

China Film Industry Report 2011-2012 (in brief)

I Research Background

Looking back at 2011, 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 《2011-2012 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 2011 - 2012. 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, 2011 to Nov 30, 2011

Survey Sample

The total number of sample is 3089, among which 2250 are samples from ten major cities. The 10 major cities are selected from the top 10 cities that have their 2011 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 The Report

1. Overall Trends in China' s Film Industry in 2011

1.1 Analysis of China' s Film Industry in 2011

1.1.1 Policy: threats and opportunities of a more open policy environment than ever before

A summary of the 2011 Twelfth Five-Year Plan shows the resolve of the government in deepening reform of China' s cultural industries. Statements related to the development of the film industry should also give increased confidence to film makers. Under the guidance of government policies, the film industry should see new opportunities for development over the next five years and overall improvements in the cultural industries will benefit the development of the filming industry chain.

Important Policies regarding the Film Industry in 2010-2012

Date	Policy	Content and Impact
2010	Guidelines on Driving the Prosperity of the Film Industry	This is the first time that the film industry was lifted to the level of a 'strategic industry' .
2011	CCP Central Committee Decision on Several Major Issues in Deepening Reform of Cultural Systems and Pushing Greater Prosperity in Socialist Cultural Development	This is another strengthening and acceleration of development in the cultural industries.
March 6, 2011	Outline of the Twelfth Five-Year Plan for National Economic and Social Development in the People' s Republic of China	This document clearly mentioned 'strongly developing cultural activities and cultural industries' with the goal of making cultural industries a major part of the national economy. It also specifically mentioned 'accelerating the building of cinemas in small and medium cities in central and western regions' as well as strengthening the influence and competitiveness of Chinese cultural internationally and putting greater emphasis on China' s soft power policy.

December 1, 2011	SARFT Guidelines on Driving the Development of Film Making, Distribution, Screening and Coordination	This specifically includes: 1. The portion of profits from the initial showing of a film that go to the cinema should not be greater than 50%; 2. It recommends that the annual rental cost for cinemas not exceed 15% of annual box office revenues; 3. Cinemas that contractually join cinema lines should, in principle, not be signed for less than three years. During this period, if the cinema chooses to sign to a cinema line with joint assets of over 50%, it may resign only after discussion with the originally signed cinema line; 4. Control over the showing of advertisements in cinemas should be returned to the cinema itself. Production companies should no longer deal in in-film advisements.
February 18, 2012	Memorandum of Understanding between the United States and China on Resolving WTO Film Related Issues	The agreement includes three major sections: 1. China will allow for 14 more films (3D and IMAX only) from the United States on top of the original quota of 20; 2. Box office shares have been increased from the original ceiling of 18% to 25%; 3. Gives private Chinese companies the opportunity to release imported films, breaking the state-owned monopoly.
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Table 1: Important Policies for the Chinese Film Industry in 2010-2012

In the beginning of 2012, the United States and China signed a Memorandum of Understanding resolving film-related issues brought before the WTO. EntGroup believes that that this so-called 'new-deal' in film cooperation between the US and China is an important supplement to new film industry policies and its influence will be felt far and wide. The new policy will spur domestic cinemas to upgrade their equipment and 3D/IMAX films from Hollywood will become increasing common, squeezing out space for domestically produced films at the box office. Meanwhile, the increase in profit sharing and the issuing of a third import license will create a complicated aftereffect that will likely result in an increase of proportion of box office revenues going to imported films. This new policy will also create opportunities. Domestic films will have no choice but to respond to this new pressure by increasing overall quality, building the industry chain in a logical way and streamlining operations so that they can ultimately compete.

1.1.2 Economics: a market listing rush in film and television

In 2011, China's economy continued to grow with the national GNP reaching 5,449.71 USD and disposable income among urban residents reaching 21,810 RMB. China's GDP reached 47 trillion RMB with a growth rate of 9.2%, slightly slower than 2010. However, because of policies supporting cultural development at the central and local levels, the trend of strengthening in cultural industries will not be affected by a cooling off of the national economy.

In 2010, because of the large amount of risk in traditional investment markets like stocks and housing, some hot money flowed out of those markets and into the cultural sector. This resulted in a clear increase in investment in the film industry. In 2011, an increasing number of film companies that have become profitable and are searching for more room for development have extended their tentacles into secondary markets. In early 2011, nearly ten companies in film and television were planning to list domestically or outside of China within the year. This included major competitive film companies as well as other mass media companies that had rich television production experience as well as involvement in film.

