



China Film Industry Report 2009-2010

Contents

1.	INTRODUCTION OF THE FILM INDUSTRY CHAIN	122
1.1.	Film Industry Chain	122
2.	CURRENT SITUATION OF CHINESE FILM INDUSTRY	134
2.1.	Government support: Film industry as national strategic industry	134
2.2.	Economic Growth: Continual GDP rise	14
2.3.	Social Change: A new cinema-going population	15
2.4.	New Technology	15
3.	2009 BOX OFFICE	15
3.1.	2009 box office revenue and other revenues	27
3.2.	2009 Single Film Box Office: Three films exceeded 400 million	28
3.3.	2009 global box office ranking: China ranks No. 9	29
4.	PRODUCTION	15
4.1.	Overview and Analysis	15
4.1.1.	2009 annual production analysis: 456 films	15
4.1.2.	Popular genres: action, comedy	16
4.1.3.	Local films' market share: 56.6%	错误！未定义书签。
4.1.4.	Trends and development of digital films	错误！未定义书签。
4.2.	Co-production films	17
4.2.1.	Definition	17
4.2.2.	Co-production patterns	17
4.2.3.	Application and procedures	17
4.2.4.	Co-production Policies	18
4.2.5.	Performance of co-production films	18
4.2.6.	Co-production Trends	19
4.3.	Film Financing	错误！未定义书签。
4.3.1.	Introduction: film financing channels in China	19



4.3.2.	Government funds	19
4.3.3.	Joint Investment	20
4.3.4.	Private equity and equity financing	20
4.3.5.	Pre-sales	20
4.3.6.	Bank loans	20
4.3.7.	Venture Capital	20
4.3.8.	Product Placement	21
4.3.9.	Film Funds	21
4.3.10.	Stock market listing	21
4.3.11.	new trend of film investment	22
4.4.	Analysis of Investment Returns	22
4.4.1.	Main source of revenue: theatrical revenues	22
4.4.2.	11 ricks of film investment	23
4.4.3.	Case Study: <i>Painted Skin</i>	24
4.5.	Major production companies	24
4.5.1.	China Film Group Corporation	24
4.5.2.	Shanghai Film Group Corporation	24
4.5.3.	Huayi Brothers Media	25
4.5.4.	PolyBona Film Distribution Co., Ltd	错误！未定义书签。
4.5.5.	Beijing New Picture Films	错误！未定义书签。
4.5.6.	Enlight Pictures	错误！未定义书签。
4.5.7.	Orange Sky Golden Harvest	错误！未定义书签。
4.6.	Major new production companies	错误！未定义书签。
4.6.1.	Beijing Perfect World Culture	错误！未定义书签。
4.6.2.	Beijing Galloping Horse Pictures	错误！未定义书签。
4.6.3.	LeTV Entertainment Investment Ltd	错误！未定义书签。
4.6.4.	DMG Entertainment	错误！未定义书签。
4.6.5.	Shideshow Co. Ltd.	错误！未定义书签。
4.6.6.	HG Film and TV Productions	错误！未定义书签。
4.7.	Production trends analysis	26
4.7.1.	No more capital shortage	26
5.	DISTRIBUTION	26
5.1.	Distribution structure and models	错误！未定义书签。
5.1.1.	Distribution structure	错误！未定义书签。



5.1.2.	Four distribution models	30
5.2.	Current distribution market	31
5.2.1.	Market shares: China Film Group takes the largest share	31
5.2.2.	Concentration rate: 75.7%	31
5.3.	Film revenue division scheme in China	31
5.3.1.	Development of the scheme	31
5.4.	Major Players	33
5.4.1.	Four types of distribution companies	33
5.4.2.	China Film Group	33
5.4.3.	Huaxia Film Distribution	错误！未定义书签。
5.4.4.	PolyBona Film Distribution	错误！未定义书签。
5.4.5.	Huayi Brothers Media	错误！未定义书签。
5.4.6.	Shanghai Eastern Film Distribution Ltd	错误！未定义书签。
5.4.7.	Enlight Pictures	错误！未定义书签。
5.4.8.	China Film Digital	33
5.5.	2009 Distribution Trends	34
5.5.1.	Distribution gaining importance	34
5.5.2.	The influence of exhibitors	34
5.5.3.	The false box office figure incident	34
5.5.4.	Digital distribution: future trend	34
5.6.	Distribution case studies	34
5.6.1.	A Simple Noodle Story	35
6.	EXHIBITION -- CINEMA CIRCUITS	35
6.1.	Introduction to Chinese cinema circuit system	35
6.2.	Market landscape of cinema circuits	36
6.3.	Competition in the Chinese cinema circuit market	36
6.3.1.	Top 10 cinema circuits	36
6.3.2.	Concentration rate analysis	37
6.4.	Major cinema circuits in China	37
6.4.1.	Wanda Cinema Chain	37
6.4.2.	China Film Stellar Theatre Chain: The widest coverage	错误！未定义书签。

6.4.3.	Shanghai United Cinema Circuit: specialized in animation films	错误！未定义书签。
6.4.4.	Beijing New Film Association : diverse development	错误！未定义书签。
6.4.5.	China Film Southern: specialized in releasing Hong Kong films	错误！未定义书签。
6.4.6.	GZ. JinYiZhuJiang Movie Circuit: Setting up its brand name	错误！未定义书签。
6.4.7.	Zhejiang Time Cinema Chain	错误！未定义书签。
6.4.8.	Liaoning Northern	错误！未定义书签。
6.5.	Ranking of Chinese Cinema Circuits 2009	错误！未定义书签。
6.6.	Current Situation 2009	错误！未定义书签。
6.6.1.	Polarized market	错误！未定义书签。
6.6.2.	Uneven distribution of cinemas	错误！未定义书签。
6.7.	Future trends	错误！未定义书签。
6.7.1.	Faster development in 2nd and 3rd tier cities	错误！未定义书签。
6.7.2.	Forming a new landscape of cinema chains	错误！未定义书签。
7.	EXHIBITION – CINEMAS	38
7.1.	Cinema development 2009	38
7.1.1.	The increase of screens 2009	38
7.1.2.	The growth of digital screening 2009	38
7.1.3.	The growth of 3D screening	38
7.1.4.	The development of IMAX screens 2009	38
7.2.	Cinema market landscape 2009	39
7.2.1.	Distribution of cinema profits 2009	39
7.2.2.	Ticket prices 2009	39
7.2.3.	Top Cinemas by Ranking 2009	40
7.3.	Regional Analysis 2009	错误！未定义书签。
7.3.1.	Most profitable province: Guangdong	错误！未定义书签。
7.3.2.	Most profitable City: Beijing	40
7.4.	Cinema investment analysis	41
7.4.1.	Policy support: Digital cinema development in 2nd and 3rd tier cities	41
7.4.2.	New investors and influx of capital	41
7.4.3.	New investment trends: vertical integration	41
7.5.	Cinema investment and management companies	41
7.5.1.	Ranking by screen count	41



7.5.2.	Wanda Cinema Chain	错误！未定义书签。
7.5.3.	Dadi Cinema Circuit	错误！未定义书签。
7.5.4.	China Film Group Cinema Investment Ltd	错误！未定义书签。
8.	MOVIE SEASONS AND TIME SLOTS 2009	42
8.1.	2009 monthly box office analysis	42
8.1.1.	Box office index by month	42
8.1.2.	Release months of blockbusters	错误！未定义书签。
8.2.	Major movie seasons and time slots in China 2009	42
8.2.1.	2009 Summer season	42
8.2.2.	2009 National Day Holiday Season	43
8.2.3.	Year-end movie season 2009	44
8.3.	Characteristics on release date arrangement in China 2009	44
8.3.1.	Movie seasons are not evenly distributed	44
8.3.2.	Potential for short-holiday seasons	44
9.	IMPORTS AND EXPORTS	44
9.1.	Imports and exports 2009	44
9.1.1.	International sales and market share 2009: export bottleneck remains	44
9.1.2.	Chinese films winning international awards in 2009	45
9.2.	Imported films in China 2009	45
9.2.1.	Imported films: Revenue-sharing films, flat-fee films and special imports	45
9.2.2.	Procedures of film imports in China	45
9.2.3.	Foreign film box office performance in 2009	46
10.	POST-PRODUCTION	46
10.1.	Post-production market	46
10.2.	Major Post-production Companies	46
11.	MOVIE-GOING SURVEY CHINA IN 2009	46
11.1.	Introduction	错误！未定义书签。
11.1.1.	Movie-going behaviors	错误！未定义书签。
11.1.2.	Movie-going preference	错误！未定义书签。



11.1.3. Lifestyles **错误！未定义书签。**

APPENDIX 2 2009 THEATRICAL RELEASES: FOREIGN FILMS46

I. Research Background

Looking back at 2009, despite global economic recession, China's film industry performed exceptionally well with leaping advances. Based on interviews and in-depth research and analysis of the film industry, EntGroup presents 《2009-2010 China Film Industry Report》.

II. Research Scope

Using data from in-depth research and analysis, this report will focus on the Chinese film industry in 2009 - 2010. In this report, the Chinese film industry refers to mainland China film industry, and does not include the industries in Hong Kong, Macau and Taiwan.

III. Methodology

This report adopts both quantitative and qualitative methods, and combines revenue figures of the film market to conduct the research on the Chinese film industry. The statistics used in this report is primarily from the figures announced on China Film News, gathered from the Computer Ticketing Network Centre of National Film Special Fund Office, while the market ranking data was obtained from the China Film Exhibition & Distribution Association, as well as data provided by main film circuits in the country. The above data were cross-examined by interviewing major cinema circuits and distribution companies. All the figures and statistics used in this report were obtained from more than one source, and they were cross-examined repeatedly and were analyzed comprehensively, to ensure the greatest accuracy and authenticity.

IV. Introduction to online survey

Concept Definition

Chinese movie-goers refer to audience who watched at least one movie in a cinema in China during the past year (excluding Hong Kong, Macau and Taiwan). The audience in this report refers to cinema movie-goers only.

Research Method

The survey was conducted by Internet survey, with Internet survey group iResearch's iClick survey community network to obtain related data and results.

Period of survey

From Nov 5, 2009 to Nov 30, 2009

Survey Sample

The total number of sample is 9242, among which 3299 are samples from eight major cities. The 8 major cities are selected from the top 8 cities that have their 2008 box office revenue grossing over RMB100m. The sample audience is then weighed valued based on the distribution of Chinese

movie-goers in major cities, as well as the distribution of Chinese Internet users in major cities.

V. Definitions

Production Company

Companies that engage in film financing, shooting and post-production work of a film project which includes film production companies and post-production companies. The production company owns the original copyright of a film, and sells within a certain time frame of the copyright to a distribution company or distributor of other channels.

Distribution Company

Companies responsible for setting up and executing marketing and promotional strategies for the films, as well as negotiating with cinema managers on release scales and the number of film prints or opening-day screens. Distribution companies purchase or represent a film's distribution rights, then release the film in the partnering cinema circuits on flat-fee or revenue-sharing basis, or in other forms of partnership. Often times the production and distribution of a film is managed by the same company.

Cinema Circuits

Cinema management company that is responsible for communicating with the distribution company to schedule screenings of a film. A cinema circuit consists of several cinemas; cinema circuits provide films prints, schedule screenings and manage cinemas under the circuits. On a revenue-sharing scheme, cinema circuits obtain prints of the movies. Cinema circuits normally schedule screenings of major productions, whereas distributors of medium or low budget films need to strive for support from the cinema circuits to secure screening possibilities.

Cinema

The actual place where the films are screened, and where box office revenue go to; except for the share of box office revenue, a cinema's revenue also includes the sales of concession such as popcorn, drinks and other additional products, as well as derivative commodities of the films, which account for approximately 10% -16% of a cinema's total income.

Digital Film/ Digital Print/ Digital Screen

Digital film refers to films that are filmed, produced, stored with digital technology, with the signals transmitted through satellite, optical fiber, disk, Compact Disks or other forms of physical transmitting forms, then transformed into audio and visual data that conforms with film technology standards, and presented on cinema screens for viewing.

