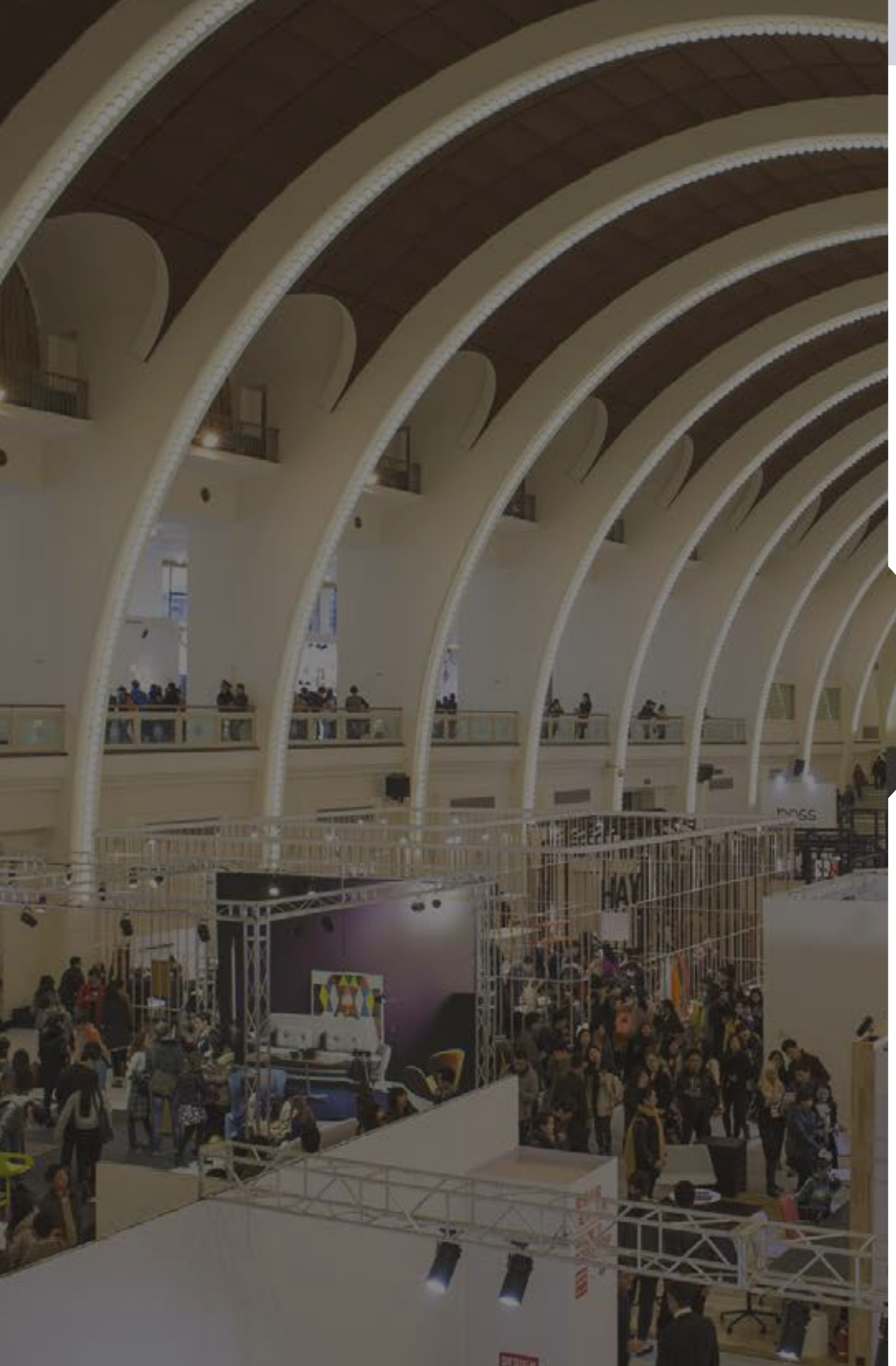
The Chinese market is dominated by traditional art. However, sales in contemporary art and western art are growing as China's middle class grows, and there is likely to be further demand from private collectors across the price spectrum.

**2016 AUCTION TURNOVER DISTRIBUTION**




Source: The Art Market in 2016, Artprice



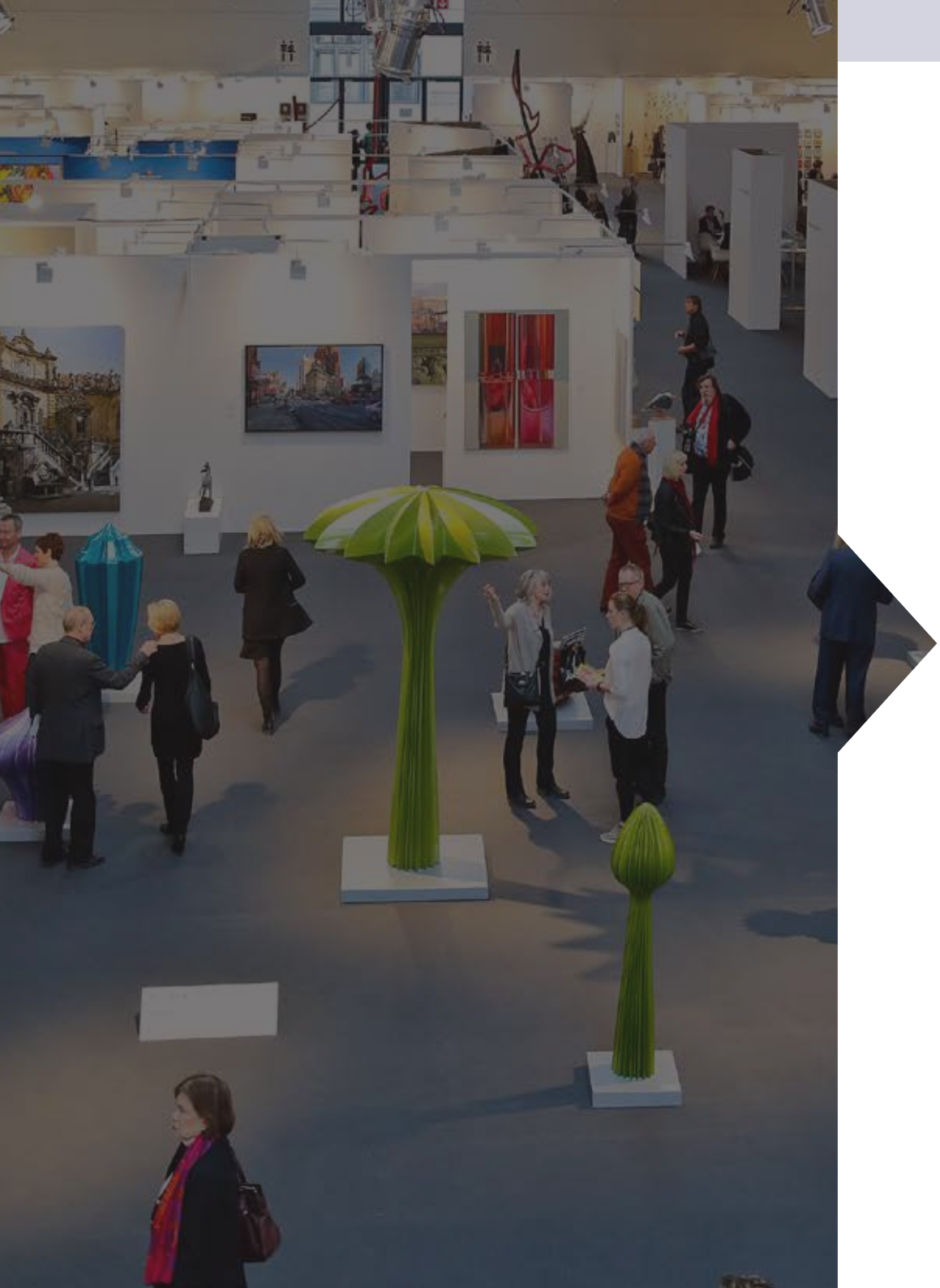


# ART TRADE FAIRS AND EXPOS ARE CONCENTRATED IN CHINA'S LEADING CITIES

Shanghai boasts several high profile international art expos, including the West Bund Art and Design Expo, Art 021, and PHOTOFAIRS Shanghai. These attract galleries with an international reputation, including White Cube, Hauser & Wirth, Pace Gallery, and Ota Fine Arts.

While Shanghai is regarded as the leading art centre in China, Beijing also hosts the China International Gallery Exposition (est. 2004) and Art Beijing (est. 2006), primarily showcasing Chinese and Asian art.

Second-tier Chinese cities lack the experience and international profile of Shanghai and Beijing. Nonetheless, expos in these cities – including Art Changsha and Art Nanjing – are now benefitting from strong government support.



# GOVERNMENT POLICY INCENTIVES FOR INTERNATIONAL ART TRADE

The growth in China's art trade is supported by government policies. This illustrates a commitment to continue to expand this sector. Incentives include a reduction in import duty on foreign art, which was halved in 2011 (from 12% to 6%) and halved again in 2017 (6% to 3%).

Freeports and bonded art warehouses are also becoming increasingly available. For example:

- The West Bund Fine Art Storage duty free facility opened in 2014 as an extension of the Shanghai Free Trade Zone. It allows imported art to be stored, offered for sale or exhibited in China without payment of duty. It now stores more than 1,200 artworks, worth a total of 628 million RMB (121.23 million CAD). A bigger West Bund Free Port is currently under development, where the world's largest bonded service center for art auctions, exhibitions and storage is due to be completed in 2017/18.

- Similar facilities have opened in both first-tier and second-tier cities, including Beijing, Tianjin and Xiamen.

# OPPORTUNITIES FOR INTERNATIONAL TOURING EXHIBITIONS WITH GOVERNMENT SUPPORT

The Chinese government supports and funds international exhibitions to tour national public museums in China. These exhibitions are dominated by tangible cultural heritage (antiquities) and traditional forms of cultural expression (fine arts). There are also initiatives in place that promote the use of science and technology exhibitions to popularize science in China.

Exhibitions usually include an exchange of expertise between public museums and are seen as a way of building international cooperation and domestic capacity through knowledge exchange. The western exhibitions that have toured China with government support create a precedent for Canadian museums. These initiatives are typically a result of government-to-government agreements or direct negotiations between museums.

# EXAMPLES OF INTERNATIONAL TOURING EXHIBITIONS WITH GOVERNMENT SUPPORT

## ANTIQUITIES

**BRITISH MUSEUM: *TREASURES OF THE WORLD'S CULTURES***

- at the Capital Museum in Beijing (2006)
- attracted 100,000 visitors in its opening month and 300,000 over its four month stay

**ROYAL BRITISH COLUMBIA MUSEUM: *GOLD MOUNTAIN DREAM!***

- at the Guangdong Museum of Chinese Nationals Living Abroad (2015)
- explored the experience of migrants from Guangdong in British Columbia during the 19th Century

## SCIENCE AND TECHNOLOGY

***EUREKA-SCIENCE, ART AND TECHNOLOGY OF THE ANCIENT GREEKS***

- in late 2017 and early 2018, a Greek and Chinese collaborative exhibition will showcase a 'best of' in the areas of science and technology
- the exhibition will take place in the Museum Herakleidon in Athens and the China Science and Technology Museum (CSTM) in Beijing
- the China Science and Technology Museum is managed by China Association of Science and Technology, an industrial body directly governed by the central government

## FINE ARTS

***TREASURES OF THE FRENCH NATIONAL COLLECTIONS - THE IMPRESSIONISTS***

- toured Beijing, Shanghai and Hong Kong (2004/2005)
- part of the Year of France in China 2004

***TERRE SAUVAGE: THE CANADIAN LANDSCAPE AND THE GROUP OF SEVEN***

- at Yanhuang Art Museum in Beijing, Shanghai Art Museum, Guangdong Museum of Art and Guanshanyue Art Museum (2011)
- primarily from the collection of the National Gallery of Canada, but also including work from the Art Gallery of Greater Victoria, le Musée d'art contemporain de Montréal, and the London Regional Art and Historical Museum

***CONTEMPORARY ART FROM THE CZECH REPUBLIC – THE HEART OF EUROPE***

- at the Power Station of Art in Shanghai, the first state-run contemporary art museum in China (2015)
- the largest exhibition of Czech contemporary artwork in China

# SCIENCE POPULARIZATION DEVELOPMENT PLAN

The China Association for Science and Technology Science Popularization Development Plan (2016-2020) emphasizes the importance of improving public awareness, knowledge and interest in science and technology. The plan proposes to do this through various education and public engagement initiatives.

The association has set an ambitious target for increasing the public's level of scientific understanding, and the plan aims to increase the proportion of people who obtain a 'high capacity in scientific understanding' to 10% by 2020 (it was 6.20% in 2015).

One of the main work streams in the plan is to promote the use of 'content' to popularize science, which includes books, science fiction, video games and exhibitions. The international exchange of science and technology exhibitions is referenced as a way to learn from foreign partners. While local science and technology associations will be responsible for proposing and delivering relevant projects, the plan may result in funding becoming available for the development and licensing of science and technology exhibitions.

"China's interest in science and technology exhibitions is booming and there is growing demand from government to collaborate internationally. This is an area where Canada excels and is well placed to succeed in China"

***Julie Leclair, Director, Corporate Planning & Travelling Exhibitions at Canada Science and Technology Museums Corporation***

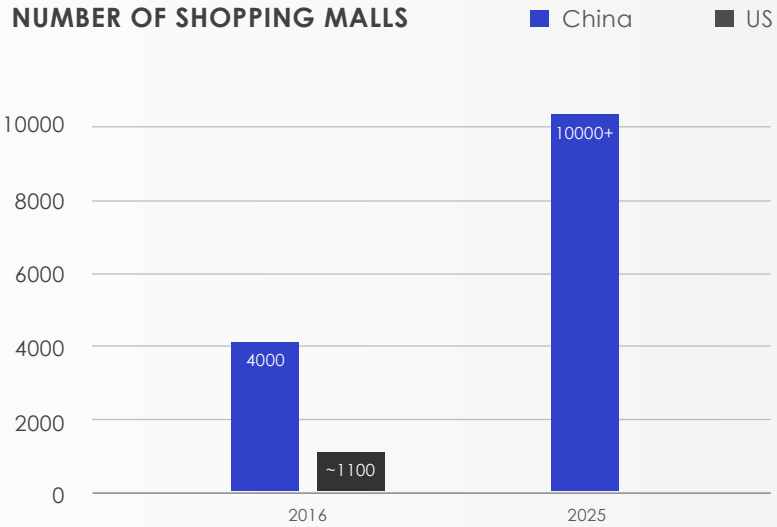
"The point is to build a seamless ecosystem between art and retail. In China, where people love luxury commodities but there isn't yet a well-established history of museum-going, they can peruse art and their favorite brands in the same place."

***Adrian Cheng, Founder of K11 Art Mall***

# ART IN SHOPPING MALLS

A report from the Chinese Academy of Social Sciences suggests there are 4,000 shopping malls in China (more than three times the number in the US), with over 10,000 estimated to be open by 2025. Competition amongst shopping malls for customers is fierce, particularly as online shopping continues to boom.

**NUMBER OF SHOPPING MALLS**




Source: China Academy of Social Sciences, 2016;
The Columbia Encyclopedia, 6th ed, 2017

# ART IN SHOPPING MALLS

Art is seen as a way of attracting customers to shopping malls. In first-tier Chinese cities, 3% of the footprint of shopping centres is dedicated to arts and culture. Below are examples of major art exhibitions in Chinese shopping malls.

## K11 ART MALL

- K11 Art Mall opened in central Shanghai in 2013, the second 'art mall' to be opened by Adrian Cheng's New World Development Company (the first was in Hong Kong). He has plans to open 17 more art malls by 2020.
- K11 has played host to several blockbuster exhibitions. Its Monet exhibition had 340,000 visitors and a Dali exhibition welcomed 2000 visitors a day, each paying 100 RMB for a ticket.

## PARKVIEW GREEN MUSEUM

- The Parkview Green Museum, curated by Lorand Hegyi, is part of the urban residential and commercial complex project Parkview Green in Beijing, developed by Fuqiao Property Development Company.
- In 2016 it put on an exhibition called *Challenging Beauty: Insights of Italian Contemporary Art*.

# OPPORTUNITIES FOR DIGITAL ART AND IMMERSIVE ENVIRONMENTS

Chinese museums, galleries and shopping malls are using multimedia exhibitions and an appetite for visual technology to draw large audiences. Audiences include many who would not usually visit a museum or pay for the experience. Young Chinese people and members of the new middle class are drawn by experiential exhibitions, considered more entertaining than the idea of 'fine art.'

# OPPORTUNITIES FOR DIGITAL ART AND IMMERSIVE ENVIRONMENTS

This is an area of high potential for Canadian digital artists and producers of immersive environments. Examples that provide precedent include:

## PRIVATE MUSEUMS AND ART GALLERIES

- *Rain Room,* produced by Random International, with the installation purchased by Yuz Museum and subsequently taken on a tour of Asia (2015)
- Olafur Eliasson and James Turrell had major exhibitions hosted by the Long Museum, with tickets selling for 200 RMB (approx. $40 CAD) (2016/2017)
- Team Lab, a Japanese tech art studio, will commence their China tour at the PACE Gallery, Beijing, bringing their unique lighting experience to China (May 2017)

## SHOPPING CENTERS

- *Light Christmas Season*, a lighting installation combining selected works from the Lyon Festival of Lights and the Edinburgh Fringe was hosted in The Hub, a commercial complex near Shanghai Hongqiao Railway station developed by Shuion Group. (Christmas 2016)
- *Beyond Rubik's Cube* interactive exhibition, co-curated by Liberty Science Center, Google and Ernő Rubik, was hosted in Shanghai Global Harbor, a shopping mall developed by the property developer Yue Xing Group. (November 2016 to February 2017)

# POTENTIAL OPPORTUNITIES FOR PUBLIC AND URBAN ARTISTS

Following China's rapid urbanization local governments are becoming interested in using culture to develop public spaces. There are several instances of international artists, including Canadian artists, being commissioned to produce public and urban art. Examples include:

- During Shanghai Urban Space Art Season 2015, Canadian artists Adrian Blackwell, James Carl, Nestor Kruger and Yam Lau were commissioned by Shanghai's Xuhui district government to produce installations and public sculptures for the district.
- From 2015 ToMASTER Studio, a Chinese company that collaborates with artists around the world to provide art services to public spaces, was commissioned to develop an installation for Shanghai's Hanzhong station.

**PUBLIC ART WITH PROPERTY DEVELOPERS**

Property developers are also using public art to attract interest in new property developments. Working with property developers offers opportunities for Canadian artists. Examples of property developers using public art include:

- Shanghai Xintiandi's commercial area, developed by the Hong Kong property developer Shuion Group, hosted an outdoor contemporary public art exhibition in 2014. The exhibition included works by more than ten contemporary (domestic and foreign) artists. Art forms included painting, sculpture, installations and photographs.
- One of China's largest property developers, Vanke, initiated a series of art programs to promote some of its commercial and residential property developments. For instance, in 2015 Vanke hosted a public art exhibition in Shanghai, exhibiting ten artists and art forms including sculpture, photography and painting.
- TMAX Art Festival in 2013, co-organised by TMAX Art Studio and by the property developer SoHo Beijing, invited 40 domestic and international artists to produce works to help boost traffic to the Galaxy SOHO shopping complex.

## V&A NOTTINGHAM TRAINING PROGRAM

The V&A in the UK developed a new training format for the Chinese museum sector, and delivered two pilot three-day Masterclasses for Museum Professionals in 2015. The second of these was titled 'Telling Stories', targeted at curators and exhibition producers. It included sessions on display design techniques, visitor experience design, interpretation and exhibition planning.

# OPPORTUNITY TO SUPPORT CHINA'S ARTS AND MUSEUMS SECTOR THROUGH TRAINING AND EDUCATION

China's recent boom in the arts and museum sector has not been matched by an increased supply of talent. Due to the rapid growth of the sector, educational offerings have fallen behind and there are not enough qualified museum studies and management courses. Consequently, it is recognised by the industry that there is a shortage of qualified people to run and manage museums.

### A LACK OF CURATORIAL AND INTERPRETIVE EXPERTISE

Particularly in provincial and city-level museums, exhibitions often focus on the presentation of a specific collection, with less emphasis on curation and interpretation. This is partly because training in China tends not to focus on these skills.

The shortage of staff and supporting educational programs provides opportunities for Canadian education and museum institutions to support development in this area.

# NEXT STEPS

Canada's network in China can help you take the next step to...

**PREPARE**

**What is the best approach for your business in China and what do you need to know?**

- Expos and trade fairs
- Property developers working with foreign artists
- Potential tour destinations
- Storage and handling facilities

**ACCESS**

**What is the level of opportunity for your business in China?**

- Policies and funding incentives
- Projected trends in the art market and the most prominent buyers
- Fee structures and funding models

**CONTACT**

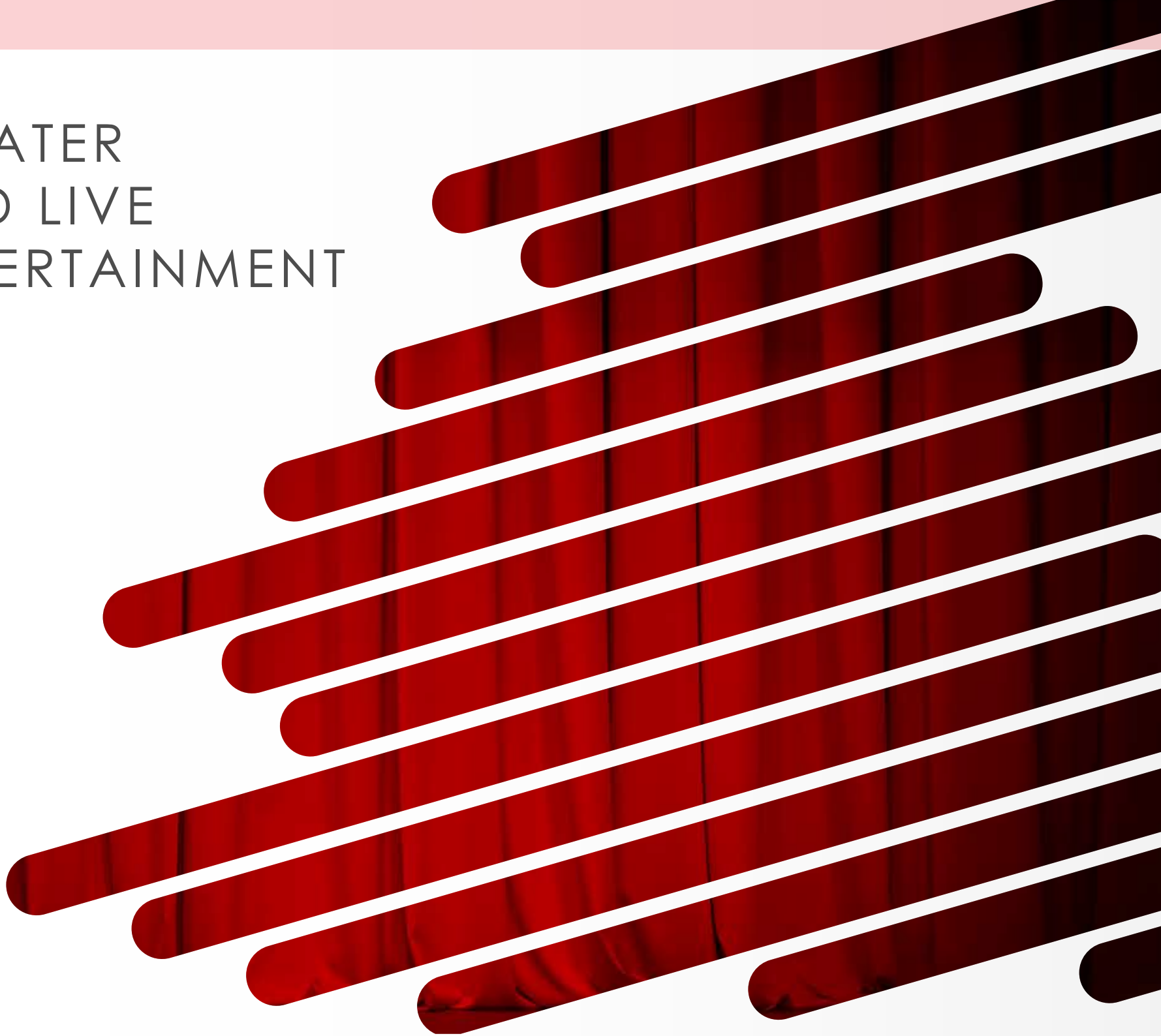
**Which government contacts, industry bodies, businesses and other partners should you meet?**

- Government agencies and public museums
- Galleries and private museums working with foreign artists
- Agents and private funders for exhibitions

**CONNECT WITH US TODAY**

- SHNGI.CREATIVEINDUSTRIES@INTERNATIONAL.GC.CA

# 2 THEATER AND LIVE ENTERTAINMENT



# A RICH CULTURAL TRADITION WITH NEW COMMERCIAL OPPORTUNITIES

China has a tradition of the performing arts that comes in the form of classical dance, music and Chinese opera. In recent times audiences have been increasingly interested in Western theatre.

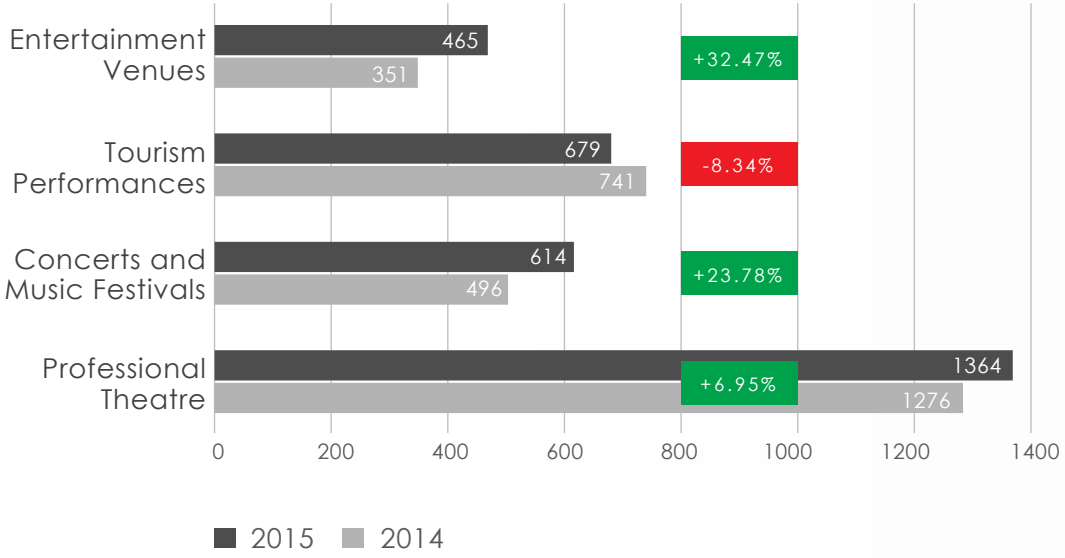
**DECLINING GOVERNMENT FUNDING MEANS INCREASED COMMERCIAL OPPORTUNITIES**

Considerable structural reforms have been implemented in the performing arts sector in the past two decades. These have been aimed at moving the sector away from dependence on the 'iron rice bowl' of government subsidies and developing a considerably more commercial orientation.

**ACCORDING TO THE CHINA ASSOCIATION OF PERFORMING ARTS, AT VENUE LEVEL, GOVERNMENT SUBSIDY ACCOUNTS FOR 37.6% OF TOTAL REVENUE.**

# STRONG GROWTH IN THE THEATRE AND LIVE ENTERTAINMENT SECTOR

## BOX OFFICE BY TYPE OF VENUE (MILLION CAD)




Source: 2015 China Performing Arts Market Report, China Association of Performing Arts

### RAPIDLY DEVELOPING INFRASTRUCTURE

Of China's 2,143 dedicated theatre venues (2014), a third have been built since 2000. The 2008 Beijing Summer Olympics gave an impetus to the development of cultural infrastructure, and the 2022 Beijing Winter Olympics are expected to offer further opportunities. Every city in China is required by government to have a theatre, and in bigger cities every district is required to have one.