Digital prints refer to film prints distributed in digital formats; currently in China, digital prints are normally delivered in hard drives.

Digital screens refers to cinema screening rooms installed with digital projectors and can project digital films onto the screens. The number of digital screens is a main index used to evaluate a region's capacity of showing digital films.

3D Films/ 3D Screens

3D films are films that are shot with cameras of stereographic technology or are shot with in normal cameras but added with computer generated 3D stereoscopic images.

3D screen refers to cinema screens that are equipped with a 3D projectors, and that are able to present 3D stereoscopic images for viewing.

IMAX Films/ IMAX Screens

IMAX films are films shot in 70mm film format or produced through computer technology to display images of extra large resolution, to be projected onto IMAX screens; an IMAX screen is a screen to project an IMAX film; a standard IMAX screen is 22 meters wide and 16meters high, but the actual sizes IMAX screens vary in different cinemas and regions.

Product Placement

Product placement refers to the placement of a product or its iconic visual image or even its service into a the images of a film, TV drama or television program. Product placement is a marketing and advertisement strategy which aims to give the viewers impression of the product or brand through scene arrangements to let the product or image reappear in the program, thus creating the effect of advertisement

Cinema Advertising

Advertisements especially produced to be broadcasted along with the screening of a film in cinemas; normally they are broadcasted before the actual film begins.

VI. Summery

2009 is a booming year for the Chinese film industry. In 2009 the China box office not only continues the two-digit growth rate since 2003; it has also raised the box office growth up to 43%. In 2009, as the world's economy suffers a global downturn, China film market's performance has proved right that movie business can benefit during times of recession.

The main reason behind the rapid growth is the increase of the country's cinemas and screens. In many major Chinese cities, cinema-going has become a new lifestyle of the country's burgeoning middle class. As a result, the movie-going population has also largely increased.

Besides the growth in the exhibition sector, the industry has seen major increases in production, distribution and film finances. With the expansion of the market and the influx of capital, the China film industry sees a bustling and prosperous year in 2009.

Box office

The 2009 China box office revenue reached RMB6.206bn, a 43% increase on the box office revenue in 2008, which was RMB4.341bn. The result is seen as a nice surprise for the industry, which previously estimated that the revenue reach RMB5bn. Looking ahead in 2010, the first two months of 2010 continue the strong performance in 2009. EntGroup estimates that the 2010 China box office

revenue will reach RMB10bn, and the revenue will reach RMB20bn by the end of 2012.

In terms of box office takings of individual films, 2009 is also a record-breaking year. The highest-grossing record in China was RMB360m, set by *Titanic* in 1998. The 11-year record was broken in 2009 with three films each grossing more than RMB400m: *2012*, *Transformers: Revenge of the Fallen*, and local blockbuster *The Founding of a Republic*. The three films, as well as 18 other films that made more than RMB100m, have raised the bar for blockbusters in Chinese film market.

However, the box office takings are unevenly distributed with many blockbusters hits dominating the market while only a few films reaching mid-sized box office gross (RMB50m to RMB100m). The theatrical market is heavily dependent on blockbusters.

Production

In 2008 the total film production volume is 456 films, which is an increase of 56 films, or 12.3% increase on the production volume of 2008. However, among the 456 films, only 130 films get to be released in movie theaters, which means more than two thirds of the films could not be released in cinemas. The quantity of film production and the quality of films is still imbalanced.

Film Financing

Film financing is one of the major industry changes in 2009. Enterprises or private investors from outside of the film industry stepped into film production and began to develop their film business. These investors have become new backers of Chinese film production.

State-owned film companies such as China Film Group, Shanghai Film Group and Changchun Film Group continued to invest and produce films in 2009. On the other hand, several state-owned media companies stepped into film production, such as Shanghai Media Group (SMG), Jiangsu Broadcasting and Television Group and Hunan Broadcasting and Television Group.

In terms of private enterprises, new companies include Perfect World Media, which invested *Sophie's Revenge*, LeTV Entertainment, which invested *Kungfu Cyborg* and Beijing Galloping Horse, which invested *Mulan*.

In 2009, the Chinese film industry has also begun to seek finance from the capital market. Huayi Brothers Media went public in Shenzhen Stock Exchange in Oct 2009 and becomes first film company listed in China's stock market. After Huayi Brothers, China Film Group, Shanghai Film Group and Bona International Film Group and Enlight Media have also announced their plans in the stock market in the next few years.

Distribution

As the only two companies authorized to distribute foreign films, China Film Group and Huaxia Film Distribution remain two leading film distribution companies in China. As China Film Group also co-owns two cinema circuits, its exhibition resources give China Film Group extra advantages, thus remaining the biggest distribution company in China, leading other companies by a large margin. Huaxia Film Distributions stands second.

3D screening has become a major film distribution trend in 2009. Several Hollywood films were introduced to China in 3D screens only, and they have performed remarkably in box office takings. China Film Digital, the company authorized to take charge of distribution of all 3D films, has made impressive progress in its market share among all distribution companies.

PolyBona Film Distribution remains the leading distribution company among private distributors. The company released several local hits in 2009 such as *Bodyguards* and *Assassins and Overheard*. Huayi Brothers Media has released four films, including blockbuster *The Message*, and took the second place. Enlight Media took the third place with six releases.

Exhibition

In 2009, China adds 142 new cinemas and 626 screens to its exhibition sector of the industry, making a total of 1687 cinemas and 4723 screens. Among the existing 26 cinema circuits, 14 circuits have grossed more than RMB100m (\$14.64m) in 2009. Wanda Cinema Line takes the lead as the top cinema circuit in 2009, grossing more the RMB800m.

Following are China Film Stellar Cinema and Shanghai United Cinema Chain, taking 2nd and third places respectively. China Film Stellar takes in more than RMB500m in 2009 while Shanghai United grossed more than RMB400m.

In terms of the performance of individual cinemas, there are 17 cinemas grossing over RMB40m. In 2008, only 7 cinemas reached the RMB40m mark. Among the 1687 cinemas, Feiyang Cinema in Guangzhou is the highest-grossing cinema in 2009, taking in over RMB80m.

Major investors of cinema development in 2009 are China Film Group Corporation, Wanda Cinema Line, Stella Megamedia, Jinyi Cinema Chain, Dadi Century Films, UME, Broadway Cinemas and Korean CGV Cinema. Orange Sky Golden Harvest and Huayi Brothers Media are two new comers in cinema investment. Orange Sky Golden Harvest stepped into cinema investment and development in early 2009. Besides developing multiplexes in major Chinese cities, it has also acquired several individual cinemas or multiplexes. As for Huayi Brothers Media, after entering the Shenzhen Stock Exchange in October, the company also announced to develop its cinema investment and management business.

In December 2009, China's film authority the Film Bureau announced a policy to subsidize cinema businesses in small to mid-sized cities on their digital screening facilities. The policy has widely boosted the development of cinemas in China's 2nd and 3rd tier cities. These cities are expected to see a rapid growth on cinema business in the next few years.

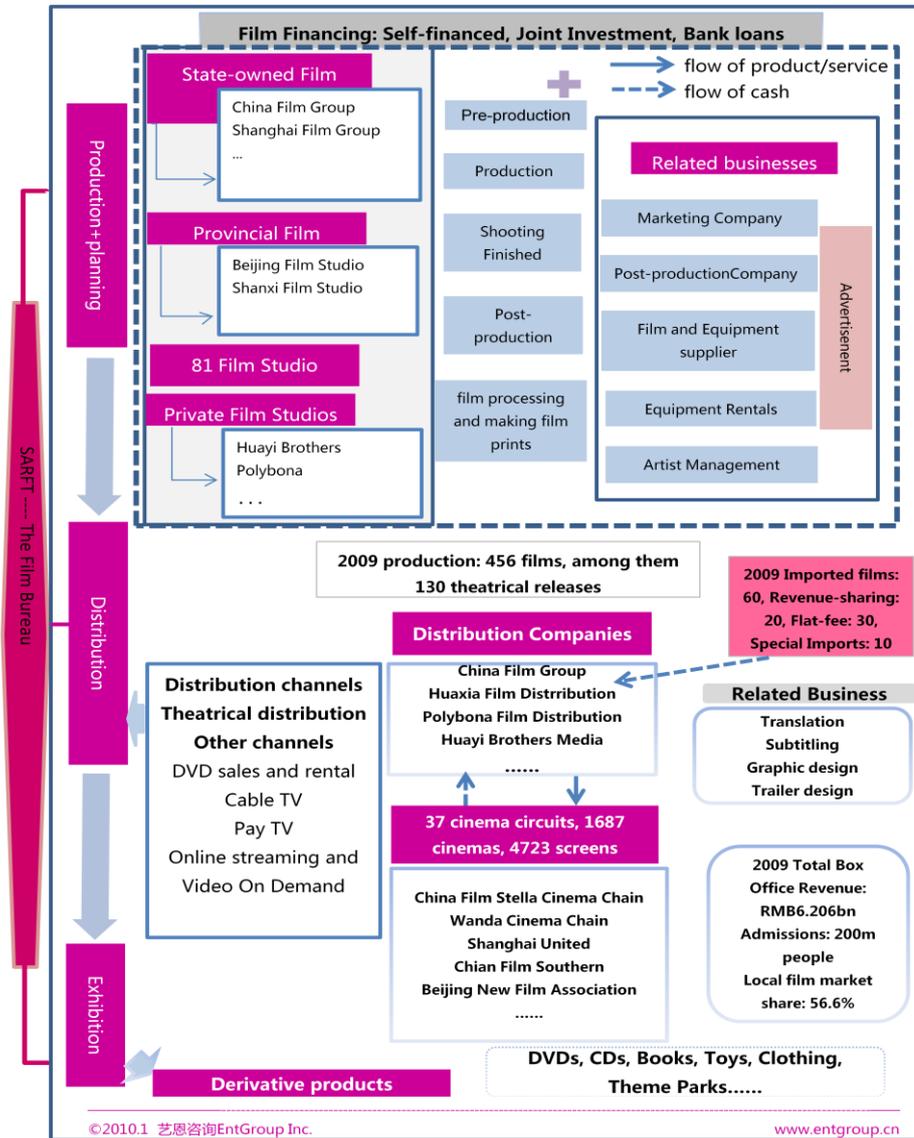
VII. The Report

1. Introduction of the Film Industry Chain

1.1. Film Industry Chain

Film industry chain refers to the flow and the inter-relations of each sector of the film industry. Centering on a film product, the film industry chain begins from a film's development and ends with the end-consumer. Each sector of the chain is interrelated by supply and demand.

The Chinese Film Industry Chain



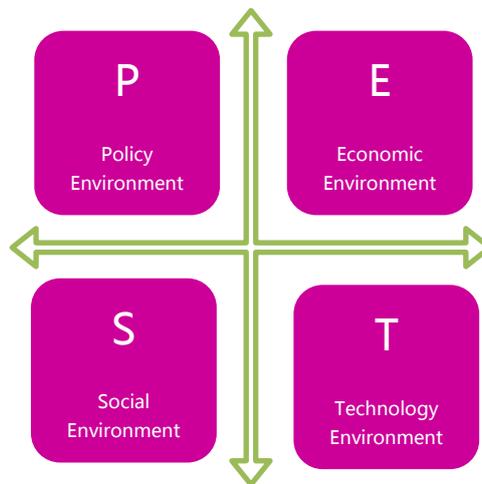
Film Industry Chain

The Chinese film industry chain constituted by the following sectors. Each sector is linked according to the flow of revenue:

Sectors: Content provider (production companies, outsourced content provider), distributors, exhibitors (cinema circuits/ cinemas);

Revenues : box office revenue, advertisement revenue, sales of derivative commodities, sales of TV broadcast, sales of Internet distribution etc.