### REVENUE FROM TICKET SALES INCREASING QUICKLY

According to the China Association of Performing Arts, in 2015, total box office revenue across China was 16.17 billion CNY (3.12 billion CAD), an increase of 9% over the previous year. Revenue from music concerts and festivals increased dramatically, up 24%.

### STILL POTENTIAL TO GROW

Despite the rapid construction of new theatres, China still lags behind more developed countries. It currently has an average of 0.64 theatres per million people – compare this to 1.8 per million people in the United States, 3.4 in Germany, 4.0 in France, and 4.4 in Japan (2007 figures).

### LOOKING OVERSEAS FOR INSPIRATION

Much of the recent theatre produced in China draws on foreign artistic traditions and the Chinese sector looks to the international theatre industry for inspiration. The Chinese government recognises the value of encouraging foreign theatre companies and practitioners to come to China, seeing them as promoting innovation and development in the domestic sector.

### LOOSENING RESTRICTIONS ON FOREIGN 'PERFORMANCE AGENCIES'

Chinese law imposes a ban on foreign 'performance agencies' – businesses that produce or license the performing arts. According to a 2008 policy from the State Council and Ministry of Culture, foreign investors can only operate such agencies within China if more than a 51% share is owned by Chinese partners.

However, new free trade zones mean that the rule is no longer absolute. Within the National Cultural Industry Innovation Pilot Zone in Beijing's Chaoyang District, wholly foreign-owned 'performance agencies' can now be established. Similar Free Trade Pilot Zones have been set up in Shanghai, Guangdong, Tianjin and Fujian. Nederlander, one of the world's largest theatre and music venue operators, established their China operation in the Shanghai Free Trade Zone.

## CHINESE GOVERNMENT SUPPORTS THE 'INTERNATIONALIZATION' OF THEATRE SECTOR

# STRATEGIC INVESTMENT

Chinese investors are increasingly seeing strategic investment in foreign companies as a way to speed up the development of the domestic sector. The international theatre industry, particularly in centres like Broadway and the West End, are seeing Chinese investors in more profitable genres such as musicals, and in performing arts venues.

Strategic investment is a way for investors to access and import international shows for the Chinese market and is a way to internationalize and export Chinese productions.

**INVESTMENT IN ORIGINAL PRODUCTIONS,** which supports the import of foreign content into China:

- Chinese Investment group Fosun with TPG Capital (US) acquired 80% of Cirque du Soleil in 2015 for a combined total of 1.5 billion USD (1.125 billion CAD).
- The Chinese live entertainment and performing arts company Juooo invests in Broadway shows such as *American Psycho*.

**INVESTMENT IN PERFORMING ARTS VENUES,** which may be a means of exporting Chinese content abroad:

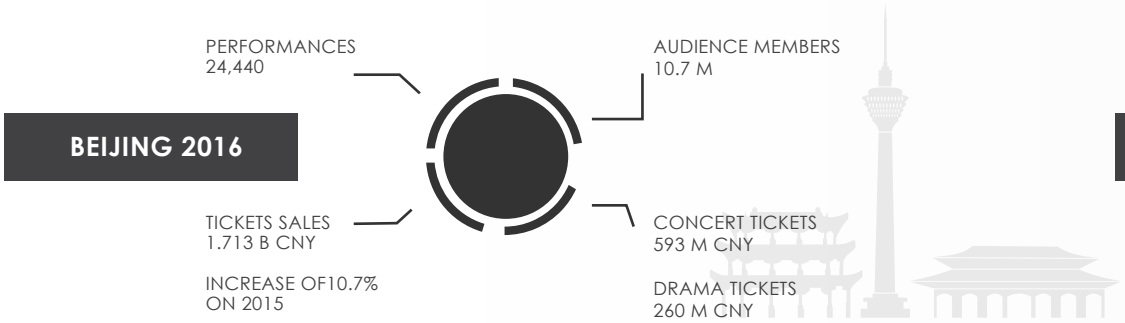
- China Heaven Creation International Performing Arts Co. (a subsidiary of China Travel Group) purchased The White House Theater in Branson, Missouri in 2009.
- After successfully bringing *Soul of Shaolin* to the United States, East Shanghai invested in two theatres in Tennessee in 2009. The objective is to further develop opportunities for Chinese shows in the US.

**INVESTMENT IN FOREIGN COUNTERPARTS**

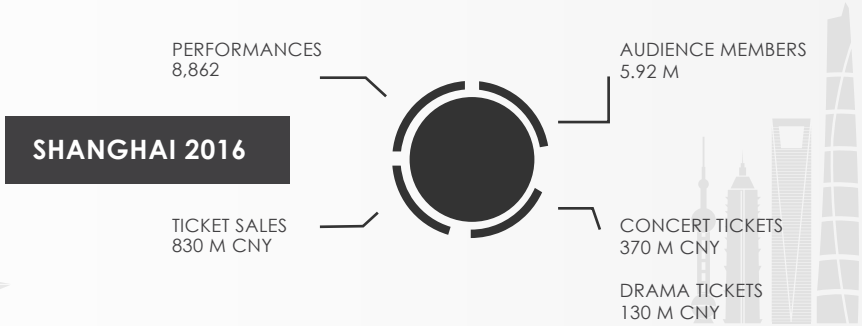
- Modern Sky, a Chinese music festival, has taken 30% shares in the UK music festival Liverpool Sound City.

# REGIONAL DIFFERENCES

**FIRST-TIER CITIES LEAD THE PERFORMANCE ARTS SECTOR :** Beijing and Shanghai have the most active theatre markets in China




Source: Beijing Performing Arts Association, 2017




Source: Shanghai Performing Arts Association, 2017

**SECOND- AND THIRD-TIER CITIES DEVELOPING AUDIENCES WITH THE HELP OF GOVERNMENT SUPPORT**

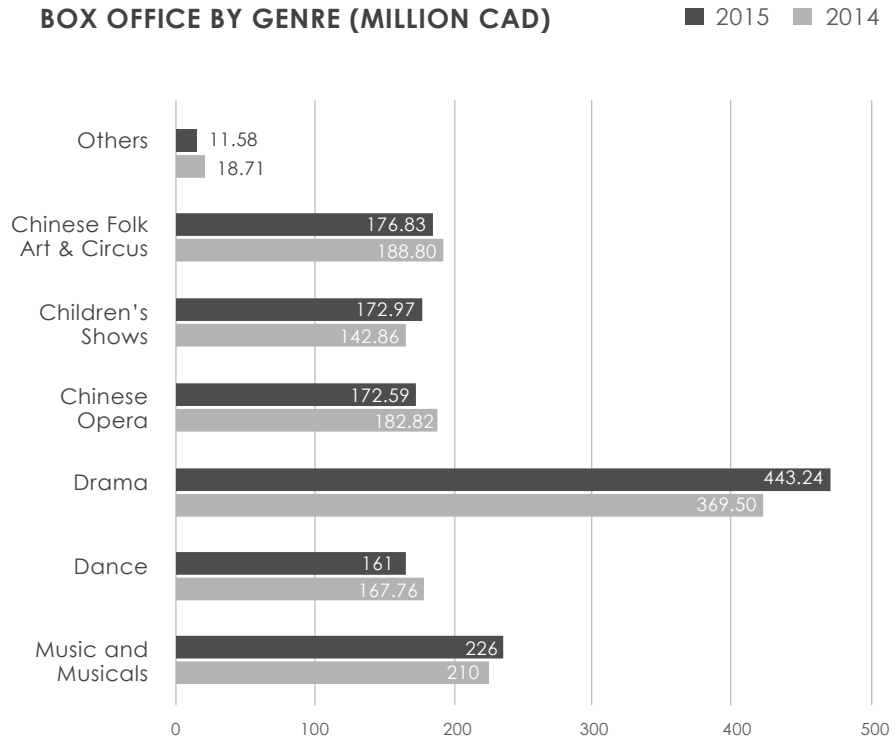
- A large number of venues have been built recently in these cities, and attracting audiences is an urgent priority. The government-funded 'Card for Cultural Benefits,' which offers citizens discounted tickets to performances, attempts to solve this problem.
- Audience development is still at an early stage, with a need to educate new audiences and develop them into regular attendees.
- Most theatres in second- and third-tier cities survive with substantial government subsidies.
- Many venues are managed by state-owned professional management companies rather than by in-house staff. For example, Poly Theater Management Group operates and programs more than 40 theatres nationwide, many of which are in second- and third-tier cities. They receive a large amount of funding from local government.

# REVENUE FROM DRAMA AND CHILDREN'S SHOWS GROWING RAPIDLY

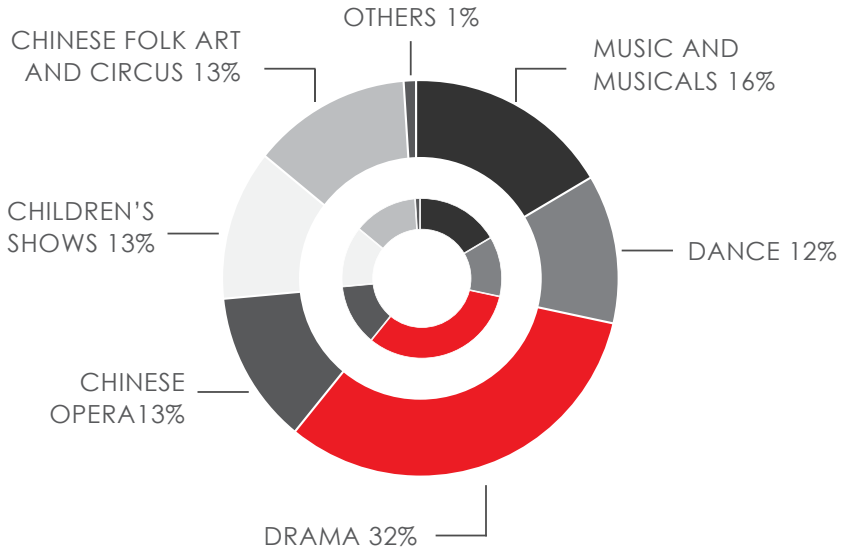
Drama is the most popular genre of professional theatre and box office revenue is growing rapidly – up 20% between 2014 and 2015. Though children's shows have a much smaller share of box office, their revenue is growing equally quickly, and the use of theatre in education is expanding in urban areas.

By contrast, revenue from live music and musicals only increased by 7.5%, but these shows often perform to larger audiences and are more commercially viable.

**BOX OFFICE BY GENRE (MILLION CAD)**




**PROFESSIONAL THEATRE BOX OFFICE BREAKDOWN**




Source: 2015 China Performing Arts Market Report, China Association of Performing Arts

# OPPORTUNITIES FOR CHILDREN'S THEATRE

Demand for children's and family theatre is growing as a result of the growth of the middle class in China. Exposing children to a variety of cultural experiences, including theatre, is seen by middle-class parents as an important part of their education and personal development. This has driven a 21% increase in box office revenue for children's theatre between 2014 and 2015.

Children's theatres in first- and second-tier cities often seek out foreign shows. Theatres have also hired foreign experts to bring in foreign productions and ensure their quality. For example, Tony Reekie, former director of the children's program at the Edinburgh Fringe, became the International Director of the Shanghai children's theatre Little Ones Big Views. It staged 15 foreign productions in 2016.

## CHINA CHILDREN'S THEATRE FESTIVAL OFFERS OPPORTUNITIES FOR FOREIGN PRODUCERS

Founded by China Children's Art Theatre, the festival has been running in Beijing since 2011, and attracted an audience of 160,000 in 2016. It has an obvious interest in international performances, having hosted forty-six from countries such as the United States, Romania, Japan, Korea, Spain, and Australia.

## EXAMPLES OF SHANGHAI'S APPETITE FOR INTERNATIONAL CHILDREN'S THEATRE

- In 2016, Shanghai Children's Art Theatre presented a number of Canadian performances, such as *Traces*.
- *MIWA's Adventures*, a children's immersive theatre production, produced by the American artist Miwa Matreyek, toured in Nanjing, Suzhou and Yangzhou, as well as Shanghai.

# OPPORTUNITIES FOR FOREIGN MUSICALS

### MUSICALS ARE THE MOST COMMERCIALLY SUCCESSFUL THEATRICAL IMPORT TO CHINA

Foreign musicals attract the largest audiences, and can successfully fill the largest venues in Beijing and Shanghai. Despite the growing quality of locally-produced musicals, imported performances are still the most popular – particularly when they are localized and translated into Chinese. Box office revenue is typically dominated by a small number of blockbuster shows: in 2015 *The Phantom of the Opera* was responsible for half of total national box office.

Box office in 2015 was 226 million CNY (43.6 million CAD), a 50% growth from the previous year. Although revenue in 2016 declined by 23% (in the absence of a blockbuster musical), further growth is expected in 2017, fuelled by the arrival of more blockbuster international shows.

### MANY CHINESE CITIES AND PROVINCES ARE NOW ABLE TO SUPPORT LARGE FOREIGN MUSICALS

In a recent interview Lee Seonghun, Director of Performance at CJ Entertainment & Media, referenced research that found demand for foreign musicals increases in Asian countries when GDP surpasses $10,000 USD per capita. That was the case with the success of *Cats* (1983) in Japan and *The Phantom of the Opera* (2001) in Korea. Several Chinese cities and provinces have passed this threshold recently, and consequently should be considered key targets for the export of musicals:

- Shanghai (2008)
- Beijing (2009)
- Jiangsu and Zhejiang provinces (2012)
- Guangdong provinces (2014)

"The artistic community in China has begun to pioneer the development of new Chinese musicals for the growing audiences engaged in the genre. Canadians have the experience, creativity and appreciation for diverse cultures that well positions them to work with Chinese theatre makers to create successful new works."

***Michael Rubinoff, Associate Dean, Visual and Performing Arts, Sheridan College***

# EXAMPLES OF TOURING MUSICALS IN CHINA

### *MAMMA MIA!*, ORIGINAL PRODUCTION (2007)

- Toured in Beijing and Shanghai with a reported 100% profit

### *MAMMA MIA!*, CHINESE VERSION (2012)

- Ticket revenue of 130 million CNY (25 million CAD) after a two-year tour

### *CATS*, CHINESE VERSION (2013)

- 160 performances in six cities
- 200,000 attended
- 72 million RMB (13.90 million CAD) ticket revenue
- Produced by United Asia Live Entertainment

### *AVENUE Q*, CHINESE VERSION (2013-2016)

- More than 300 performances in 30 Chinese cities
- More than 200,000 attended
- Produced by Seven Ages

# OPPORTUNITIES FOR CIRCUS AND LIVE SPECTACLES

## BREAKING DOWN LANGUAGE BARRIERS

Language barriers are one of the main challenges to bringing theatre and live entertainment to China. Performances that don't rely on the spoken word can bridge the language barrier, meaning a particular opportunity to reach Chinese audiences. International circus companies have shown that non-spoken-word performances can reach and tour widely, particularly in second- and third-tier cities. Examples include:

- The International Circus Golden Prize China Tour 2014 showcased performances from Russia, Belarus, Ukraine, Kazakhstan and Guinea, touring Nanjing, Yangzhou, Wuxi, Suzhou and Nantong.
- Cirque Eloize toured 19 cities with Cirkopolis, including 15 second-tier cities. The tour promoter was Shanghai Fresh Vogue.
- Cirque du Soleil plans a permanent show at Hangzhou Xintiandi, a commercial, retail and entertainment centre. It will be housed in a new theatre space with a capacity of 1450.

## SPECTACLES ATTRACTING DOMESTIC TOURISM

In China, live spectacles are increasingly used to attract domestic tourists to developing tourist destinations. Zhang Yimou's outdoor spectacle *Impression: Liu Sanjie*, developed in 2002, caused a boom in domestic tourists to Yangshuo. Other 'Impression' spectacles were produced in other tourists destinations including Lijiang and Hangzhou.

**DOMESTIC PROMOTERS INTERESTED IN ATTRACTING THE ATTENTION OF YOUNG PROFESSIONAL AUDIENCES**

Non-traditional theatre and performance art are an opportunity to attract the interest of China's expanding young theatre audience. This group has less established expectations and demands new and interesting experiences. Young people in China have increasing disposable income, and are becoming more active in attending performances in their leisure time. Small-scale experimental foreign performances are becoming more popular, and domestic industry professionals are interested in learning from foreign avant-garde production companies in order to meet this new demand.

**MULTIMEDIA AND SITE-SPECIFIC THEATRE**

Both multimedia performances and site-specific theatre have proven to be popular with Chinese audiences, as have immersive theatre experiences. For example, a localization of Punchdrunk's *Sleep No More*, presented by Shanghai Media Group, was enormously successful in Shanghai, selling more than 30,000 tickets for an extended five-month run.

# POTENTIAL OPPORTUNITIES FOR NON-TRADITIONAL THEATRE


# THEATRES IN SHOPPING MALLS A DEVELOPING TREND

**PROPERTY DEVELOPERS SEE THEATRES AS A WAY TO ATTRACT CUSTOMERS**

Some Chinese property developers see theatre and cultural entertainment as a way of increasing footfall and dwell time in commercial developments such as shopping malls. In first-tier Chinese cities, 3% of the footprint of shopping malls is dedicated to arts and culture.

Shopping centres are becoming a logical – and ever more important – source for the provision of arts and culture. While public cultural infrastructure is growing at a rate of 9.5%, the footprint of shopping centres is growing at a rate of 30.5%. In China, marrying the arts with commerce is considered a 'win/win' scenario, benefitting audiences, artists and developers.

**IN FIRST-TIER CHINESE CITIES, 3% OF THE FOOTPRINT OF SHOPPING CENTRES IS DEDICATED TO ARTS AND CULTURE.**

## THEATRES IN SHOPPING MALLS PROVIDE AN OPPORTUNITY FOR FOREIGN PRODUCERS

While this is still an emerging trend there is precedent for theatres in shopping malls hosting foreign productions. Examples of this include:

### THEATRE ABOVE, SHANGHAI

- Founded by well-known theatre artist Lai Shengchuan in 2015 as an extension of his Performance Workshop
- Located on the fifth floor in Metro City in Shanghai, it is 2530 square metres in area and includes a theatre that seats 699 people
- It takes on both domestic and international shows, as long as they are produced by Mr. Lai

### LITTLE ONES BIG VIEWS, SHANGHAI

- Founded in 2015 by entrepreneurs who are mothers, with the aim of bringing high-quality theater content to children
- Located in Daning International, Putuo District, its shows also tour other cities
- Tony Reekie, with extensive experience in Scottish children's theatre, is its International Director
- It hosted 15 foreign shows in 2016

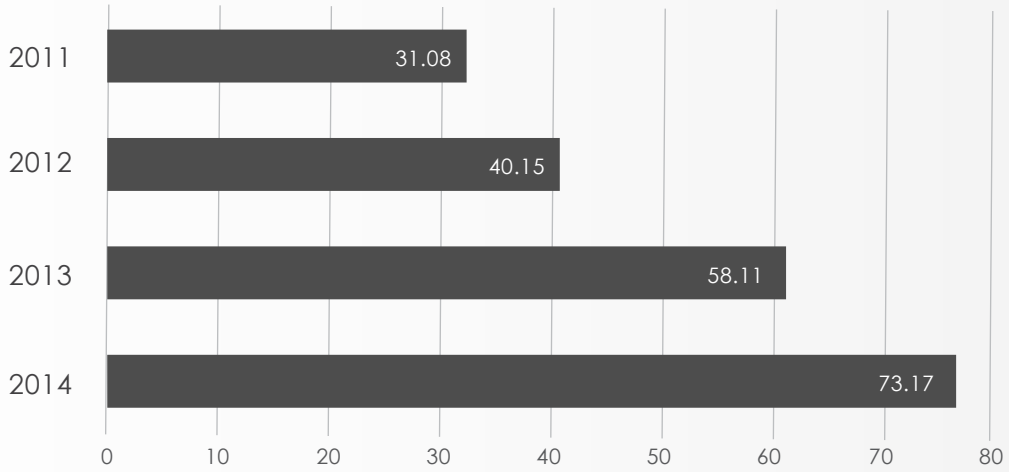
### ZHENGJIA THEATRE, GUANGZHOU

- Built in 2015 by Zhengjia Plaza, it is located in the shopping mall in central Guangzhou
- Its opening show was *NANTA*, from Korea

# OPPORTUNITIES FOR OUTDOOR MUSIC EVENTS AND FESTIVALS

Outdoor music events and festival are becoming more popular with young people, particularly during Chinese national holidays. Revenue from ticket sales in 2014 was 379 million CNY (73.16 million CAD), almost double the figure in 2012. It is worth noting that ticket prices for festivals are much lower in China than in Canada, ranging from 200 CNY to 600 CNY (38.6 CAD to 115.8 CAD).

**OUTDOOR MUSIC FESTIVAL SALES REVENUE (MILLION CAD)**




Source: 2015 China Performing Arts Market Report, China Association of Performing Arts

**REVENUE FOR TICKETS SALES IN 2014 WERE 379 MILLION CNY (73.16 MILLION CAD), AN INCREASE OF 23.7% FROM 2013, ALMOST DOUBLE THE REVENUE FROM 2012.**

Well-known domestic Chinese festival brands include: Midi Festival, founded by Midi Music School; Strawberry Music Festival, founded by domestic music label Modern Sky; and Storm Electronic Music Festival.

### A NEW OPPORTUNITY FOR INTERNATIONAL FESTIVALS

As this sector grows there is an opportunity for foreign festivals to expand into China, for example:

- Summer Sonic Shanghai (2013) was a spin-off of the long-running Summer Sonic festivals in Japan
- Umbria Jazz Festival Week (2016) was a spin-off of the festival in Italy, co-organized by the Chengdu government and Chengdu Art Theatre

# OPPORTUNITY TO SUPPORT THE DEVELOPMENT OF CHINA'S THEATRE AND LIVE ENTERTAINMENT SECTOR THROUGH TRAINING AND EDUCATION

As demand for theatre and live entertainment increases, China needs to develop its home-grown talent. However, most available theatre education programs focus on areas where there have traditionally been employment opportunities, for example Chinese opera and drama. This has led to a shortage of talent and expertise in a number of specific areas. Consequently, there is an opportunity for educational and training institutions in Canada to help develop training programs with institutional partners in China.

## SPECIFIC NEED FOR TECHNICAL EXPERTISE

There is a shortage of theatre technicians, particularly in the provinces, as national operators and producers typically recruit and employ the best talent. More programs that provide technical skills training are required. In recognition of the problem, the Chinese Ministry of Culture and the National Theatre of China established a scholarship program for Chinese students and professionals. Scholarship recipients could attend lectures and training courses led by invited foreign experts, for instance professionals from the Royal Opera House in the UK. Topics covered include production, stage management, theatre operation and management.

As expectations and demand grow for more advanced multimedia and digitally enabled experiences, there will be a need to develop more advanced technical theatre skills including motion capture, live VR experiences, and interactive design.

## MUSICAL THEATRE A PRIORITY AREA

With the rising growth in the popularity and commercial success of musical theatre in China, demand for talent in this area is also rising. Localized musicals exclusively feature Chinese performers – for example, *Mamma Mia!* in 2012 and *The Lion King* in 2016. Yet as China has little tradition in this area there typically isn't the necessary training experience within educational institutions, and consequently there is a shortage of talent. This provides an opportunity for international and Canadian educational institutions with experience in this area to support Chinese institutions.

An example of such a collaboration includes Sheridan College, Ontario, which has developed a student exchange program with the Shanghai Theatre Academy (STA). The program sees students from STA developing their skills in musical theatre at Sheridan College.

Another attempt to rectify this problem was led by the China Arts and Entertainment Group, China Oriental Performing Arts Group, Really Useful Group (RUG) from UK, and National Institute of Dramatic Art in Australia, who worked together to initiate a 'China Musical Talent Development Plan' in 2016. The plan supported 45 Chinese professionals to attend a specially designed training program.


Image courtesy of Michael Rubinoff

# NEXT STEPS

Canada's network in China can help you take the next step to...

**PREPARE**

**What is the best approach for your business in China and what do you need to know?**

- National and regional touring opportunities
- Theatre and live entertainment infrastructure
- Localization and translation requirements
- Theatre festivals and trade fairs

**ACCESS**

**What is the level of opportunity for your business in China?**

- National and regional touring opportunities
- Theatre and live entertainment infrastructure
- Localization and translation requirements
- Theatre festivals and trade fairs

**CONTACT**

**Which government contacts, industry bodies, businesses and other partners should you meet?**

- Government agencies and public theatres
- National and regional promoters
- Agents, private funders and investors

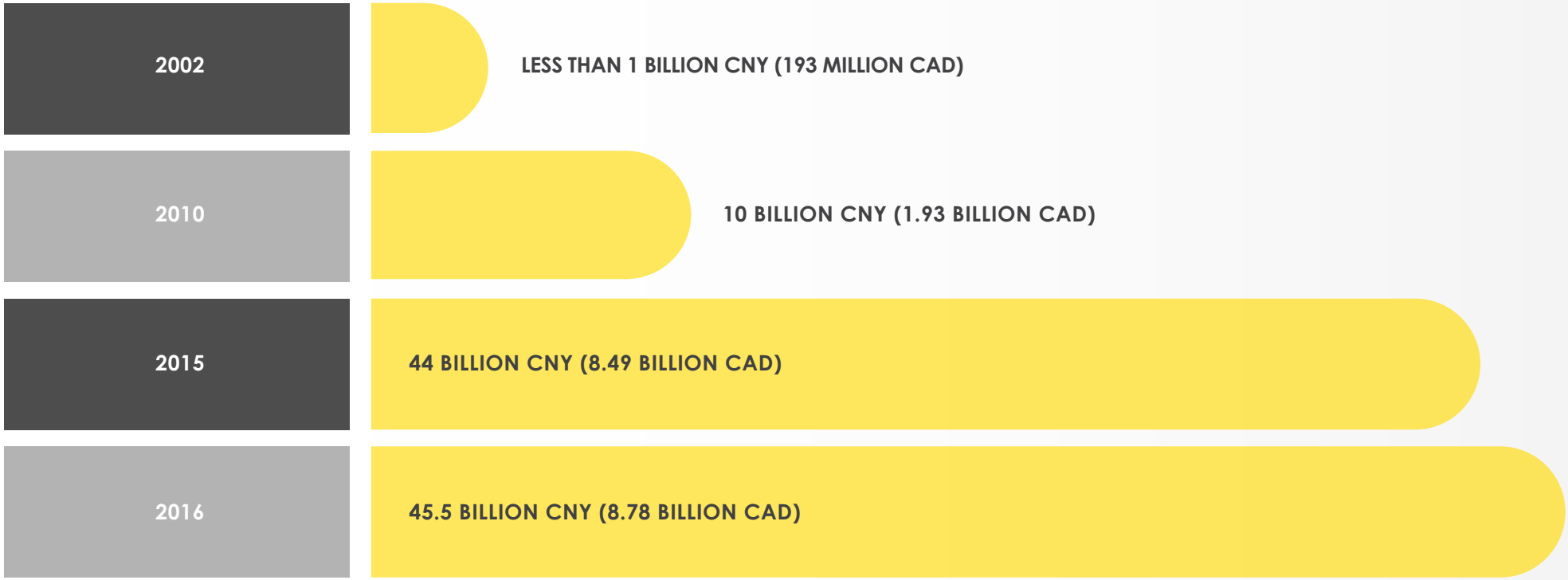
**CONNECT WITH US TODAY**

- SHNGI.CREATIVEINDUSTRIES@INTERNATIONAL.GC.CA

# 3 FILM AND VIDEO

# FASTEST-GROWING FILM INDUSTRY IN THE WORLD

With over 20% of the global market, China has the fastest growing film industry in the world and is set to overtake the United States as the country with the world's largest film industry. This meteoric growth is the result of China's recent economic boom, a rise in the middle class, an influx of foreign and domestic private capital and government policies that support and protect the domestic film industry.