2. Current Situation of Chinese Film Industry



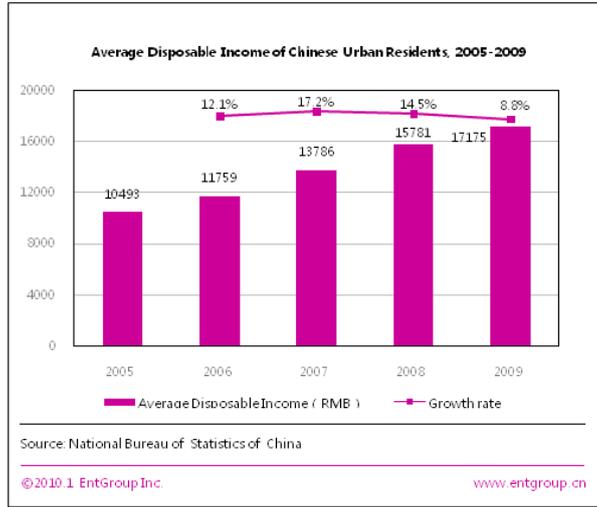
2.1. Government support: Film industry as national strategic industry

- The State Council announced 《Cultural Industry Promotion Plan》, which provided great support for the cultural industry
- The State Council announced 《Guidelines on promoting the development of film industry》, which makes the film industry to become the national strategic industry
- State-owned film studios completed their re-structure and have become a new force of the film market.
- The Film Bureau announced a policy to subsidize installation of digital projection facilities, which encourages the development of digital cinemas
- The government strengthened regulations on illegal downloading websites, reinforcing laws on the production of copyrights.

2.2. Economic Growth: Continual GDP rise

From the statistics of the National Bureau of Statistics, the average disposable income of China's urban residents has been on the rise in the recent years. Although the increase rate had slowed down as a result of the recession, the annual average disposable income of urban residents still reached RMB 17,175 in 2009, which is an 8.8% increase on the figure in 2008. EntGroup believes that the stable

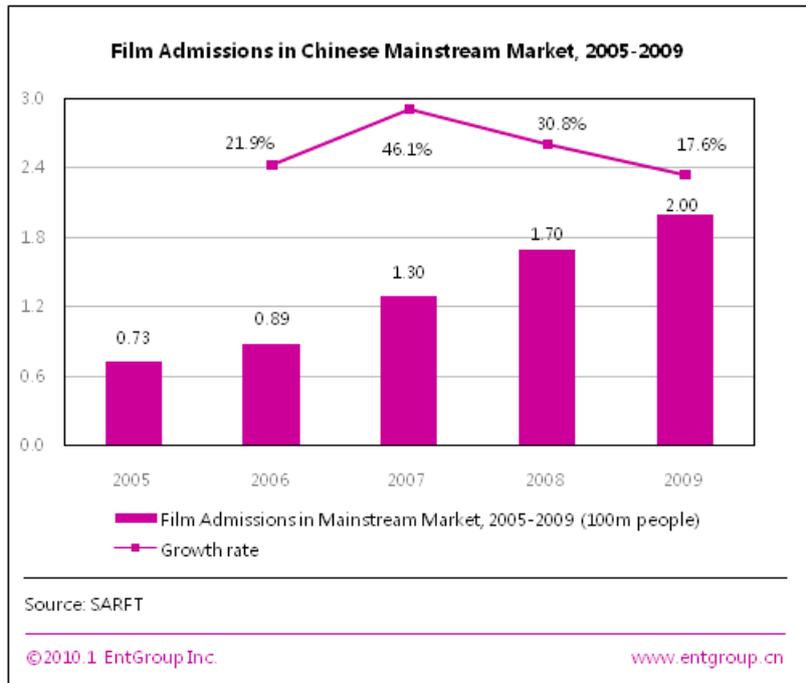
increase in average disposable income of urban residents will continue to bring in rapid development in the Chinese film industry.



Average Disposable Income of Chinese Urban Residents, 2005-2009

2.3. Social Change: A new cinema-going population

As China's domestic films continue to improve in quality and quantity; the number of cinemas continues to increase, and the younger generation of the country are gaining economic stability, a new cinema-going population has emerged. In 2009, admissions of the Chinese mainstream film market has reached over 200 million, which is a 17.6% growth compared to the 170 million admissions of 2008.



Film admissions in Chinese mainstream market, 2005-2009

2.4. New Technology

Digitalization is a developing trend in global film industries, and China is no exception. In 2008, the number of digital films produced in China (260 films) exceeded the number of negative films (146 films) for the first time; in 2009, the number of digital films continue to increase. *A Woman, a Gun and a Noodle Shop* by Zhang Yimou was the first attempt in digital filming amongst major domestic films, and it was a milestone of digital filming among local blockbusters.

By the end of 2009, there are 1,600 digital screens out of 4,723 screens in China, which accounts for 33.9% of the total screen number; in the world's ranking on digital screens, China stands number 2 in the world, second to the US. Amongst the 626 new screens built in 2009, 80% of them are digital screens. Because the cost of digital prints is extremely economical compared to films prints, and digital prints are much more convenient in transportation, the increase in digital screens can easily expand the release scale of the films and lower the price of film admissions.

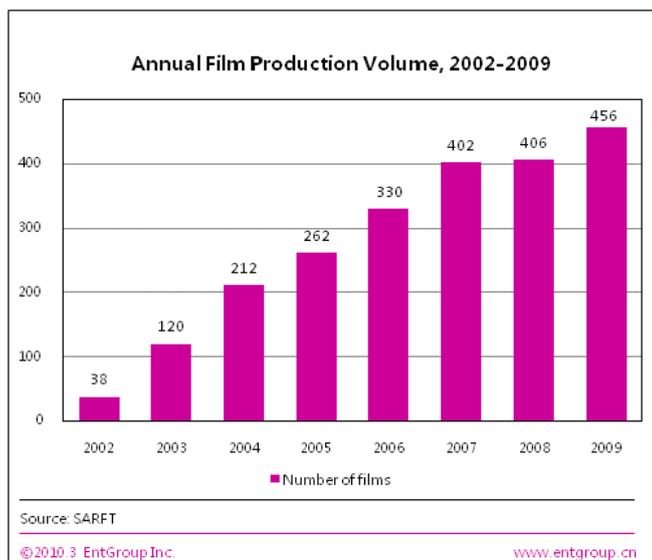
In 2009 3D films performed superbly in China, *Ice Age 3* was released in 320 3D screens and gained RMB 157 million in box office takings; stimulated by the high per screen average output, by the end of 2009 there are approximately 700 3D screens in China, currently ranked 2nd in the world, second to the US.

Production

2.5. Overview and Analysis

2.5.1. 2009 annual production analysis: 456 films

Since 2002, film productions in China have experienced a high-speed growth of more than 20% each year. In 2008, the rate of growth slowed down for the first time (402 films in 2007, 406 films in 2008), but then sped up again in 2009. The number of films produced reached 456 films, which is a 12.3% increase compared to 2008.



Annual film production volume, 2002-2009

2.5.2. Popular genres: action, comedy

According to data analyzed by EntGroup, amongst domestic and imported films released in 2009, action genre was most popular, and ranks the first place with 22.7% market share in theatrical earnings; comedies are ranked second with 16.8%. As top-selling historical films, *Founding of a Republic* and *City of Life and Death* were both released in 2009, the historical film genre took the 3rd place in the market share by film genre.

The EntGroup report concludes that, apart from action and comedy genres that are well-received worldwide, China's film market has yet to develop a clear genre preference; the audience choice of genre in fact is influenced by the choice of genres of eminent filmmakers.

2009 Films by Genres

Ranking	Genre	Major Films
1	Action	<i>Transformers: Revenge of the Fallen</i> , <i>Bodyguards and Assassins</i>
2	Comedy	<i>A Woman, a Gun and a Noodle Shop</i> , <i>On His Majesty's Secret Service</i> , <i>Crazy Racer</i> , <i>Sophie's Revenge</i>
3	History	<i>Founding of a Republic</i> , <i>City of Life and Death</i>
4	Animation	<i>Ice Age 3</i> , <i>Pleasant Goat and Big Big Wolf</i>
5	Disaster	<i>2012</i> , <i>Tsunami</i>
6	Drama	<i>Overheard</i> , <i>Valkyrie</i>
7	Romance	<i>Look for a Star</i> , <i>Mulan</i> , <i>Cape No.7</i>
8	War	<i>Red Cliff Part II</i> , <i>The Counterfeiters</i>
9	Spy	<i>The Message</i> , <i>Qiu Xi</i>
10	Sci-fi	<i>Star Trek</i> , <i>Kungfu Cyborg</i>
11	Fantasy	<i>Harry Potter and the Half-Blood Prince</i>

More information in complete version of 2009-2010 China film industry research report.

2.6. Co-production films

2.6.1. Definition

The EntGroup Report defines co-production films as films jointly produced by Chinese and foreign production companies, which specifically refers to “co-productions”, “assisted productions” or “commissioned productions between Chinese domestic film studios (Chinese production companies) that legally hold a Film Production Permit or a Film Shooting Permit (for single film projects) , and foreign film companies or filmmakers (foreign production companies); a co-production may be filmed in or outside of China. Film genres may include drama, artistic, educational, documentary etcetera (co-production films may be shot with negative films, digital films, or as TV films).

2.6.2. Co-production patterns

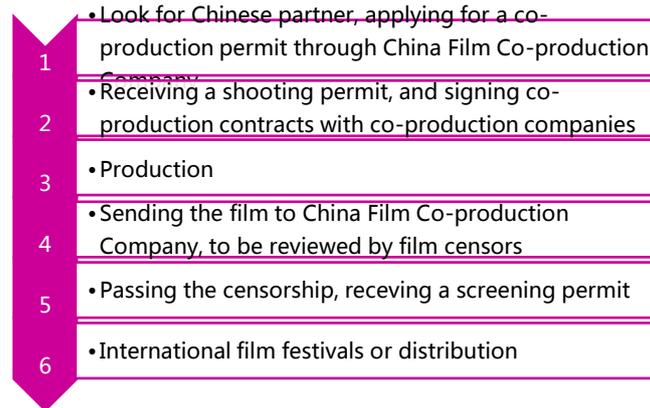
There are 3 main co-production patterns:

- (1) Co-production refers to films that are jointly invested (including capital, labor or physical goods) by Chinese and foreign production companies. The co-production partners jointly produce the film and jointly share the profit as well as the risks of the film project.
- (2) Assisted production refers to a film wholly funded and by foreign production companies but filmed in China. Chinese companies provide services on equipment, location, labor or other forms of assistances.
- (3) Commissioned production is a type of production where foreign companies commission Chinese companies to shoot the project in China.

2.6.3. Application and procedures

A co-production film in China can only be arranged through China Film Co-production Company. According to regulations such as “Regulations on Film Administration” and “Administration Regulations on Chinese-Foreign Film Co-productions”, China Film Co-production Company is authorized by SARFT to administer, coordinate and provide services to all the affairs related to Chinese-foreign co-production films. The application and procedure of a co-production film is described as below:

Chinese Co-production Filming Procedure



Chinese co-production filming procedure

More information in complete version of 2009-2010 China film industry research report.

2.6.4. Co-production Policies

The current governmental policy on Sino-Foreign co-production policy is The Management Regulation on China-Foreign Film Co-productions, set in 2004 by the State Administration of Radio, Film and Television, which provides general guidelines on co-producing films with Chinese production companies. For individual territories, Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) provides a preferential policy specifically on China-Hong Kong co-productions. Another preferential policy on China-Taiwan co-productions is currently being drafted.

Besides, China has currently signed government-leveled film co-production treaties with 4 countries: Italy, Canada, Australia and France.

➤ **China – Hong Kong co-production policies**

Since the signing of CEPA June 2003, Hong Kong film companies and cinema operators have enjoyed several trade liberalization measures. Under CEPA, China – Hong Kong co-productions are treated as local Chinese films. These films enjoy a better revenue-sharing scheme than that for an imported film; they also enjoy a tax deduction benefit which is normally provided for local films. CEPA also gives Hong Kong productions a wider market access. Hong Kong films will still be seen as an imported film when they are distributed in mainland China, but they will not be barred by the import quota. Because of the benefits of CEPA, China – Hong Kong co-production have been rapidly developed in the past 7 years and have gained an influential position in mainland China film market.

More information in complete version of 2009-2010 China film industry research report.

2.6.5. Performance of co-production films

In 2009, China Film Co-production Company has received applications of 77 film projects while the Film Bureau under SARFT approved 67 projects. The number of co-production films has increased by 60% compared with the number in 2008. Besides the increase of number, 2009 has seen more

diverse genres and topics in co-production films. Their box office performances are generally on the rise, too.

More information in complete version of 2009-2010 China film industry research report.

2.6.6. Co-production Trends

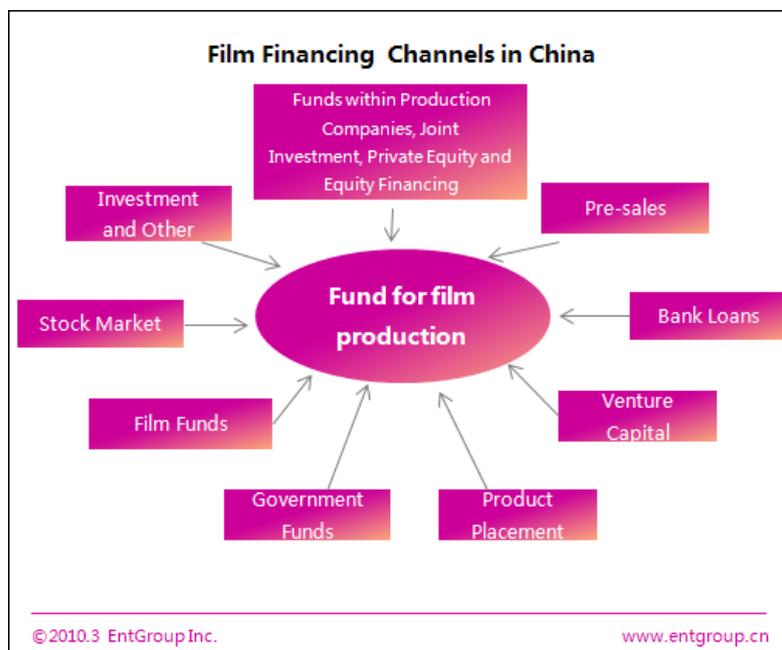
EntGroup predicts that there will be three future trends in Sino-Foreign co-productions:

1. Co-production films in China will grow substantially in both quantity and quality.
2. China-Hong Kong co-productions will continue to dominate China’s co-production market
3. China – Taiwan co-productions will gradually increase in the coming years.

More information in complete version of 2009-2010 China film industry research report.

2.6.7. Introduction: film financing channels in China

The thriving film market in the past 5 years and the recent policy support have largely improved China’s film financing environment. The result is the influx of capital into China’s film production sector. This report believes that funding, an issue that has restrained the production sector in the past, has no longer become a problem in China. Production companies will find it easier to finance their film projects.



Film financing channels in China

2.6.8. Government funds

Currently, government funds are mainly offered to state-owned film studios for making so-called Main Melody films or propaganda films. There are several film funds in the central government level, including Special Film Fund, Film and TV Mutual Fund, Imported Film Revenue Fund (certain

percentages taken from the revenue of imported films) and Special Film Subsidy on Major Subject Matters. The total amount of these government funds is estimated to exceed RMB100m each year. Besides, some local governments have also set up film funds for propaganda films.

2.6.9. Joint Investment

Joint investment is a common practice in film investment. The main purpose is to jointly share the high production cost and disperse investment risks. Through joint investment, resources of each investment partners can be gathered and integrated. Joint investors of different countries or regions can also help opening up new markets for the films. Films such as *Red Cliff*, *Forever Enthralled*, *Bodyguards and Assassins*, *Mulan* and *A Woman, A Gun and A Noodle Shop* are jointly invested by more than one investing companies or investors.

2.6.10. Private equity and equity financing

Huayi Brothers Media is one of the typical companies that has expanded the company's value and business scope through private equity. Before the company floated in 2009, Huayi Brother had raised funds from companies such as Taihe Media, Tom Group and HURRAY!, and individuals such as Ma Yun, chairman of Alibaba.com, Jiang Nanchun, CEO of Focus Media, Yu Feng, non-independent director of Focus Media and Lu Dingwei, president of WanXiang Group through private equity and equity financing.

2.6.11. Pre-sales

This is a common financing method for big-budgeted films. Production companies sell rights of their film project to territories to gain cash before or during the shooting of the film. Japan is one of the main pre-sale markets for many Chinese films. *The Banquet* and *Battle of Wits* have each financed \$5m and \$3.5m respectively selling Japan rights of the films. *Forever Enthralled* pre-sold rights to Japan for \$3m.

2.6.12. Bank loans

Because of the relatively high risks in film business, bank loans had not been a common film financing method in China until recently. In recent years however, the growth of the film industry and the promotion of the government incentives have made more banks offering loans to film companies or film projects. And the number has been increasing in the past three years.

More information in complete version of 2009-2010 China film industry research report.

2.6.13. Venture Capital

Venture capitals entered China's film business in the recent two years. So far Beijing Galloping Horse and Bona International Film Group are two companies gaining investments from venture capitals.

Venture capitals in Chinese film companies 2006 -2009

Film company	Amount	Purpose of the investment	Date	Bank
Beijing Galloping Horse	\$40m	Film production	May 2008	Baring Private Equity Asia
Bona International Film Group	\$10m	Film production and distribution	July 2007	Sequoia China, SIG Asia
	RMB100m	Film production, distribution and cinema development	June 2009	SIG Asia, Matrix China, Sequoia China
©2010.3 EntGroup Inc.				www.entgroup.cn

Venture capitals in Chinese film companies 2006 -2009

2.6.14. Product Placement

Through product placement, a film project can gather a good portion of revenue from advertisers, and the operational cost for product placement is relatively lower than other means of film financing. In recent years, many Chinese production companies have begun to see product placement as one of the means to finance their films projects. Product placement has thus become one of the growing trends in film financing.

More information in complete version of 2009-2010 China film industry research report.

2.6.15. Film Funds

The development of film funds has just begun in China in the past two years, but it seen is an area of potential in Chinese film industry. Film fund investments are generally made by international and professional teams. Apart from bringing in funds, film funds also bring in professional management in film production and transparent finance management for the film projects. Industry players generally believe film funds can bring better management of film production in China.

2.6.16. Stock market listing

One of the major highlights in film financing in 2009 is seeing another film companies listed. In 2008, Chengtian Entertainment bought the majority share of Hong Kong listed Golden Harvest and indirectly went public in Hong Kong Stock Exchange; the company then further changed its name as Orange Sky Golden Harvest. In September 2009, Huayi Brothers Media was successfully listed on the ChiNext of Shenzhen Stock Exchange and become the first private film studio to float in Chinese stock market. Meanwhile, four other companies including state-owned China Film Group and Shanghai Film Group, private firms Bona International Film Group and Enlight Media have also announced their plans to go public in the next few years.

2.6.17. new trend of film investment

Looking back the year 2009, the report finds below new trends in film financing.

➤ Influx of capital from outside of the film businesses

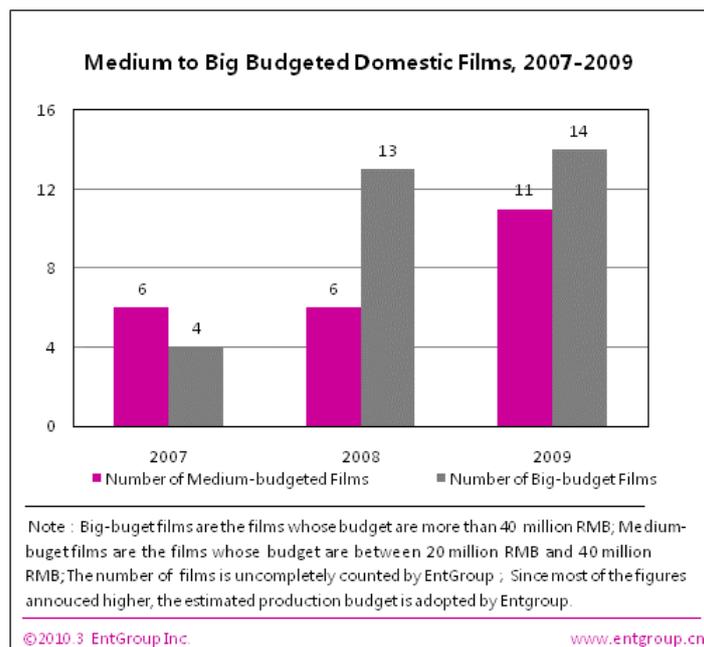
In 2009, besides the already diverse investors in film production, a new group of investors from outside of the film business began to emerge and aggressively entered film production business.

The EntGroup report believes that the new force of film investors will further strengthen the vitality of Chinese film industry and the capacity of Chinese film production.

More information in complete version of 2009-2010 China film industry research report.

➤ Increase in medium to big budget films

The gradual improvement of China's film financing environment along with high box office returns, have resulted in the increase of production cost of domestic films, as well as the number of medium to big-budgeted films. The EntGroup Report believes that even though big investments do not guarantee good box office return, the increasing number of medium and big-budgeted films is still an advantage to enhance the quality of domestic films and therefore more likely to receive better box office returns; this also makes domestic films more compatible to compete with major imported films.



Medium to big budgeted domestic films, 2007-2009

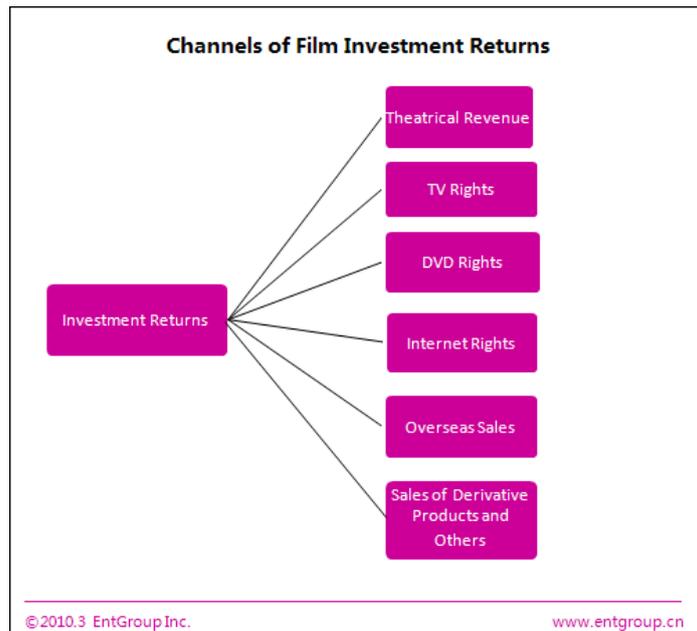
More information in complete version of 2009-2010 China film industry research report.

2.7. Analysis of Investment Returns

2.7.1. Main source of revenue: theatrical revenues

The channels of domestic film returns include: theatrical revenue, copyrights for television,

audiovisual copyrights, Internet rights, overseas copyrights, derivative commodities and other income.



Channels of film investment returns

Theatrical Revenue

For many years, theatrical revenue has always been the main source of revenue for Chinese film investments. However, as the Chinese film industry continues to develop, theatrical revenue has decreased in its percentage of the overall investment return, but it still remains as the main source of revenue.

Copyright for television

Currently copyright for television paid by various movie channels in China is a stable source of revenue for Chinese films. For some low budget films, it may even be the main source of revenue.

Audiovisual rights

Audiovisual rights never accounted for a large part of revenue in Chinese films, until the film *Hero* auctioned for RMB1.78million in 2002. Since *Hero*, the prices of audiovisual rights have increased dramatically, and have become an important source of revenue. 11 ricks of film investment

➤ **Analysis of the main risks in film investment**

The EntGroup Report evaluates the main risk in film investment based on whether the film will profit and how the investment can be returned. The report further divides the risks into 11 categories in the table below. Each type of risk has an impact on the ultimate performance of the film.

More information in complete version of 2009-2010 China film industry research report.

➤ **Joint Investment Risk Analysis**

More information in complete version of 2009-2010 China film industry research report.

2.7.2. Case Study: *Painted Skin*

Film investment is generally considered high risk business that requires large amount of capital. With successful investment, the ROI of one film can be as high as 200% or 300%; with one failed investment, the investor's money can be just vaporized, with only a few copies of the film and its copyright that no one is interested left for the investors. The following table shows the investment return of major movies in 2008 and 2009.