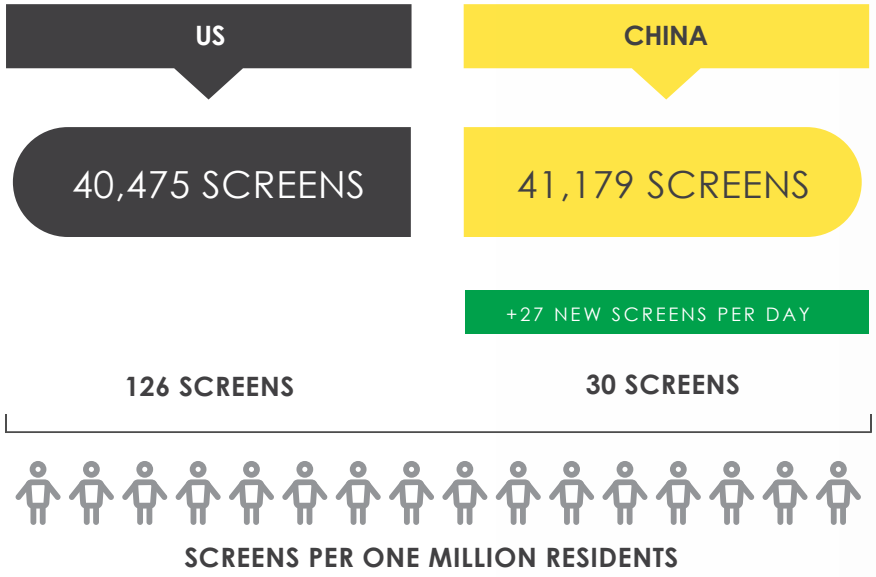



Box Office Revenues, Source: State Administration of Press, Publication, Radio, Film and Television of The People's Republic of China

# REVENUES FROM FOREIGN FILMS GROWING FAST

Although the sector's growth slowed in 2016 – down to only 3.7% from 46% in 2015 – foreign films bucked the trend, with box office revenues from foreign films increasing by 12.7%. Reasons for the growth slowdown from previous years included a correction from previous inaccurate box office data and a reduction in the number of discounted or 'free' ticket giveaways that count towards box office.

# MORE SCREENS THAN ANY OTHER COUNTRY IN THE WORLD–WITH ROOM FOR GROWTH




Source: 2016 China Film Industry Report, Entgroup

By the end of 2016, China had 41,179 screens, in comparison to 40,475 screens in the United States. There is still room for growth, however, as China has 30 screens per million residents which is less than a quarter of the 126 per million in the United States. In 2016, China was adding 27 new screens per day.

## MAJOR CINEMA CHAINS

| | BOX OFFICE | SCREENS |
|---|---|---|
| WANDA | 6.3 BILLION CNY | 2557 |
| CHINA FILM | 3.81 BILLION CNY | 2137 |
| DADI CINEMA | 3.5 BILLION CNY | 3016 |

Source: 2016 Annual Report of Wanda, China Film and Dadi Cinema

## INCREASING IMAX SCREENS AND GOVERNMENT SUPPORT FOR NEW FORMATS

By end of 2016, there were over 400 IMAX theatres in China, 35% of the worldwide total, with another 300 theatres planned.

Between 2012 and 2015, the Chinese National Film Development Fund Committee subsidized film productions using new formats. For instance, subsidies were granted to 3D and IMAX productions with box office revenues ranging from 50 million CNY to 500 million CNY (approx. 10 million CAD to 100 million CAD). China also developed a trade deal with the U.S. in 2012 to allow an extra 14 films in IMAX or 3D formats to be imported above the previous import quota.

# INCREASINGLY INTERNATIONAL MARKET FOR FILM

**IN 2016, FOREIGN FILMS AND CO-PRODUCTIONS GENERATED MORE REVENUE THAN DOMESTIC PRODUCTIONS**

- Revenue from 90 foreign films (including revenue sharing and outright licensing imports) accounted for 42% of total box office revenues generated by the 468 films screened in China in 2016. The average box office of foreign films is 212 million CNY (40.93 million CAD), triple the average of domestic productions.

- Of the top 10 films in 2016, 4 were entirely foreign productions, 5 were foreign co-productions classed as 'domestic,' and only 1 was entirely domestic

- 8 of the top 10 'domestic' films were actually foreign co-productions

**CHALLENGES REMAIN**

While foreign films generally have a higher value at the box office in China than domestic productions, challenges for foreign films under the revenue-sharing model in China remain. These include understanding differences in taste between western and Chinese audiences, censorship and political sensitivity, and policies to protect the domestic market.

There are also restrictions in place on the availability and distribution of foreign films in China, including the '34 quota' which limits the number of imported foreign films with revenue-sharing deals in China.

**FURTHER LIBERALIZATION EXPECTED**

Despite the above, the market in China is becoming increasingly international, with the government indicating it supports further liberalization of the market for foreign players. During Chinese President Xi Jinping's visit to the United States, China Film Group agreed to consider further increasing the number of outright international licencing 'flat-fee' deals (which do not contribute to the '34 quota').

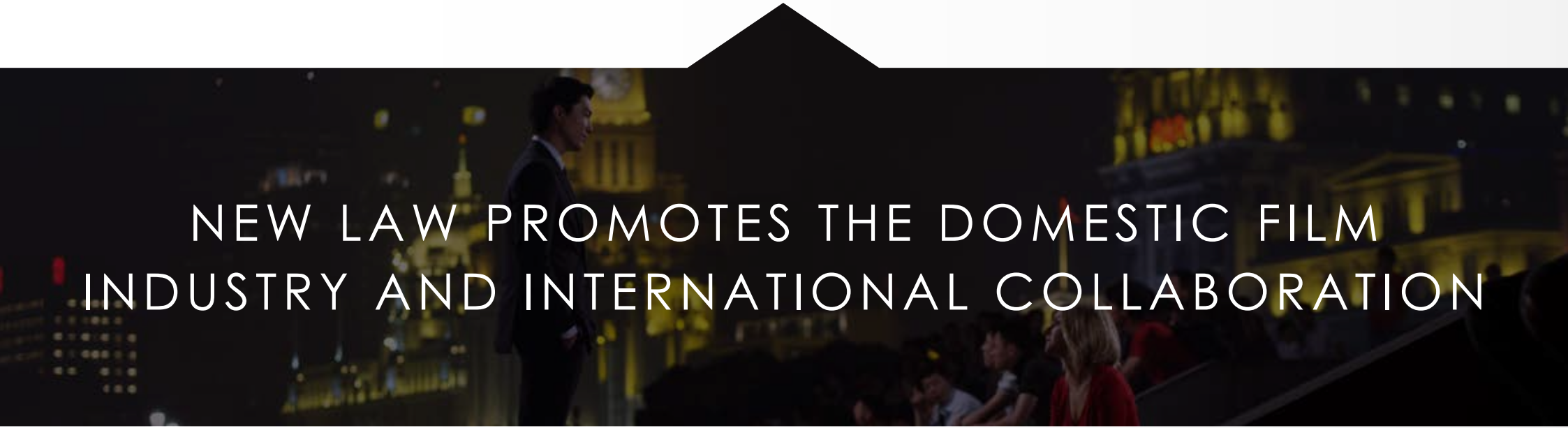
The current '34 quota', which permits 20 revenue-sharing foreign films and an additional 14 IMAX or 3D format films to be imported, expires in 2017. The new quota has yet to be finalized but the number may increase.

The Chinese government has put forward a new law to boost the capacity of the domestic film industry and promote Chinese film. This sits alongside China's overall 'Going Out' policy, which encourages China's economic, political and cultural interests overseas, and its policies on IP and copyright reform.

**FILM INDUSTRY PROMOTION LAW**

The new Film Industry Promotion Law, which came into effect March 2017, is the first of its kind in China and was launched after 12 years of research and review. It aims to develop the film industry and further encourage international cooperation. While it is too early to fully gauge the impact of the new law, its provisions cover the following areas :

- Simplified and transparent approval process for domestic and foreign productions on location in China
- Systematic and transparent censorship
- Requirements for box office data transparency and prohibition of the fabrication of box office data
- Encouragement of innovation and a commitment to further government investment
- Requirement that domestic films (including co-productions) must have at least two-thirds of total screen time annually
- Support for overseas trade and financing through co-productions



# TREATY CO-PRODUCTIONS ARE A ROUTE INTO CHINA

### TREATY CO-PRODUCTIONS ARE GRANTED 'DOMESTIC' STATUS WITH FAVOURABLE BOX OFFICE SHARE

Given China's restrictions on the import of foreign films, gaining 'domestic' status for a film is very valuable for foreign producers. Co-productions involving partners from specific countries can be considered domestic productions if they adhere to certain criteria, typically including a certain level of investment from all parties to the co-production treaty.

Films that are not treated as domestic and therefore have to be imported on a revenue-share basis (as part of the '34 quota') are granted a limited share of box office revenues (25% for United States imported films and 13% for other imported films). Foreign films that are imported on an outright licensing 'flat-fee' basis are not eligible for any share of the box office.

### TREATY CO-PRODUCTIONS ARE SUCCESSFUL

**IN 2016, 8 OF THE TOP 10 'DOMESTIC' FILMS WERE CO-PRODUCTIONS**

### CHINA HAS SIGNED CO-PRODUCTION TREATIES WITH THIRTEEN COUNTRIES AND THE NUMBER OF APPROVED CO-PRODUCTIONS IS INCREASING

77 approved in 2014, 94 approved in 2015, 96 approved in 2016. In 2016, foreign countries involved in co-productions included:
Hong Kong (54), US (10), Taiwan (8), UK (4), Korea (3).

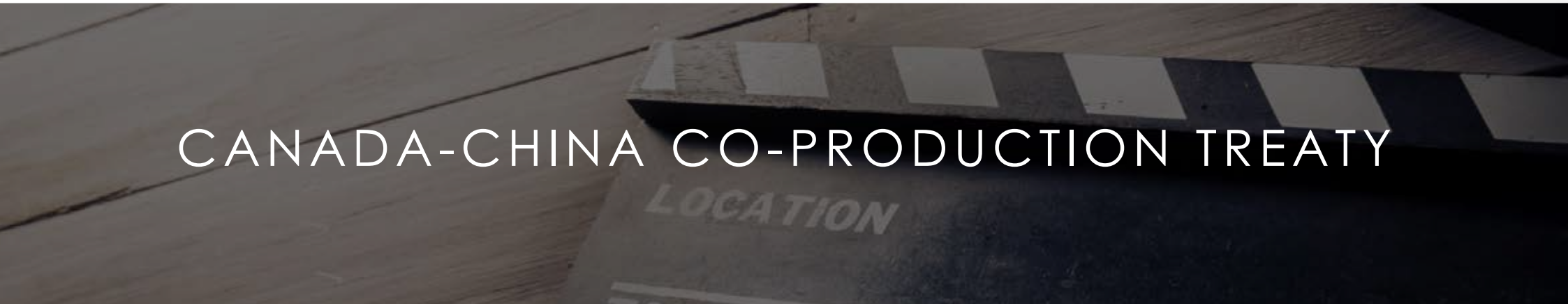
# TREATY CO-PRODUCTIONS ARE A ROUTE INTO CHINA

Canada has had a film co-production treaty in place with China since 1987. The treaty was renewed in September 2016 during the visit of Canada's Prime Minister to China. To qualify as a co-production, funding from each country must exceed 15% of the entire production budget and the production should be 'completed' in both countries.

To date there have been relatively few co-productions between Canada and China. Telefilm Canada lists three:

| PRODUCTION | YEAR | PRODUCTION COMPANY | COPRODUCTION COUNTRY(IES) |
|---|---|---|---|
| OUTCAST | 2013 | GROUPE JFK INC. | CANADA, CHINA, FRANCE |
| CHINA HEAVYWEIGHT | 2010 | EYE STEEL FILM INC. | CANADA, CHINA |
| WAY OF TAI CHI (THE) | 2009 | LOWIK (TAI CHI) INC. | CANADA, CHINA |

Canada produces a relatively small number of theatrical feature films: 94 in 2016 (a drop of 25% from 2015). Co-productions with China offer an opportunity for Canadian producers to access new funding sources and the vast film audience in China. While there are benefits to co-productions for foreign producers there are also challenges, including finding the right Chinese partner and differences in working standards.




CANADA-CHINA CO-PRODUCTION TREATY

# OPPORTUNITIES TO SUPPORT THE INTERNATIONALIZATION OF CHINESE FILM

Internationalizing and exporting Chinese film is part of the government's 'Going Out' strategy, which became part of national policy in 2011. Success of Chinese film in the international market is important for the development of the industry.

However, Chinese films have had limited success in the international market: while domestic box office in 2015 was 16.1 billion CNY (3.11 billion CAD), overseas sales were only 1.87 billion CNY (0.36 billion CAD). This can be explained by differences in cultural styles and tastes, as well as by production quality that is below international standards.

International collaborations and co-productions are considered important to help Chinese films to compete internationally. They encourage knowledge exchange to develop and internationalize the domestic industry and consequently help Chinese films succeed internationally. There is an opportunity for Canadian producers to work with Chinese partners to support and service the production of Chinese films, and the development of associated filmmaking skills.