More information in complete version of 2009-2010 China film industry research report.

2.8. Major production companies

2.8.1. China Film Group Corporation

In 2009, China Film Group maintained its leading position among production companies in term of its production volume, film quality, and theatrical revenues.

- Productions covering high, middle, and low-budgeted projects.
- Continued to foster young directors and filmmaking talents
- Its Digital Production Center is reaching maturity with improved production capacity.

More information in complete version of 2009-2010 China film industry research report.

2.8.2. Shanghai Film Group Corporation

Shanghai Film Group Corporation is another major state-owned corporation with its business strength only next to the China Film Group Corporation. SFG's overall performance in 2009 was not as good as that of 2008, but its status was not affected.

➤ Production performance in 2009: barely satisfactory

In 2009, SFG was the majority investor and producer for only two melody films: Iron Man (Chinese language) and Examination 1977. And the theatrical revenues of those films were barely satisfactory. SFG also invested in the films below as minority investors.

More information in complete version of 2009-2010 China film industry research report.

➤ Two new ventures

Shanghai Film Group Cooperation has set up two joint ventures of film business in 2009. One is for film investment, and the other is for post-production and related technology service.

More favored by literary film directors

More information in complete version of 2009-2010 China film industry research report.

2.8.3. Huayi Brothers Media

Huayi Brothers Media started its business as an advertisement company before stepping into the film industry. After its great success in the film industry, the company has expended to music, artists management, and TV dramas. The expansion of the company shows a typical example of horizontal integration of the Chinese entertainment businesses.

Huayi Brothers has entered a new phase in 2009 with its leaping developments achieved by creating new movie genres, cooperating with other directors and successfully becoming a Shenzhen ChiNext listed company.

➤ Continues to creating new movie genres

The film *Assembly* released in 2007 has set a brand new model of war movie in China; in 2009, *The Message*, using the elements in spy movies, successfully promoted the genre of suspense thriller, a genre used to be popular in China decades ago, to the audience' favorite again. With these two films, Huayi have also gained abundant market return.

➤ Cooperating with other directors

The business achievement of Huayi had been largely relied on the performance of director Feng Xiaogang's films. Considering the long-term development of the company, Huayi has tried to be less reliant to Feng Xiaogang, and to seek cooperation with other directors. In 2009, Huayi worked with Andrew Lau on *Look For A Star*, with Francis Ng on *Tracing Shadow*, and with Chen Kuofu and Gao Qunshu on *The Message*. The success of *The Message* made Huayi to cooperation with Gao Qunshu again in 2010 on *Wind Blast*.

➤ Entering the stock market

In October, 2009, Huayi successfully became a ChiNext listed company; it's the first listed film company in China. With its success, the number of film produced by the company annually will be increased from three to six, and the shortage of capital which had been constraining the company's development for a long time has no longer become a problem.

Major films (partly) invested by Huayi Brothers, 2009

No.	Film	Box office gross	Producer
1	The Message	225m	Huayi Brothers, Shanghai Film Group , China Tianjin TV, Huayi Brothers International Distribution
2	Look For A Star	113m	Huayi Brothers, Media Asia
3	Tracing Shadow	12.2m	Huayi Brothers
4	John Rabe	9.3m	Huayi Brothers, Hofmann & Voges Entertainment GmbH
©2010.2 EntGroup Inc.			www.entgroup.cn

Table4- 1 Major films (partly) invested by Huayi Brothers, 2009

➤ **2009 Huayi Financial Statement Analysis**

According to EntGroup’s research, the gross operating income, operating profit and total profits of Huayi have been increased progressively for the past three years. Its gross operating income in 2009 was RMB604million, which is a 47.7% increase from that of 2008; the total profit in 2009 was RmB115million, an increase of 36.9% from that of 2008.

More information in complete version of 2009-2010 China film industry research report.

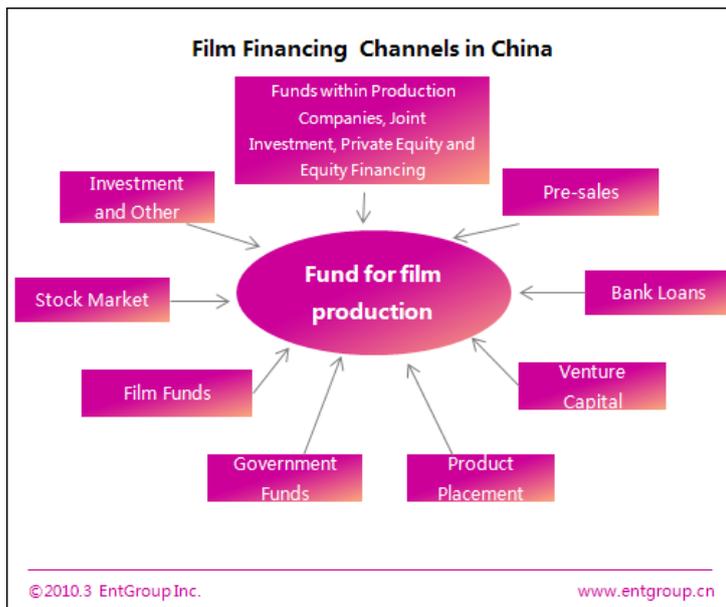
2.9. Production trends analysis

2.9.1. No more capital shortage

Ever since the releasing of Hero (2003), the industry has constantly seen new box office records being set up, such as *Curse of the Golden Flower*, *Red Cliff* and recently *The Founding of a Republic*. The number of blockbusters is also increasing over the years. The EntGroup Report believes that as Avatar set the unprecedented record of RMB1billion theatrical revenues in China, the theatrical revenues of Chinese film will keep on increasing, with new records expected to be set by the release of After Shock and other films.

3. Distribution

In 2002, China implemented a distribution structure reform. Since then, the new distribution triangle formed by distributors, cinema circuits, and individual theaters has replaced the old method of supplying the films base on administrative districts, and the vitality of Chinese film market has been greatly activated. (Occasionally, but not often, film producers would hand the film to cinema circuits directly.)



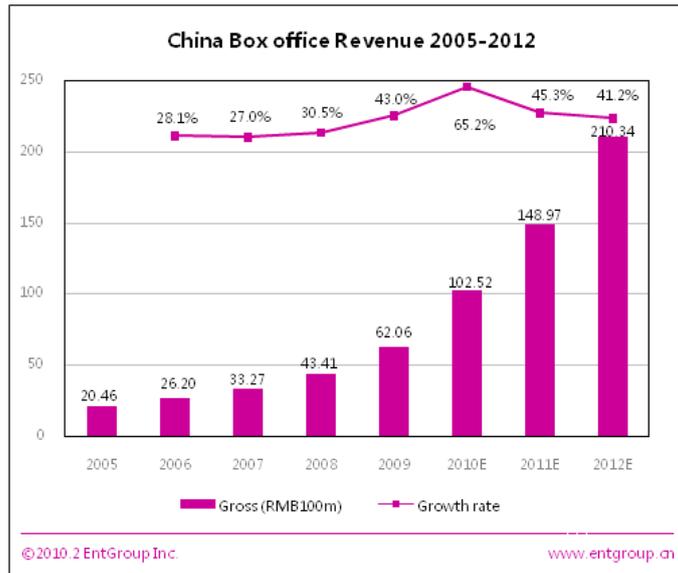
Distribution Model for Chinese Film Industry

More information in complete version of 2009-2010 China film industry research report.

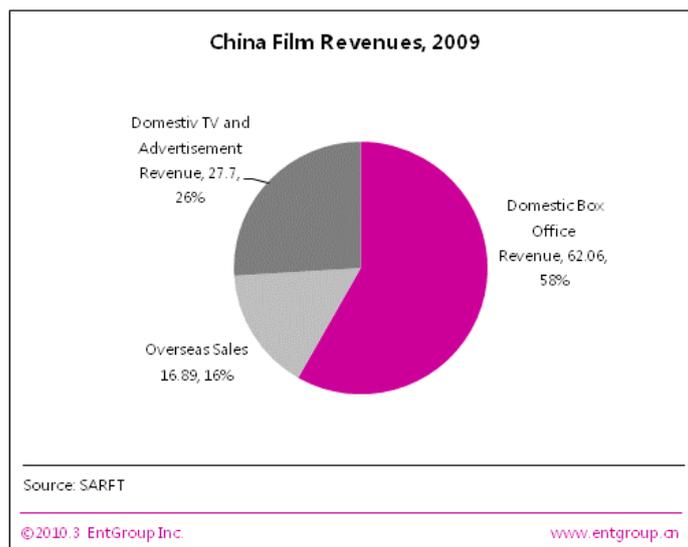
3.1. 2009 box office revenue and other revenues

According to statistics from The State Administration of Radio, Film and Television (SARFT), the 2009 box office revenue in Chinese film industry was RMB6.206 billion, which is a 43% growth compared to RMB4.3 billion in 2008. The growth has set a new record for the annual Chinese box office growth. EntGroup estimates that in 2010, China’s total box office revenue will exceed RMB10 billion, and may reach RMB20 billion by 2012.

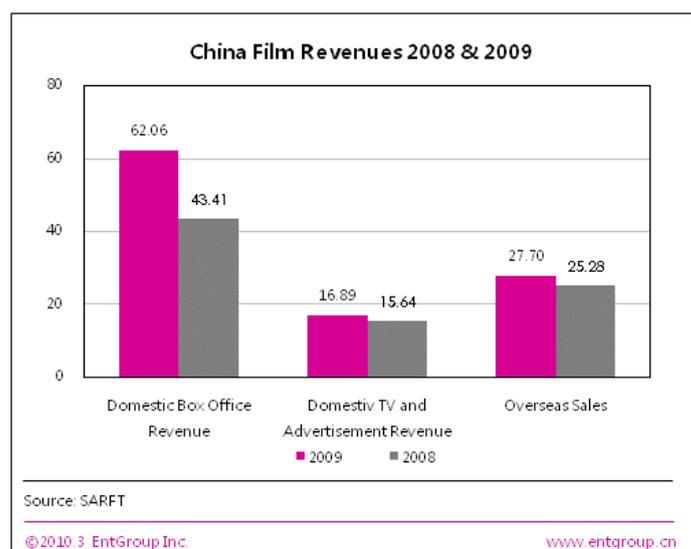
Furthermore, in 2009 overseas sales revenue of domestic films was RMB2.77 billion, revenue from broadcasting on national movie channels was RMB1.69 billion, plus the RMB6.206 billion from box office takings, the annual combined film revenue was RMB10.665 billion.



China Box office gross 2005-2012



China Film Revenues 2009



China Film Revenues 2008 & 2009

3.2. 2009 Single Film Box Office: Three films exceeded 400 million

Statistics in the EntGroup Report shows that China's box office record for a single film has been continually renewed in 2009. The record set by Titanic 11 years ago (RMB360million) was finally broken in 2009. In 2009, there were three films making more than RMB400m in box office takings: 2012, Transformers: Revenge of the Fallen and The Founding of a Republic. There were also 18 films making more than 100 million in 2009 (11 domestic films and 7 imported films). As the Chinese film market expands progressively, the number of high quality domestic films are also increasing.

2009 Films with Box Office Revenue over RMB100m in China

Ranking	Film Title	Origin	Release Date	Gross (RMB)	Distributor
1	2012	Imported	2009-11-13	466m	China Film/ Huaxia
2	Transformers: Revenge of the Fallen	Imported	2009-6-24	428m	China Film/ Huaxia
3	The Founding of a Republic	Domestic	2009-9-16	415m	China Film
4	Bodyguards and Assassins	Domestic	2009-12-17	273m	PolyBona
5	Red Cliff Part II	Domestic	2009-1-7	260m	China Film/ Maya Group
6	A Woman, a Gun and a	Domestic	2009-12-10	256m	Beijing New Picture/ Huaxia

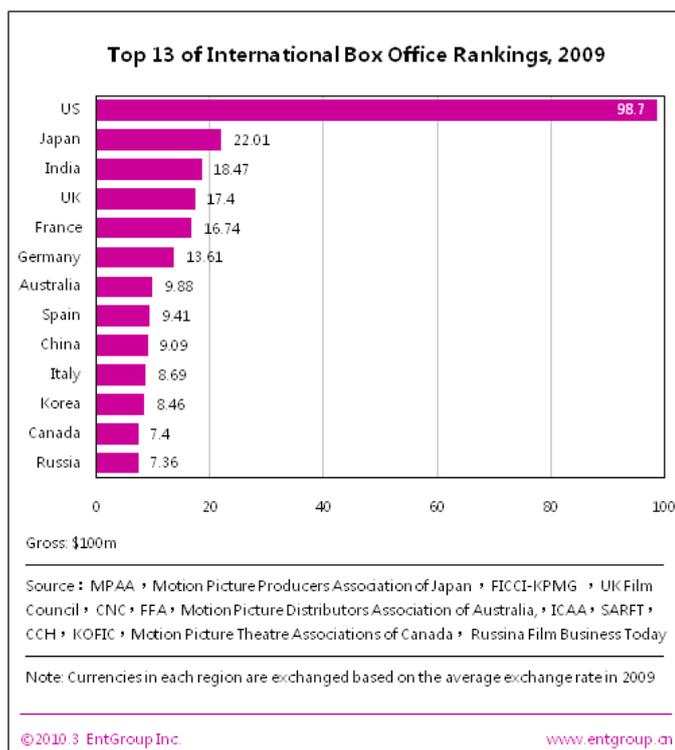
	Noodle Shop				
7	The Message	Domestic	2009-9-29	225m	Huayi Brothers Film
8	City of Life and Death	Domestic	2009-4-22	166m	China Film/ Stellar Megamedia
9	Ice Age 3	Imported	2009-7-8	157m	China Film Digital
10	Harry Potter and the Half Blood Prince	Imported	2009-7-15	156m	China Film/ Huaxia
11	G. I. Joe: Rise of Cobra	Imported	2009-8-7	137m	China Film/ Huaxia
12	Night at the Museum: Battle of the Smithsonian	Imported	2009-5-26	121m	China Film/ Huaxia
13	Look for a Star	Domestic	2009-1-26	113m	China Film/ Huaxia
14	Terminator Salvation	Imported	2009-6-9	112m	China Film
15	Silver Medalist	Domestic	2009-1-20	110m	China Film/ PolyBona
16	On His Majesty's Secret Service	Domestic	2009-7-29	103m	Huayi Brothers Film
17	Sophie's Revenge	Domestic	2009-8-13	100m	China Film/ Perfect World
18	Pleasant Goat and Big Big Bad Wolf	Domestic	2009-1-16	100m	PolyBona/ Eastern Mordor/ Guangdong Film/ China Film
Note: If You Are The One and IP Man were released in 2008, hence not included in the list.					
©2010.2 EntGroup Inc.			www.entgroup.cn		

2009 Films with Box Office Revenue over RMB100m in China

More information in complete version of 2009-2010 China film industry research report.

3.3. 2009 global box office ranking: China ranks No. 9

In 2009, the Chinese box office revenue was USD909million. The record lets China break into top 10 in global box office ranking for the first time. China moved up three places from 12th place in 2008 to 9th in 2009.



Top 13 of international box office rankings, 2009

More information in complete version of 2009-2010 China film industry research report.

3.1.1. Four distribution models

Revenue-sharing

This is the most common distribution model in China. The theatrical revenues of the film will be shared by the producer, distributor, cinema circuit and the theater in accordance to a fixed ratio. Before the revenue of each film goes to each sharing partners, a certain percentage will be deducted for the governmental National Fund for Film Development, business taxes and surcharges. The current ratio is shown in 5.3.2. Most of the imported film or Chinese films of medium or large scale adopt this model.

Flat-fee deal

The distributor of the film purchases the domestic 35MM/16MM distribution right, air copyright, domestic TV copyright on a flat-fee basis. The distributor pays a certain amount of royalty, and is responsible for all the expense for advertisement, copy and print, copy management and transportation, and so on. The theatrical revenues of the film have nothing to do with the producer; the producer is not entitled to extra share of the revenues.

Distribution Agent

The distributors serves as an agent for the distribution of the film and charges a certain percentages from the film's theatrical revenue. The distributor is responsible for the exhibition in domestic

16MM/33MM theaters and digital theaters, and owns the exhibition right of film preview advertising activities for commercial distribution. The distributor is not responsible for expense for advertisement, copy and print, or copy transportation.

Assisted Promotion

This is a special scheme of distribution for imported films. In addition to import 20 foreign blockbuster films a year, China Film Group and Huaxia Film Distribution are also the only two authorized companies to import another 20 foreign films on a flat-fee basis. But the films imported by these two companies are not necessarily distributed by them, but are handed to other qualified distributors in the name of “assisted promotion”; the two companies are in fact nominal distributors. China Film and Huaxia purchase the copyright at the price around USD 50,000, and then charge the distributor that is responsible for the “promotion work” RMB100,000 as a management fee. The theatrical revenues will then be shared by the distributor and China Film or Huaxia. This is an unique distribution model in China.

3.2. Current distribution market

3.2.1. Market shares: China Film Group takes the largest share

The EntGroup Report finds that the market share of China Film Group was 38.4%, much higher than all the other distribution companies in 2009. This is because the company (as well as Huaxia) not only monopolizes the right to import revenues-sharing films, but also has strong distribution ability and owns extensive resources of in its cinema circuits. Behind the China Film Group is another state-owned company Huaxia Film Distributions, which took up 20.7% of the market share mainly due to monopolized position distributing revenue-sharing foreign films; it also owns the credit behind the success of domestic films such as Zhang Yimou’s A Simple Noodle Story.

3.2.2. Concentration rate: 75.7%

The EntGroup Report’s figures indicates that the CR4 index in 2009 is 2.3%, higher than that of 2008, while the CR8 index of 2009 is 1.3% lower than that of 2008. Overall, the concentration rates of Chinese film distribution market in 2008 and 2009 are quite similar, and have maintained a high standard.

More information in complete version of 2009-2010 China film industry research report.

3.3. Film revenue division scheme in China

3.3.1. Development of the scheme

Actual Theatrical Revenues

The total sales of ticket revenues in cinemas (including group tickets sold by cinema circuits and distributors)

EntGroup's definition:

Actual theatrical revenues = Admissions * Ticket price

Theatrical Revenues For Share

EntGroup has integrated information of different resource and concluded that the profit division scheme within the industrial chain in Chinese film industry mainly focuses on the theatrical revenues and is done in the form of revenue-sharing scheme among key players of a film project (producers, distributors, exhibitors). Before the dividing the revenue, 5% of the revenues will be deducted and go to National Fund for Film Development (hereafter referred to as National Film Fund), collected by National Fund for Film Development which is directly under State Administration of Radio Film and Television), 3.3% of the revenues goes to the business tax. In EntGroup's definition, the rest of the theatrical revenues are then called "Theatrical revenues for Share".

Theatrical Revenues for Share=Actual Theatrical Revenues-National Film Fund-Business Taxes and Surcharges

National Film Fund =Actual Theatrical Revenues × 5%

Business Taxes and Surcharges = (Actual Theatrical Revenues-National Film Fund) × 3.3%

5.3.2 Current policy and practice

According to information compiled by EntGroup, the current revenue division schemes in Chinese film industry are as following:

Domestic films and flat-fee imported films: producer and distributor take 43%; cinema circuit and the theater take 57% (theater takes 50%, cinema circuit takes 7%). (Note: Normally, for flat-fee imported films local distributors take all of the 43% of the revenue, while in some of sales deals of these foreign films, foreign producers may negotiate to share a percentage of the revenue in the sales contracts.)

Revenue-sharing imported films: foreign producer takes 35%; distributor (China Film/Huaxia) takes 17%; cinema circuit and theater take 48%. (Note: the copy and print expense of revenue-sharing imported films is paid by the producers; for other films, the expense is paid by the distributors.)

Film revenue division scheme in China

	Producer	Distributor	Cinema Circuit	Theater
Domestic films and flat-fee imported film	43%		7%	50%
Imported films	35%	17%	48%	

Film revenue division scheme in China

Revenue-sharing imported films are the twenty films that can only be distributed by China Film Group

or Huaxia Film Distributions. **Flat-fee imported films** refer to foreign films purchased by China Film Group on a flat-fee basis.

For domestic films, if the producer and distributor belong to different companies, the division of revenue is normally negotiated between the two parties and specified in the distribution agreement.

The above mentioned revenue division scheme serves as a rough guideline while in reality, the actual revenue-sharing percentages may fluctuate, and the final scheme will be determined in the distribution agreement signed by the two parties. Generally speaking, a potential hit film or a powerful distributor may lead to a higher percentage of revenue for the distribution side. On the other hand, if the film has no potential to become a hit or the distributor is weak, then the distributor is likely get a lower percentage of the revenue. It's a generally a power-play between the distributor and the cinema circuit. In addition to the revenue division scheme, the distribution agreement will also include other appended clauses like incentives or rebate.

Similarly, the division of revenue between cinema circuits and cinemas also lies on the power and bargain chips between the two sides. When there are more than one cinema circuits intending to recruit a quality cinema to join the circuit, cinema circuits would often give up a share of the profit as an incentive to attract the cinema.

3.4. Major Players

3.4.1. Four types of distribution companies

More information in complete version of 2009-2010 China film industry research report.

3.4.2. China Film Group

China Film Group (together with Huaxia) monopolizes the market of imported revenue-sharing films, and has a powerful distribution network and cinema circuit resource. In 2009, it remains to be the bellwether in the distribution industry in terms of both the number of distributed films and their theatrical revenues.

More information in complete version of 2009-2010 China film industry research report.

3.4.3. China Film Digital

China Film Digital focuses on two areas: the building and development of digital theaters and the distribution of digital (including 3D digital) domestic and foreign films.

With the increasing popularity of 3D films in China, the market share of China Film Digital is also increasing. In 2009, 3D films distributed by China Film Digital included Ice Age: Dawn of the Dinosaurs, Up, Bolt, and G-Force.

3.5. 2009 Distribution Trends

EntGroup has analyzed the trends and special features of Chinese film distribution market in 2009.

3.5.1. Distribution gaining importance

3.5.2. The influence of exhibitors

Films Gaining More Screenings Because of ties between Distributors and Exhibitors

Film	Distributor	Cinema circuits/theatres with more screenings	Relations between distributors and exhibitors
Crazy Racer	China Film Group	China Film Group theaters (China Film Group Theater, Shenzhen new south country cinema)	The investor or manager of the film is China Film Group
McDull Kung Fu Ding Ding Dong	Shanghai Eastern	Shanghai United Circuit (Shanghai Paradise Warner Cinema City, Nanjing Shangying Cinema City, etc.)	The mother company of Shanghai Eastern and United Circuit is Shanghai Film Group
A Simple Noodle Story	Beijing New Picture Films	Broadway Cinemas (Beijing Xin Dong An, Star Cit, etc.)	The mother company of Broadway Cinemas, Hong Kong Edko Films, one of the investors of the film
The Storm Warriors	Orange Sky Golden Harvest	Goldenharvest Cinema City (Golden Harvest Shenzhen Cinemas, Golden Harvest Beijing, etc.)	Orange Sky Golden Harvest is the investor or manager of the film
©2010.3 EntGroup Inc.		www.entgroup.cn	

Films Gaining More Screenings Because of ties between Distributors and Exhibitors

3.5.3. The false box office figure incident

3.5.4. Digital distribution: future trend

3.6. Distribution case studies

In addition to the common approaches such as holding the launch or wrap events, or premiere events of a film, releasing trailers of a film, or the sensational strategy to create rumors of romance of the film’s main cast, the intensive competition in Chinese film industry has inspired new marketing and promotion methods in 2009. Some of the new strategies are proved effective for the marketing purpose and are thus seen as successful models in the industry.

5.5.1 Bodyguards and Assassins

The marketing campaign of Bodyguards and Assassins can be summarized in the following two points:

(1) Stable and Steady long-term marketing plan

The marketing of Bodyguard and Assassins is a long-term campaign that had been creating constant buzz in the media throughout the period of 10 months; the continual promotion activities successfully grabbed the audience's attention.