# MAJOR INTERNATIONAL STRATEGIC INVESTMENTS BY CHINESE COMPANIES

Over the past few years, Chinese companies have been actively investing in and acquiring international film businesses. Their objective is to accelerate the development of China's domestic industry by bringing international skills and capabilities to China. Major outbound investment deals in this sector include:

- China Media Capital, Shanghai Media Group and Shanghai Alliance Investment: 330 million USD (440 million CAD) joint venture with the US company DreamWorks Animation to create a new production company, Oriental DreamWorks, based in Shanghai (2012)

- Zhejiang Huace Pictures joint venture, Huace & New, with Next Entertainment World (N.E.W.) from South Korea, to co-produce 'blockbuster' films (2015)

- Beijing Enlight Media: 6 billion CNY(1.16 billion CAD) joint venture with Japanese company Access Bright to produce animated TV shows and features (2015)

The most aggressive Chinese investor in the film industry is the property developer Wanda, also the largest cinema chain operator in China. Its most significant investment deals include:

- AMC (2.6 billion USD) (3.47 billion CAD)
- Hoyts (2.2 billion USD) (2.93 billion CAD)
- Legendary Entertainment (3.5 billion USD) (4.67 billion CAD)
- Odeon & UCI (921 million GBP) (1.23 billion CAD)
- Nordic Cinema Group (930 million USD) (1.24 billion CAD)

# DOMESTIC VFX BELOW INTERNATIONAL STANDARDS

Relative to Hollywood blockbusters, post-production budgets for Chinese films are low. Successful Hollywood blockbusters can generate ten times the global revenues of successful Chinese films. For example, there were four foreign films that generated over 1 billion USD at the box office worldwide in 2016, yet only three Chinese films topped 300 million USD. Expectations for relatively low returns at the box office keeps budgets for post-production low – meaning low standards.

Money spent on post-production in China in 2016 was 3.37 billion CNY (650 million CAD), including 1.13 billion CNY (0.22 billion CAD) in film, 820 million CNY (158.30 million CAD) in TV, and 200 million CNY (38.61 million CAD) in online TV. To compare, post-production service providers in the US generated total revenues of over 6 billion USD (40 billion CNY, 8 billion CAD).

Films with heavy use of VFX are popular in China. The top ten films in China in 2016 were dominated by such films – and almost 50% of them were foreign productions. Examples include *Warcraft, The Jungle Book* and *Captain America: Civil War*.

Relative to Canada, the Chinese VFX and animation sector is still at an early stage of development. The domestic industry is dominated by a small number of production companies that provide end-to-end services including VFX services. Despite an increasingly comprehensive offer from Chinese post-production companies, their VFX capabilities vary. To improve their VFX services, Chinese companies are increasingly seeking out foreign expertise. Some of the largest domestic firms, such as Phenom Films and Original Force, work with and hire foreign talent to improve their offer.

# ONLINE TV AND VIDEO SHOWING POTENTIAL FOR INTERNATIONAL CONTENT PRODUCERS

## ONLINE TV AND VIDEO DISRUPTING TRADITIONAL TV

By the end of 2016, 683 million people were consuming online video content in China. These tended to be from a younger demographic than traditional television viewers, seeking out a wider variety of programming including more international programs not offered by traditional TV.

Online video provides important opportunities for international content providers to access Chinese audiences. Examples of well-known international content finding success in China include:

- ***Game of Thrones***, whose fifth series received 100 million views on the Tencent video platform
- ***Doctor Who***, whose seventh series had 95 million views on the Tencent video platform

Like their foreign counterparts, some of China's leading online TV and video platforms – including Youku Tudou, iQIYI and LeTV – produce their own premium shows.

### TOP 3 VIDEO PLATFORMS IN CHINA 2016

| | |
|---|---|
| iQiyi | 429 MILLION USERS |
| TENCENT | 301 MILLION USERS |
| YOUKU | 218 MILLION USERS |

Source: China Mainland Media Research

# OPPORTUNITIES FOR CANADIAN VFX AND COMPUTER ANIMATION SERVICE PROVIDERS

Canada is a global leader in the provision of VFX and computer animation services to the world's film and television industry. As the Chinese film industry continues to grow, and returns at the box office increase, budgets for post-production will also increase. In addition, the growing demand for high-quality VFX in film and the growth of China's online TV and video market all present opportunities for the Canadian VFX and computer animation sector in China.

There are already several foreign VFX and animation service providers active in China and as the industry continues to grow there is room for more.

- Academy and Emmy Award-winning Pixomondo, originally a German company, has become increasingly embedded in the Chinese market. Pixomondo provides VFX services for the popular Chinese TV series *Ice Fantasy*, an Alibaba Films production.

- The 2012 Chinese film *Painted Skin* hired CJ Powercast (Korea) to work on computer graphics, NEXT Visual Studio (Korea) for visual effects, and a Hollywood team to provide special effects makeup.

China is using strategic investment to support the development of the film industry across the entire production process. This includes investment in, and the acquisition of, specialist post-production and VFX studios.

Recent investment deals and acquisitions of VFX and post-production companies by Chinese businesses have included:

- UK post-production company Framestore had a 187 million USD investment from China Culture Investment Holdings Co, which took a 75% stake in the company
- Korean post-production company Dexter Studios received a 10 million USD investment from Wanda
- CMC Capital invested in VFX firm Base FX and established a joint venture, Base Media, to serve the Chinese market

# STRATEGIC INVESTMENT IN VFX AND POST PRODUCTION

# SHORTAGE OF HIGH-QUALITY DOMESTICALLY PRODUCED ANIMATION

Despite various laws and governmental initiatives aiming to nurture and develop the Chinese animation sector, it has not yet reached international standards. Domestic animation typically targets children, yet there is also significant demand from an adult audience. Consequently there is a need for more sophisticated content. Currently this need is not being met by domestic producers.

**OPPORTUNITY TO DISTRIBUTE ANIMATION INTO CHINA THROUGH ONLINE PLATFORMS**

A 2006 policy restricts the broadcasting of foreign animated TV shows during prime time on TV. This policy has led to the current situation whereby most foreign animations are typically distributed online, dominating online distribution due to the lower quality of Chinese animation.

There have been several high profile licensing deals between video platforms and foreign animation producers. For example, by 2015 Tencent video had purchased online broadcasting rights for over 500 Japanese animation shows. (Japanese productions represent 66% of all foreign animation distributed online.)

Increasing demand for high-quality animation, and a lack of local supply, provides opportunities for Canadian suppliers to distribute in China through online streaming platforms.


# COMPANY HIGHLIGHT: DHX MEDIA

- DHX Media is a Canadian company that produces and owns the world's largest independent library of children's content including *Teletubbies, Yo Gabba Gabba!, Caillou, In the Night Garden, Inspector Gadget, Make It Pop,* and *Slugterra*.

- It has operated in China for the past two and half years, with a small office in Beijing. Prior to coming to the mainland, DHX worked through an agent in Hong Kong.

- It primarily licences titles directly to a number of China's largest online video platforms. In the last year it has generated revenues through these deals in excess of $3.6 million CAD.

- In the future DHX plans to work with and service Chinese producers (including platforms) who wish to develop their own titles for domestic and international markets.

# OPPORTUNITY TO PROVIDE VFX TRAINING AND EDUCATION IN CHINA

China needs to develop the skills and capabilities of its domestic talent if it is to realise its aspirations for the domestic film industry, particularly in VFX and computer animation. There is an opportunity to leverage Canada's education sector and its film sector, both highly acclaimed, to bolster Chinese talent development.

Canada has a number of institutions that produce high quality, industry-ready talent. There is an opportunity to export both curricula and teaching models to China, particularly in the field of VFX and computer animation. There are already collaborations in place between Chinese and international institutions, including Canadian institutions.

**SHANGHAI TECHNOLOGY UNIVERSITY AND UNIVERSITY OF SOUTHERN CALIFORNIA SUMMER PROGRAM**

- Spread across 5 weeks at USC and 4 weeks in Shanghai
- Training covers script writing, casting, editing, and production

**SHANGHAI VANCOUVER FILM SCHOOL**

- Co-founded by Vancouver Film School and Shanghai University, it is supported by Shanghai Jingan District, Shanghai Municipal Administration of Culture, Radio, Film & TV, and Shanghai Municipal Education Committee.
- Offers one-year training programs (non-degree) in Shanghai in Film and Television Writing, Film Production, 3D Animation and Visual Effects, Sound Design for Visual Media, Make-up Design for Film and TV, Acting for Film and Television, and Game Design.

# NEXT STEPS

Canada's network in China can help you take the next step to...

**PREPARE**

**What is the best approach for your business in China and what do you need to know?**

- Co-production procedures and distribution opportunities
- Film festivals and trade fairs
- VFX and post-production studios working with foreign studios

**ACCESS**

**What is the level of opportunity for your business in China?**

- Policies and regulations
- Projected box office and online video trends
- Strategic investment opportunities

**CONTACT**

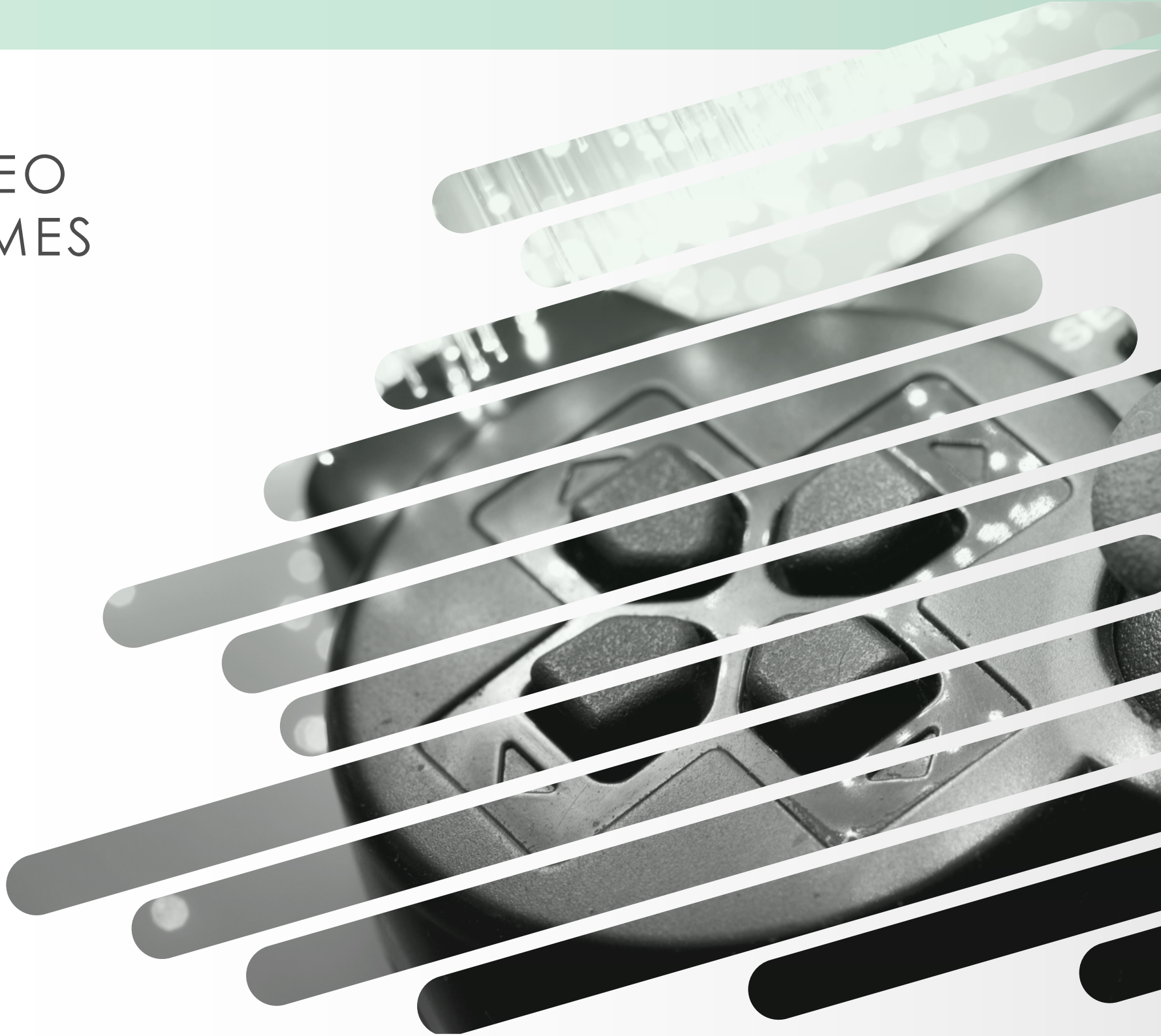
**Which government contacts, industry bodies, businesses and other partners should you meet?**

- Co-production partners and financiers
- Training and educational institutions
- Agents, distributors and investors

**CONNECT WITH US TODAY**

- SHNGI.CREATIVEINDUSTRIES@INTERNATIONAL.GC.CA

# 4 VIDEO GAMES



# LARGEST MARKET FOR VIDEO GAMES IN THE WORLD

### FIVE-FOLD INCREASE IN VIDEO GAME USERS OVER SEVEN YEARS

Between 2009 and 2016, the number of gamers in China has increased five-fold, going from 115 million in 2009 to 566 million in 2016. Growth was most rapid between 2009 and 2013, and has remained stable since 2014, with an annual growth rate of over 4%.

**CHINA ACCOUNTS FOR 25% OF THE GLOBAL MARKET HAVING SURPASSED THE UNITED STATES TO BECOME THE BIGGEST VIDEO GAME MARKET IN THE WORLD.**

### TOP COUNTRIES BY GAME REVENUE IN 2016

| RANK | COUNTRY | POPULATION | ONLINE POPULATION | TOTAL REVENUES MILLION USD |
|---|---|---|---|---|
| 1 | CHINA | 1,382.3 | 788.8 | 24,368.8 |
| 2 | USA | 324.1 | 293.6 | 23,598.4 |
| | ... | | | |
| 9 | CANADA | 36.3 | 32.8 | 1,792.2 |

Source: Newzoo's 2016 Global Games Market Report

# A SMALL NUMBER OF BIG PLAYERS DOMINATE THE MARKET

**TENCENT AND NETEASE TOGETHER HOLD A MAJORITY OF THE MARKET**

In total, 12 companies generate 90% of revenues from video games in China. In 2015 Tencent and NetEase dominated with a combined market share of over 50% of the entire video game market and over 60% of the mobile game segment, the largest video game market segment in China. Tencent is now the world's largest game publisher by revenue.

Tencent and NetEase develop and publish their own titles and 3rd-party titles. Recent popular productions include:

- Tencent's *Honour of Kings* reached 50 million daily active users in December 2016 and 80 million in February 2017 (during Chinese New Year)
- NetEase's *Onmyoji* by NetEase reached 10 million daily active users in December 2016.