(2) Discarding sensational strategies

It has been a common practice for a film's promoter to make up affairs between the main cast of a film for the purpose to create media hype. The marketing team of Bodyguards and Assassins did not adopt the sensational approach during the entire marketing period and has set up a good example in the industry.

3.6.1. A Simple Noodle Story

Previously, Zhang Yimou's films had always enjoyed a luxurious marketing campaign. However, with lower production cost this time, the marketing strategy for A Simple Noodle Story is simple but successful. It's an example of creating the most effect with the least resource. The marketing of A Noodle Story can be summarized as following:

- (1) Hunger marketing; make concession to gain desired results
- (2) Intensive advertisement on TV and the internet
- (3) Cooperated with Minsheng Banking Corp
- (4) Simple première event

4. Exhibition -- cinema circuits

4.1. Introduction to Chinese cinema circuit system

Definition

The cinema circuit, also known as theater chain, refers to a film exhibition system which is formed by several theaters, and key links among them are capital and the supply of films. A cinema circuit establishes its brand, manages and arranges screening schedules for cinemas under the circuit.

Introduction

The cinema circuit system in China was established in 2002 and it ended the old distribution and exhibition system based on administrative regions that was formed during the planned- economy era. Instead, the distributors now can directly distribute the film to the cinema circuit and the circuit is responsible for supplying films to the subordinate theaters. The system not only simplifies the procedure of film distribution and enhances the efficiency, but creates a mechanism of competition, thus has become the driving force of the development of Chinese film industry.

Two kinds of cinema circuits in China

Form	Relations between the cinema	Representative theater	EntGroup's comment
------	------------------------------	------------------------	--------------------

	circuit and the theater		
Asset Connected	The theater circuit or the mother company of the theater circuit directly invested in the building of the theater; the asset of the theater belongs to the cinema circuit.	Wanda Cinema Chain, G.Z. JinYi, ZhuJiang Film Circuit, Guangdong Dadi Digital Cinema	The cinema circuits own and manage the operation of cinemas in the circuit. This is a common practice in foreign countries.
Contracted Alliance	The theater is not affiliated to the cinema circuit; the alliance is formed by the contracts partnership	China Film Stellar Theater Chain, Beijing New Film Association	Cinema circuits do not own the cinemas in the alliance. Cinemas in the alliance may have very different management and brand cultures. Cinema circuit here is only a loose organization that arranges screening schedules for the cinemas. It's an unique system in China.
©2010.3 EntGroup Inc.		www.entgroup.cn	

Two kinds of cinema circuits in China

4.2. Market landscape of cinema circuits

The cinema circuit market in China maintained its rapid development in 2009. There are 14 cinema circuits having their theatrical revenues exceeding RMB100 million, while there were only 10 in 2008. Among them, the top cinema circuit, Wanda, has gained more than RMB800 million in its box office revenues, and the number is expected to exceed RMB1 billion in 2010. Guangdong Dadi, Henan Oscar, Hubei Insun Art Cinema, and Jiangsu Eastern are the four circuits that have gained more than RMB100 million theatrical revenues for the first time. The overall theatrical revenues of the 14 circuits are around RMB5.278 billion, which accounts for 85% of the total theatrical revenues in China.

In addition, three cinema circuits were established in 2009. They are: (1) Zhejiang Hengdian Cinema circuit ; (2) Time Antaeus cinema circuit ; (3) Jiuzhou Film cinema circuit.

4.3. Competition in the Chinese cinema circuit market

4.3.1. Top 10 cinema circuits

Comparing the ranking of 2009 and 2008, the circuits in the top 10 list are the same while the ranking has changed. Wanda, which stood second in 2008, took the first place while the two-year champion China Film Stellar Theater Chain fell to the second place. Beijing New Film Association defeated China Film Southern Cinema Circuit and became the fourth from the fifth place in 2008. The 10 cinema circuits have together made a gross of RMB4.796 billion, which accounts for 77.35% of the total annual theatrical revenue in China.

Concentration rate analysis

According to the statistics of EntGroup, the box office index has shown that the CR4, and CR8 of Chinese cinema circuit market in 2009 are 46.8% and 71.1% respectively, which are slightly higher than those of 2008. The result indicates that the concentration rate of Chinese cinema circuit has increased and will continue to rise on a steady pace. Among the 37 circuits in China, the theatrical revenue of the top eight have accounted for 71.7% of the total theatrical revenue in China, 2009.

More information in complete version of 2009-2010 China film industry research report.

4.4. Major cinema circuits in China

4.4.1. Wanda Cinema Chain

Annual Overview

Cinemas : 51 **Screens** : 388 ; New cinemas: 9, New screens: 78

Cinema locations: located in 20 provinces and cities including Guangdong, Zhejiang, Tainjin, Sichuan, Hubei, Beijing, Shanghai, Inner Mongolia, Liaoning, Jilin, and Hunan.

Box office gross : 835m **Admissions:** 27.9m **Screenings:** 580,000

Releases: 115 domestic films, 65 imported films

In 2009, the theatrical revenue of Wanda exceeded that of China Film Stellar Theater Chain by RMB40 million and Wanda became the champion cinema circuit. Established in 2005, it has only taken Wanda five years to become top player in the Chinese film market. The so-called "Wanda Speed" has won attention from both inside and outside the industry.

Annual Highlights

- (1) Setting up positions of cinema management "trainers"
- (2) Setting up the bid for pre-exhibition advisement

Top Cinemas

Top 5 Cinemas of Wanda Cinema Chain in 2009

Ranking	Cinema	Screens	Seats	Gross (RMB10,000)
1	Wuhan Wanda International Cinema	9	2089	5,733
2	Tainjin Wanda International Cinema	10	2674	5,136
3	Beijing Wanda International Cinema (CBD)	9	1512	4,913
4	Shanghai Wanda Cinema	10	1911	4,151

5	Changchun Wanda International Cinema (Euro-Asia)	9	2693	3,895
©2010.3 EntGroup Inc			www.entgroup.cn	

Top 5 Cinemas of Wanda Cinema Chain in 2009

More information in complete version of 2009-2010 China film industry research report.

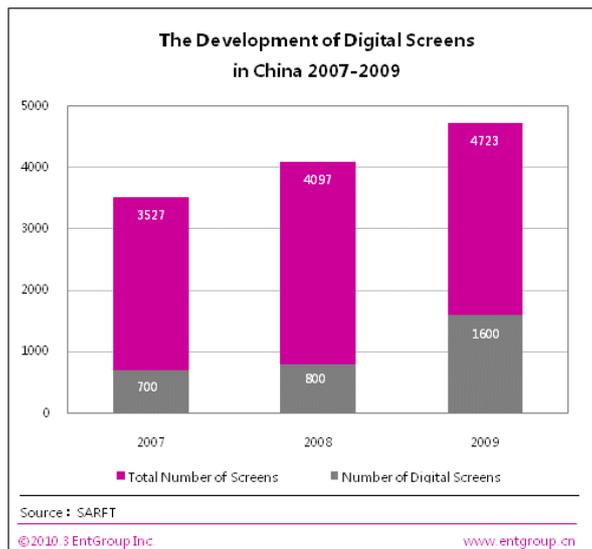
5. Exhibition – cinemas

5.1. Cinema development 2009

5.1.1. The increase of screens 2009

5.1.2. The growth of digital screening 2009

In 2009, there was a rapid growth of digital screens in China, with 800 new 2K digital screens. The total number is now 1600, ranking No.2 in the world following USA. Among the 626 new screens built in 2009, 80% of them, or 501 of them are digital.



The Development of Digital Screens in China 2007-2009

5.1.3. The growth of 3D screening

With the increase of 3D film production, The EntGroup report estimates that 3D digital screens will continue to increase rapidly in China. The number of 3D digital screens will reach 1200 in 2010, and 2200 in 2012.

5.1.4. The development of IMAX screens 2009

By the end of February 2010, there were 22 IMAX screens in mainland China, of which 13 (8 digital, 5 film) were used for commercial exhibition, 9 were used in science and technology museums. There are

403 IMAX screens all over the world, of which 280 are used for commercial exhibition, 123 used in science and technology museums.

More information in complete version of 2009-2010 China film industry research report.

5.2. Cinema market landscape 2009

5.2.1. Distribution of cinema profits 2009

In recent years there are not only growths of cinemas and screens in China, but also an overall increase of single-cinema box office gross. There are an increasing number of cinemas with high box office gross. Guangzhou Fei Yang Cinema has taken the lead in the industry, with its box office gross growing from RMB56.21million in 2007 to RMB67.45million in 2008; in 2009 its gross amounted to RMB82.2 million, remaining the highest-grossing cinema in China.

More information in complete version of 2009-2010 China film industry research report.

5.2.2. Ticket prices 2009

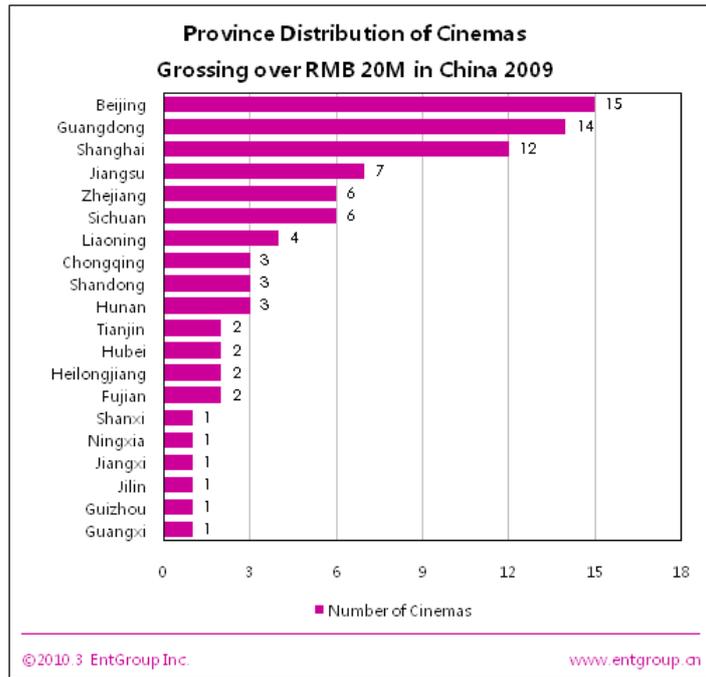
The average ticket price of movies in China has increased year by year and it reached RMB31 in 2009. The regular ticket price is between RMB69 to RMB80 in big cities such as Beijing, Shanghai, Guangzhou and Shenzhen. In actual practice however, there are other schemes that have brought down the ticket price to 25%, such as the half-price days (Tuesday), special discounts, coupons and group ticketing. The average ticket price in these cities is actually lower than RMB60. Moreover, the price in small and mid-sized cities is usually lower than that in big cities, the average ticket price in China is thus averaged RMB31.



Average Ticket Price in China 2006-2009

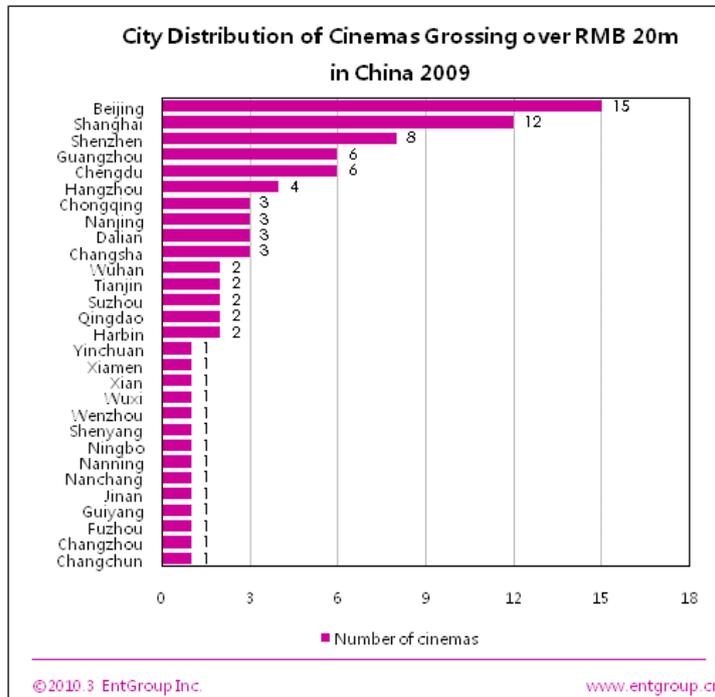
More information in complete version of 2009-2010 China film industry research report.

Top Cinemas by Ranking 2009



Province Distribution of Cinemas Grossing over RMB 20 Million in China 2009

5.2.3. Most profitable City: Beijing



City Distribution of Cinemas Grossing over RMB 20m in China 2009

More information in complete version of 2009-2010 China film industry research report.

5.3. Cinema investment analysis

5.3.1. Policy support: Digital cinema development in 2nd and 3rd tier cities

In 2009-2010, the government issued a series of policies to encourage the investment and construction of cinemas in China.

- **SARFT issued subsidy policy for the installation of digital projectors, encouraging the construction of digital cinemas.**
- **The State Council General Office issued Guidance on the Promotion of Prosperity and Development of Film Industry, pointing out specific goals of cinema constructions.**

5.3.2. New investors and influx of capital

More information in complete version of 2009-2010 China film industry research report.

5.3.3. New investment trends: vertical integration

The investment of cinemas in 2009 is characterized by the following points:

- **The rents of cinemas raised to a new high**
- **Vertical Integration**

The control of cinemas is seen as an important factor in film distribution. Many film companies, therefore, have been engaged in connecting the three links -- production, distribution and exhibition, to achieve a vertical integration in film distribution. In this respect, several state-owned groups such as China Film Group and Shanghai Film Group have successfully achieved vertical integration by controlling its cinema chains. Following the example of these state-owned companies, private enterprises such as Huayi Brothers Media and PolyBona have also stepped into cinema investment and development in 2009, planning to build up a complete chain in the industry.

5.4. Cinema investment and management companies

More information in complete version of 2009-2010 China film industry research report.

5.4.1. Ranking by screen count

According to EntGroup's statistics, in terms of management rights and shareholding of screens, Wanda Cinema Line ranks No.1 with 376 screens; Dadi Century Films No.2 with 244 screens; China Film Group No. 3 with 182 screens.

More information in complete version of 2009-2010 China film industry research report.

6. Movie seasons and time slots 2009

6.1. 2009 monthly box office analysis

6.1.1. Box office index by month

The EntGroup report found that in 2009, there were three peak months of box office takings: January, July and December and they respectively belongs to 2008-2009 year-end movie season, 2009 summer season and 2009-2010 year-end movie season. This is the same with the past two years that the three peaks have fallen into year-end movie season and summer season, showing a pattern in which the beginning, the middle and the end are relatively high points of the year.

As the Chinese New Year of 2009 lies in January but not February as in 2007 and 2008, the box office peak appeared in January but in 2007 and 2008 it is in February.

More information in complete version of 2009-2010 China film industry research report.

Major movie seasons and time slots in China 2009

6.1.2. 2009 Summer season

The total box office and Admissions

According to EntGroup's research, the total box office gross in 2009 summer season amounted to RMB1.76 billion, increasing by 540million (44.3%) over the same period in 2008 when the gross was RMB 1.22 billion. The number of admissions is 56 million, increasing by 17.5 million (42.8%) over the same period in 2008 when the number was 38.5 million. The growth rate of the summer season is similar to that of 2009 total box office takings.

More information in complete version of 2009-2010 China film industry research report.

➤ Monthly Box Office Gross Distribution

In terms of monthly distribution, the gross in the highest in July followed by August and June in summer season. It is also true for 2007 and 2009, while in 2008 the gross in August is lower than that in June, for the box office takings were much affected by the Olympic Games in August, 2008.

More information in complete version of 2009-2010 China film industry research report.

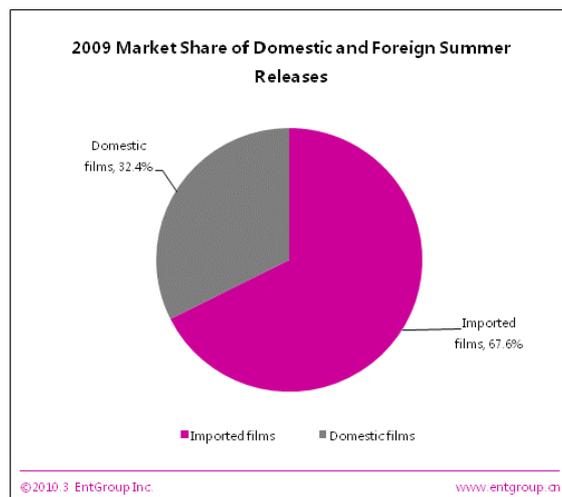
➤ Weekly Box Office Gross Distribution

According to EntGroup's statistics, in terms of weekly distribution, when Transformers: Revenge of the Fallen brought the weekly gross figure up to 180 million in the fourth week of summer season, the summer season in 2009 has seen a continuous 10-week hype with record-breaking weekly gross of over RMB100 million.

More information in complete version of 2009-2010 China film industry research report.

➤ Market Share of Domestic Movies

According to EntGroup's statistics, there is a large number of imported movies in 2009 summer season, and they have each made high box office gross, with 5 movies grossing over RMB100million. Therefore, the market share of imported summer releases is higher than that of domestic summer releases. In Summer season, domestic movies are still less competitive against imported blockbusters.



Summer season Market Share of imported and domestic films

More information in complete version of 2009-2010 China film industry research report.

6.1.3. 2009 National Day Holiday Season

➤ Total Box Office Gross and Admissions Analysis

According to EntGroup's statistics, the gross in national day holiday season in 2009 increased by RMB18 million (9.6%) over the same period in 2008. The main reasons behind the growth are: (1) In 2008, there was only one blockbuster-- Painted Skin, but in 2009, however, there were two--The Founding of a Republic and The Message; (2) There was an increasing number of cinemas opening up

through the whole year; the screening for each film capacity is thus widely enlarged .

➤ **Released Pictures Analysis**

According to EntGroup's statistics, among all the movies released in 2009 national day holiday season, The Message and The Founding of a Republic alone accounted for 83% of the total market share, while the rest of the releases performed very poorly.

The above fact suggests that besides the movie season, the quality of the movie, the quantity and quality of rival films in the same period are also key factors impacting a film's market performance.

More information in complete version of 2009-2010 China film industry research report.

➤ **Daily Box Office Gross Trend Analysis**

During the eight days of national day holiday movie season, daily box office gross did not fluctuate much. The 60th anniversary military parade on October 1 had diverted a certain degree of movie-going to the parade and the daily box office gross peak appeared on October 2.

6.1.4. Year-end movie season 2009

➤ **Total Gross, Admissions Analysis**

EntGroup's statistics found that the total box office gross for 2009-2010 year-end movie season was RMB2.98 billion, increasing by 102% over the same period of the previous year (RMB1.47 billion); Total admissions are 78.07 million, increasing by 63% over the same period of the previous year (47.79 million).

More information in complete version of 2009-2010 China film industry research report.

6.2. Characteristics on release date arrangement in China 2009

In conclusion, EntGroup found that the Chinese movie seasons in 2009 are characterized by the following points:

6.2.1. Movie seasons are not evenly distributed

6.2.2. Potential for short-holiday seasons

9. Imports and exports

9.1. Imports and exports 2009

9.1.1. International sales and market share 2009: export bottleneck remains

In 2009, 22 Chinese film producers sold 45 films (34 co-produced) to 68 countries and regions, with a total of 185 sales deals, grossing RMB 2.769 billion, increasing by 6.9% over 2008. Overseas box office gross was RMB 2.404 billion, while the revenue from post-movie products was RMB 365 million. Compared with 2008, there were three new production companies and 7 new territories engaging in the overseas sales of domestic films.

In 2009, the main overseas markets of domestic films were still North America, Europe and Asia-Pacific.

9.1.2. Chinese films winning international awards in 2009

In 2009, Chinese Film Promotion Corporation held 58 special screenings or Chinese Movies Weeks in 29 regions and countries, exhibiting 474 Chinese films in total; Moreover, 249 films, under SARFT’s approval, participated in about 102 overseas film festivals, and 39 films received awards in 24 of film festivals, winning award titles of 72 award categories.

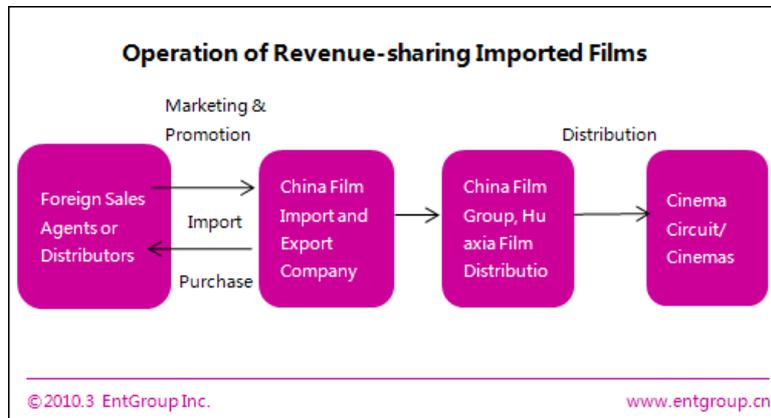
9.2. Imported films in China 2009

9.2.1. Imported films: Revenue-sharing films, flat-fee films and special imports

The current imported films in China can be divided into three types:

- **Revenue-sharing films**
- **Flat-fee films**
- **Special imports: Pure Hong Kong films, Co-produced films, Special films**

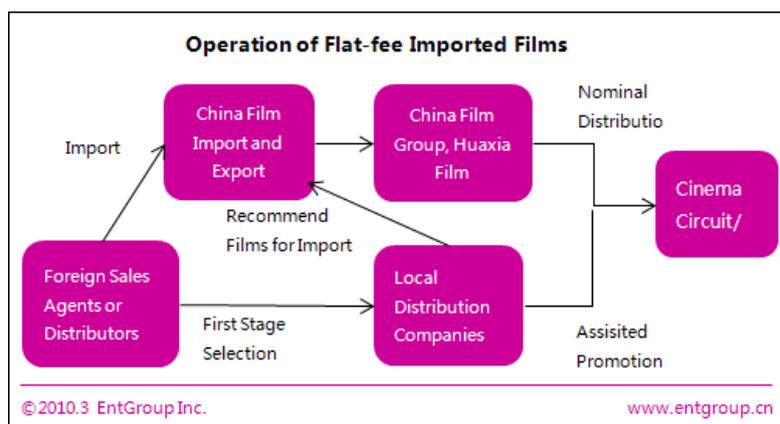
9.2.2. Procedures of film imports in China



Operation of Revenue-sharing Imported Films

➤ **Procedure of Importing Flat-fee Films**

Domestic distributors of flat-fee films contact with foreign film companies and complete the initial selection, then they recommend the films to the China Film Import and Export Company who, after sending the films to SARFT for review, will handle the customs entry. The distributors of flat-fee films will then release the films in the name of assisted promotion, while the official distribution companies are China Film Group or Huaxia Film Distribution.



Operation of Importing Flat-fee Films

9.2.3. Foreign film box office performance in 2009

According EntGroup, there were 65 imported films released in China in 2009, among which 20 were revenue-sharing films, 30 were flat-fee films and 15 were pure Hong Kong films and special films. 7 of them grossed over RMB 100 million, far better than that in 2008 (3). Out of the three films grossing over RMB 400 million, 2 were imported.

More information in complete version of 2009-2010 China film industry research report.

9.3. Post-production market

9.4. Major Post-production Companies

10. Movie-going survey China in 2009

More information in complete version of 2009-2010 China film industry research report.



Entgroup International Consulting (Beijing) Co.,LTD

Rm.1509, Building C, SOHO New Town, 88 Jianguo Rd.Chaoyang District, Beijing, P.R.China

Tel : 010-85899985

Fax: 010-85899985-839

<http://www.entgroup.cn>