**MAJOR COMPANIES ALSO PUBLISH FOREIGN GAMES**

Tencent Publishes and Operates:

- *Dungeon & Fighter* (Neople, Korea)
- *Cross Fire* (Smile Gate, Neowiz, Korea)
- *League of Legends* (Riot Games, USA)

NetEase Publishes and Operates:

- *World of Warcraft* (Blizzard, USA)
- *Overwatch* (Blizzard, USA)

Other big players that publish foreign games include:

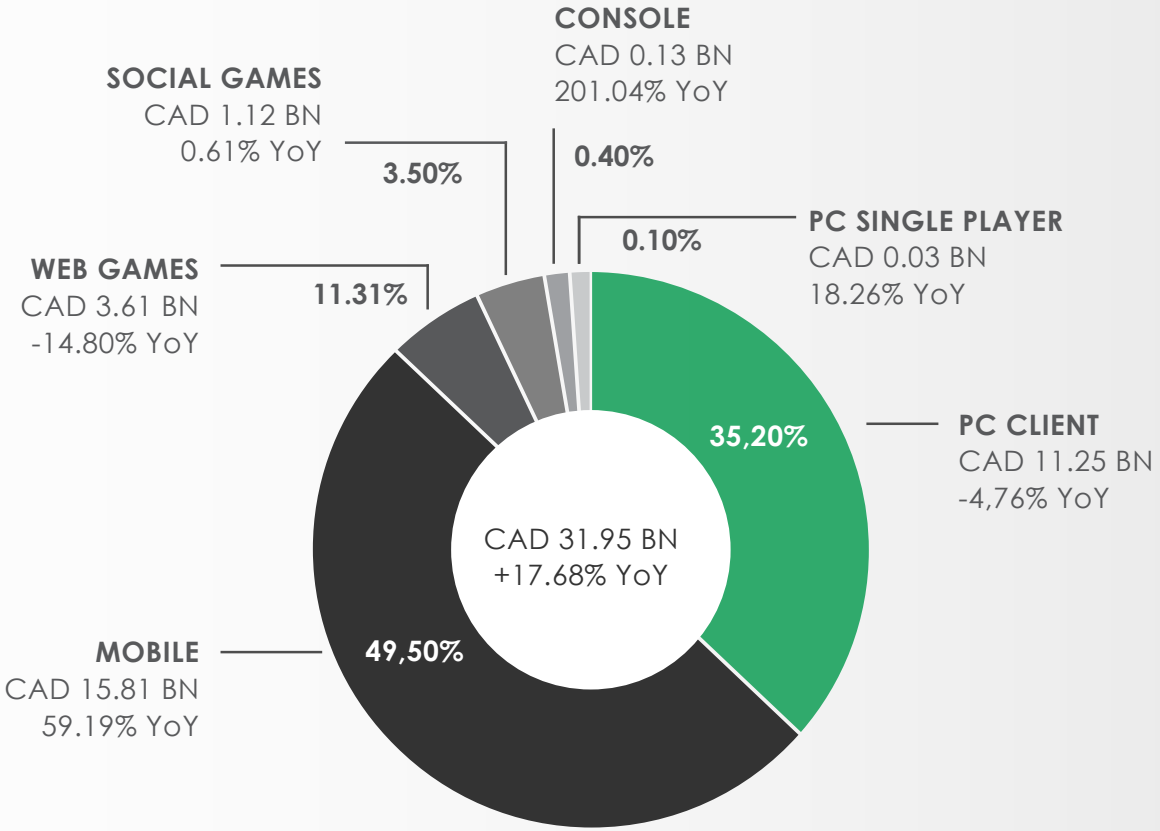
- Perfect World: *CS Go* (Valve, USA) and *DOTA 2* (Valve, USA)
- Shanda: *Final Fantasy XIV* (Square Enix, Japan)

# CHINA'S VIDEO GAME MARKET BREAKDOWN

The Chinese market is dominated by mobile games (49.5%) and PC client games (35.2%), with home consoles (0.4%) and PC single player games (0.1%) accounting for a very small proportion.*

In comparison, in the global market, console games account for 31% of the market and mobile games (mobile phone and tablet) for 37%. These differences are a result of the recently-lifted ban on consoles and the fast developing Chinese mobile gaming sector.

**2016 CHINESE GAMES MARKET - BY SEGMENT WITH YEAR-ON-YEAR GROWTH RATES**




Note: 'PC client games' refer to online games that require players to download and install a 'client' to play. This is a typical category for the Chinese video game industry. This term differentiates them from browser-based or web games.

Source: China Game Publication Working Committee
Note: The industry in China uses different categories

# MOBILE GAMES HAVE SURPASSED PC GAMES TO BECOME THE BIGGEST MARKET SEGMENT

In China, mobile games represented almost 50% of total game sales in 2016, valued at 81.9 billion CNY (15.8 billion CAD). Revenue has increased more than 1200% in only seven years, driven by the now ubiquitous use of smartphones.

**MOBILE GAMES REVENUE (IN BILLION CNY)**

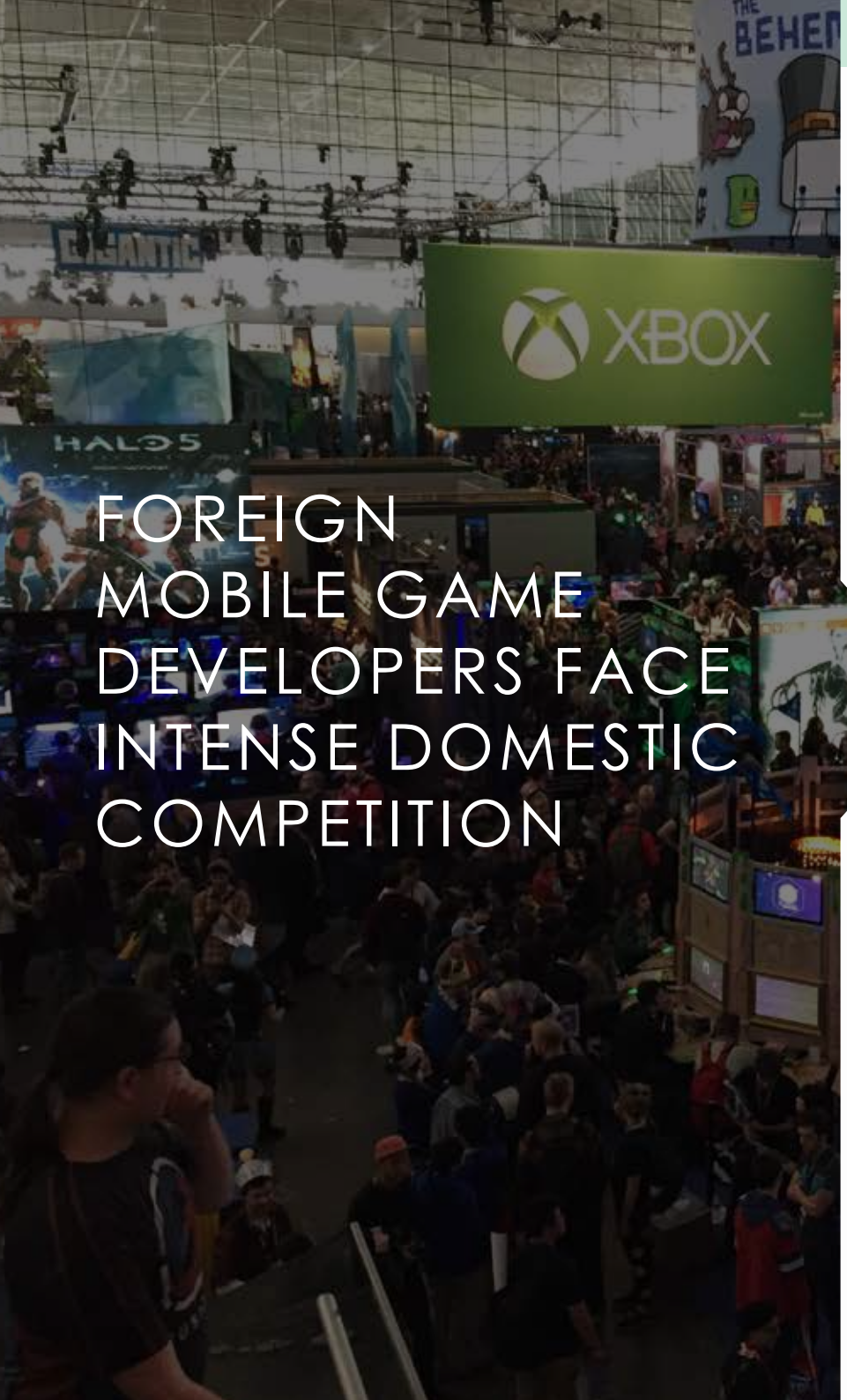
**2009**
**6.4 Million CNY**

**2016**
**81.9 Billion CNY**

**MOBILE INTERNET PENETRATION**

**92% of mobile users access the internet. In comparison, the percentage of users that use a PC to access the internet is relatively low (64.6% desktop 38.5% laptop).**

Source: China Game Publication Working Committee




# FOREIGN MOBILE GAME DEVELOPERS FACE INTENSE DOMESTIC COMPETITION

Mobile games have a much shorter development period and lower development barriers compared to other types of games, as well as having a shorter life cycle. The huge commercial opportunities have attracted massive Chinese studios and investors to this sector, leading to a highly competitive market.

It is reported that 85 mobile games in the 2016 top 100 list of daily revenues were domestically developed and 40 were domestic RPG games, mainly with a martial arts theme.

## SOME FOREIGN MOBILE GAMES ARE SUCCESSFUL IN CHINA

Of the top 20 popular mobile games in 2016, three are foreign titles:

- *Rodeo Stampede*, developed by Featherweight Games (Australia), published and operated by Yodo1
- *Clash Royale*, developed by Supercell (Finland), published and operated by Kunlun
- *Crossfire Mobile*, developed by Smilegate (Korea), published and operated by Tencent

According to policy released by the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) and the National Copyright Administration in order to control the publishing process, foreign developers must work with local publishers to distribute games in China.

There is no access to Google Play in China and there are hundreds of domestic Android stores typically operated by third party platforms. Domestic Android stores account for the distribution of over 80% of mobile games and local publishers typically localize games for each platform.

Mobile games published in Apple's China App Store are subject to approval and censorship.

## *POKÉMON GO* BANNED

*Pokémon GO* is banned in China. The State Administration of Press, Publication, Radio, Film and Television considers it a "threat to geographical information security and a threat to transport and the personal safety of consumers."

# FOREIGN PC CLIENT GAMES ARE POPULAR IN CHINA

PC client games used to dominate the market in China, representing 97.2% of the total market in 2010. With the fast growth of mobile games in recent years, their market share dropped to 35.2% in 2016. However PC client games remain the second largest sector in the gaming market, and still offer a strong market for foreign titles.

**AMONG THE TOP 20 PC CLIENT GAMES IN 2016, 11 ARE FOREIGN GAME TITLES.**

Among popular foreign productions, the most popular genre is first-person shooter games. An example is *CS Go*, developed by Valve, Hidden Path Entertainment, published by Valve Software, and operated by Perfect World, USA.

The second most popular genre is Massive Multiplayer Online Role-Playing Games (MMORPG). An example is *World of Warcraft*, developed by Blizzard (USA) and published and operated by NetEase in China.

## CHINESE DISTRIBUTORS CAN OFFER MAJOR BENEFITS

Working with a Chinese distributor can mean access to a very large user base, which brings added follow-on benefits. Of *World of Warcraft's* 5.9 million global users, 2.7 million are Chinese subscribers via the Chinese distribution platform NetEase. Its popularity in China has brought follow-on benefits: the 2016 film based on the game had a box office total of 221 million USD (281.3 million CAD) in China, 57% of its worldwide box office take.

# OPPORTUNITIES FOR PC SINGLE-PLAYER GAMES

In 2016, PC single-player games represented a mere 0.1% of the Chinese market, with revenue of 170 million CNY (32.8 million CAD). This is because the premium – pay to play – business model is unpopular with consumers. However attitudes towards the premium model are changing, providing an opportunity for developers, domestic and international, of PC single-player games.

### LEGACY ISSUES WITH SINGLE-PLAYER GAMES

The ban on consoles in China resulted in gamers using the PC to play single-player games that, outside of China, would typically have been played using a console. However, the relatively high price of PC single-player games encouraged piracy and kept sales low.

By contrast, the freemium model adopted by PC client and mobile games has been far more successful, allowing users to start playing for free and then inducing them to pay small amounts of money for in-game purchases. Consequently, domestic developers have traditionally committed to PC client and mobile games because of the more viable business model.

### CHANGING CONSUMER ATTITUDES TOWARDS THE PREMIUM MODEL

Although PC single-player games are still a small market in China, consumers are now more open to the premium model. In recent times, sales of PC single-player games have increased dramatically on the Steam China store. For example, *Don't Starve* by Klei Entertainment (Canada) sold one million units in 18 months between Oct 2015 and Feb 2017.

### CHINESE USERS THIRD LARGEST USER GROUP ON STEAM

Chinese users are now the third largest group of users on the Steam games platform. Numbers have increased rapidly in the past year: from 10 million in May 2016 to 16 million in March 2017.

**OF THE TOP 20 GAMES IN THE STEAM CHINA STORE BY SALES (AS OF MARCH 2017), SIX WERE DEVELOPED BY CANADIAN GAME STUDIOS.**

### CHINESE LOCALIZATION BOOSTS SALES

In 2016, Tencent established a new distribution platform, TGP, which distributes not only PC client games, but also premium PC single-player games. The Chinese edition of *Don't Starve*, launched on TGP in November 2016, achieved 500,000 unit sales in two weeks, and one million in a month (December 2016). This exceeded its 18-month sales figure on the Steam China store. The positive performance of PC single-player games released on TGP suggests new opportunities for domestic game developers and foreign game studios.

**'DEVELOPING AND PUBLISHING A CHINESE VERSION ON STEAM HELPS TO BOOST SALES' – LARS DOUCET, DEVELOPER OF *DEFENDER'S QUEST*.**

One week after its Chinese version release on Steam, China became the number one market for *Defender's Quest*. Starting from zero, Chinese sales had reached 35% of the global total in one week, with revenue representing 23% of the global total.

### RISKS TO GAMES PLATFORMS NOT REGISTERED IN CHINA

Games platforms not registered in China may be confronted with regulatory challenges from the government. The uncertainty created by the Great Firewall and state censorship imposes risks to foreign platforms not registered in China, which could be blocked at any time.

FOR PC SINGLE-PLAYER GAMES CHANGING ATTITUDES TOWARDS THE PREMIUM MODEL PRESENTS NEW OPPORTUNITIES

# LIFTED BAN ON CONSOLES CREATES POTENTIAL OPPORTUNITY FOR CONSOLE GAME DEVELOPERS

### WORLDWIDE POPULARITY OF CONSOLE GAMES HAS NOT REACHED CHINA

Console games account for 31% of the global market and account for the largest portion of video game exports from Canada. But in 2016 they represented a mere 0.4% of the Chinese market.

A ban on foreign console sales, enacted in 2001, was only lifted in 2015. Some players got around this ban by purchasing consoles from other countries but largely the ban was effective in limiting the take up of console games.

### END OF THE CONSOLE BAN BUT RESTRICTIONS ON GAMES REMAIN

In July 2015, the decision by the Ministry of Culture to allow the sale of consoles in China unlocked a huge potential market. The sales of PS4/Xbox in mainland China increased by 56.7% in 2016. However, there is still strict censorship on imported console games.

**OF THE TOP 20 CONSOLE GAMES IN THE WORLD IN 2016, ONLY THREE WERE ELIGIBLE TO BE SOLD ON PS/XBOX IN CHINA.**

### OPPORTUNITIES FOR FOREIGN STUDIOS

The historic ban means that local studios do not have the necessary skills and experience to produce console games – providing opportunities for foreign studios to enter the market if they can pass the censorship process.


# COMPANY HIGHLIGHT: KLEI ENTERTAINMENT

Klei Entertainment is an independent game development studio based in Vancouver. It was founded in 2005, had 11 employees in 2009, and grew to 35 employees in 2013. Klei has developed several well known games such as *Shank* and *Don't Starve*.

*Don't Starve* sold one million units from the Steam China store in the 18 months between Oct 2015 and Feb 2017, however these sales were exceeded on a Chinese distribution platform, Tencent's TGP, in only one month. Launched on TGP in November 2016, it sold one million units by December. As of March 2017, average daily active users on TGP were more than 50% of the worldwide total.

As this case demonstrates, there is an opportunity for other small and medium size Canadian game studios to access the huge market potential by working with a Chinese game publisher.

# OPPORTUNITIES TO SUPPORT CHINA'S GAMES INDUSTRY THROUGH TRAINING AND EDUCATION

**EDUCATIONAL PROGRAMS NOT MEETING INDUSTRY DEMAND**

Employees in the game industry are paid 25% higher than in the internet industry. Experienced developers/designers are in high demand, and companies compete intensively in search of new talent. NetEase and Shanta, for example, pay a 300,000 CNY (57,915 CAD) annual salary to attract talented graduates.

The talent shortage stems from a limited number of university programs. The few programs that do exist don't sufficiently prepare students to perform at an international standard. This means that staff are often trained on the job.

This provides an opportunity for Canadian educational businesses and institutions with experience in this area to support and work with Chinese educational businesses and institutions.

An example of such a collaboration includes the Chinese developer and producer Perfect World, which has established its own education division to support talent development. The company works in collaboration with Abertay University (Scotland), Moscow University and the National University of Singapore.

**IN SEPTEMBER 2017, THE SHANGHAI-VANCOUVER FILM SCHOOL WILL LAUNCH A GAME DESIGN PROGRAM COVERING BOTH THE TECHNICAL AND CREATIVE ASPECTS OF GAME DESIGN.**

# STRATEGIC INVESTMENT IN VIDEO GAMES

In order to compete internationally and innovate domestically, the Chinese games sector will need to develop its capacity. Strategic investment is one way this can be achieved, and Chinese businesses are actively acquiring foreign companies and forging strategic alliances.

Chinese investment has been targeting established game studios with strong development capabilities and IP. For example, Tencent has invested in a number of foreign game studios in the past decade, including Gopets Ltd (Korea) in 2005, Out Spark (US) in 2008, Riot Games (US) in 2008, Epic Games (US) in 2012, Level Up (Singapore) in 2012, and Supercell (Finland) 2016.

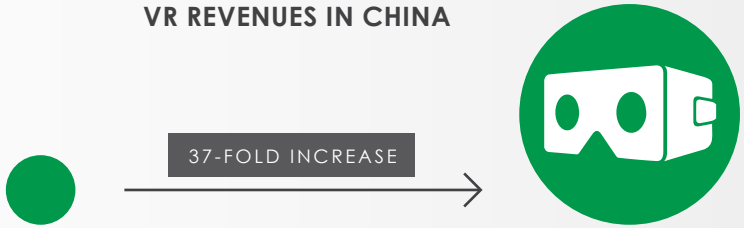
Another example is 37 Games and Oriental Star's investment in SNK Playmore Corporation in Japan so as to obtain popular games with strong IP including *The King of Fighters, Samurai Spirits* and *Metal Slug*.

# 4 VR VIRTUAL REALITY

# VR IN CHINA: A NEW MARKET GROWING RAPIDLY

The VR sector in China is at a nascent stage of development, yet revenue generated through VR in China was reported at 1.5 billion CNY (289.57 million CAD) in 2016. It is expected to reach 55 billion CNY (10.61 billion CAD) within only four years – a dramatic 37-fold increase.

**VR REVENUES IN CHINA**




2017
**1.5 Billion CNY**
**(289.57 Million CAD)**

2021 - PROJECTION
**55 Billion CNY**
**(10.61 Million CAD)**

Source: 2016 China VR Market Report, iiMedia Research

**STRONG GOVERNMENT SUPPORT FOR R&D IN VR**

At both national and local levels, the Chinese government has introduced a number of policies to encourage science and technology innovation. VR plays a role in some of these:

- The 2006-2020 China Middle and Long Term Science and Technology Development Plan encourages VR related technology and systems for medical science, entertainment, arts, education, military and industrial manufacturing.
- In August 2016, the National Development and Reform Commission announced plans to establish a national VR/AR lab. Domestic companies can apply for dedicated funding for R&D and industrial applications in sports, the military, education and other areas.
- Local government policy initiatives are encouraging the development of VR clusters in industrial parks. For instance the city of Nanchang has established a VR industrial park and is providing funding and other incentives for VR companies. The cities of Fuzhou and Chengdu have also established VR industrial parks with policy incentives to attract both domestic and international companies and investment.

# A PACKED HARDWARE SECTOR WITH A SHORTAGE OF CONTENT

## A PACKED HARDWARE SECTOR

Between 2015 – 2016, hardware accounted for almost 80% of all VR investment. Leading Chinese hardware startups include:

- Ant VR (VR headset)
- 3Glasses (all-in-one headset)
- Deepoon (all-in-one headset)

Alongside these startups, established Chinese technology brands are collaborating with startups to produce hardware. For instance Le TV is working with Pico and Ling VR to develop a mobile VR headset, Lenovo is working with Ant VR to develop VR glasses, and Meizu is collaborating with Depth VR to develop a mobile VR headset.

## SHORTAGE OF VR CONTENT

Shortage of investment in content, a fragmented hardware market and an uncertain business model has led to a lack of high quality VR content in the market. While there has been a boom in hardware development, content development is lagging behind. Many content developers in China are choosing not to invest in VR content R&D because of the relatively large development costs and uncertain business model.

However, there are still some major players developing VR content. NetEase was the first Chinese game studio that produced VR content available on Daydream, an Android VR platform. Motion Magic, a subsidiary under Shanghai Media Group, also produces videos, games and other entertainment content using VR technology. A number of startups also focus on content production, including:

- Time of Virtual Reality (TVR), the only domestic content producer that has provided content to the three leading hardware manufacturers, Oculus, Sony (Play Station VR) and HTC.
- Air 360 China, which produces VR film and documentaries, and won the Asian New Media Film Festival 2016 for best VR film.

# POTENTIAL OPPORTUNITIES FOR VR BEYOND THE GAMING INDUSTRY

The potential for VR is not confined to the gaming industry. Emerging sub-sectors include:

**VR IN CULTURE**

VR and related technologies are being used to enhance cultural experiences. Tencent recently livestreamed a 360 concert experience by pop star Faye Wong. The livestream attracted an online audience of 21.5 million and generated three million CNY (580K CAD) in revenue.

**VR IN EDUCATION**

VR is gaining attention from the education sector as a way to provide immersive learning experiences, particularly in areas where trainees require 'hands-on' experience. For example, Sichuan University developed a VR anatomy course as part of its medical training program. This won the best application award at the first VRCORE VR Developer Tournament, held in Beijing in October 2016.

**VR IN REAL ESTATE**

The real estate industry is actively using VR technology to produce viewing experiences of foreign properties. For example LNG Studios helped promote a large-scale condominium project in Burnaby, British Columbia to potential buyers in Shanghai and Hong Kong by developing a high quality virtual reality property viewing.

# VR ARCADES: AN OPPORTUNITY FOR CANADIAN CONTENT SUPPLIERS

Just as cultural venues and events are being used to bring interest, footfall and exposure to commercial spaces in China, the same tactic is being used with VR technology. There is a growing demand for VR experiences to 'activate' commercial spaces. By the end of 2016, China had more than three thousand VR arcades in shopping malls, internet cafes and amusement parks. Arcades are popular because high-end VR hardware is expensive. The arcade experience allows customers to gain access to this expensive hardware at a relatively low price.

HTC has partnered with the Chinese hardware supplier Leke VR to open thousands of new arcades across China. The arcades will use HTC's Viveport platform to distribute VR content. There is an opportunity for Canadian content suppliers to work with arcade content distributors and operators to bring their titles to China.

# CHINA DOMINATES INTERNATIONAL INVESTMENT IN VR

Of the 1.7 billion USD (2.26 billion CAD) invested globally in VR and AR in the 12 months up to the first quarter of 2016, approx. 1 billion USD (1.33 billion CAD) came from China.


Source: Digi-Capital

Examples of Chinese companies investing in international VR companies include:

**ALIBABA**

- 2015 - Invests in Magic Leap (154 million CAD)

**CHINA MEDIA CAPITAL**

- 2015 - Invests in Jaunt (13 million CAD), Round C investment, co-investment with Disney
- 2016 - Invests in Next VR, a US VR company specializing in live broadcast of sports game, concerts and other entertainment. Other Chinese investors include CITIC Guoan Information Industry Co Ltd, NetEase, Founder H Fund, VMS Investments Group Limited and China Assets.

**SHANDA**

Shanda is among the eight most active investors in the global VR market, having invested in twelve companies including content providers, distributors and equipment providers. These include:

- 2014 - Invests in Survios
- 2014 - Invests in Sólfar Studios (Iceland), which provides a virtual hiking experience in Qomolangma
- 2016 - Invests in The Void, a VR Theme Park

"China's hardware VR sector is well-resourced but there is a shortage of VR content and growing demand from users. VR/AR has been accepted and adopted in many industries here, and we can expect rapid growth from industry for various types of VR solutions. The market potential is huge. We believe these are areas where Canadian companies could explore and succeed."

***Hoyt Ma, Chief Marketing Officer, Archiact***

# COMPANY HIGHLIGHT: ARCHIACT VR

Archiact is a VR gaming content producer, established in Vancouver in 2013, which specializes in the production and distribution of VR games. It is also involved in organizing VR events and works with other international content producers to distribute games in China. It has offices in Shanghai.

In 2016, Chinese games company 37 Games invested 3.17 million USD (4.13 million CAD) for a 10% stake in Archiact VR. 37 Games, established in 2011 and listed on China's A-share stock market in 2014, specializes in the production and distribution of online browser and mobile games. In recent years it has increasingly invested in the video game and VR industry, including video game studios, VR gaming content producers and distribution platforms.

# NEXT STEPS

Canada's network in China can help you take the next step to...

**PREPARE**

**What is the best approach for your business in China and what do you need to know?**

- Publishing and localization procedures
- Publishers and VR arcades
- Trade fairs and conferences

**ACCESS**

**What is the level of opportunity for your business in China?**

- Regulations and approval restrictions
- Projected consumption and publishing trends
- Businesses models and strategic investment

**CONTACT**

**Which government contacts, industry bodies, businesses and other partners should you meet?**

- Training and educational institutions
- Publishers and investors
- Agents and localisation experts

**CONNECT WITH US TODAY**

- SHNGI.CREATIVEINDUSTRIES@INTERNATIONAL.GC.CA

# CONTACT US

This snapshot is the first of a suite of tools available to help Canadian cultural and creative industry stakeholders to understand the opportunities of the Chinese market.

Connect with programs to help support your international expansion:

The Canadian Trade Commissioner Service
shngi.creativeindustries@international.gc.ca

**SME GATEWAY**

For Canadian SMEs interested in doing business in China, the Canadian Trade Commissioner Service encourages you to visit the Canadian SME Gateway, which provides content on:

- Interviews with market experts
- Webinars
- Online resources and articles

Canadian SME Gateway to China YouTube Channel
Chaîne YouTube du Portail des PME canadiennes en Chine

**FIND OUT MORE ON OUR SOCIAL MEDIA PLATFORMS:**

Doing Business in China LinkedIn Group
Compte LinkedIn Faire des affaires en Chine

Canada's International Trade–Global Affairs Canada Facebook page
Page Facebook: Le commerce international du Canada-Affaires mondiales Canada

@CanadaChina
@CanadaChine

Consulate General of Canada in Shanghai WeChat
ID: 加在上海

Embassy of Canada to China Weibo
ID: 加拿大大使馆官方微博

Canada

This guide was prepared by BOP Consulting, an international research and strategy firm specialising in culture and the creative industries. We combine top-class research and analytical skills with an in-depth knowledge of the global creative economy.

Our China operation was established in 2013 and focuses on supporting international businesses and governments to grow their cultural and creative activities in China. We understand both the political context and practical realities of doing business in China.

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