Major Film Companies Planning Market Listings

Name	Public/Private	Status	Board
China Film Group	State-Owned	Planning to list in 2012	Main
Shanghai Film Group	State-Owned	In Planning	Main
Galloping Horse	Private	In Planning	GEM
Wanda Cinema Line	Private	Entering final feedback phase	Main
Jin Yi & Da Di	Private	In Planning	GEM
Jiangsu Xinfu Lanhai	Private	Currently being advised by the China International Financial Co. and officially submitted documents to the Jiangsu Bureau of the CSRC.	GEM
Zhejiang Tangde	Private	Initial review of IPO completed, currently in feedback stage.	GEM
Beijing Nengliang	Private	In initial review.	GEM

Note: Data collected from open sources; for reference only.

Table 1-2 Major Film Companies Planning Market Listings

1.2 Analysis of the Scale of China' s Movie Industry

1.2.1 The Scale of China' s Movie Industry

In 2011, total revenue for China' s movie industry reached 17.8 billion RMB, growing 16%. Of this, box office revenue was 13.2 billion RMB and non-box office revenue was 2.6 billion RMB. Revenue from overseas sales was down, bringing in only 2 billion RMB. Currently, China' s movie industry remains heavily reliant on box office sales for revenue while overseas sales and industry chain revenue remains relatively low. This results in increased investment risk for those investing in movies.

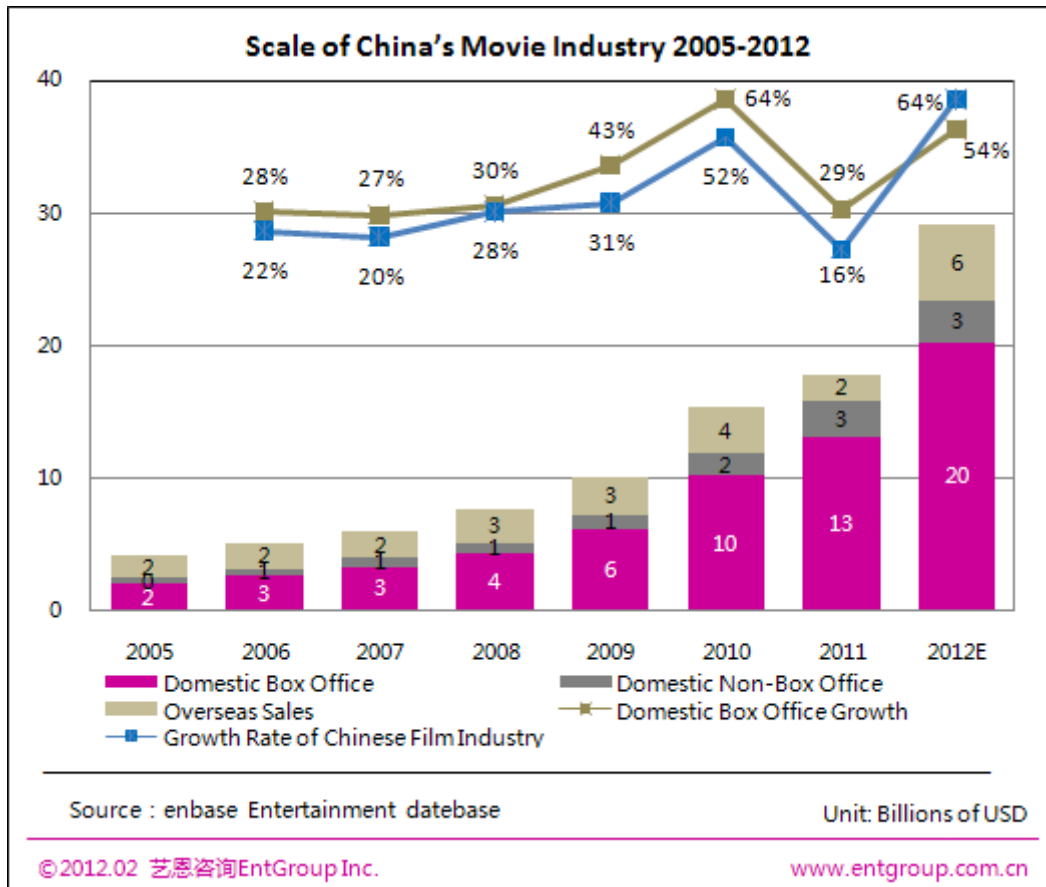


Image 1-3 Scale of China' s Movie Industry 2005-2012

1.2.3 Film Copyright in China

1.2.3.1 State of Copyright Royalties for Films in China

In 2011, revenue from royalties on films shown in China continued to grow steadily, reaching a total volume of 960 million RMB. This was especially obvious in for royalties for new media because of the fight over the price for video website content, which resulted in a massive 110% increase of 320 million RMB, the biggest increase in the past five years. Royalties from films shown on television grew 20% over 2010, reaching 620 million RMB. Meanwhile, royalties for music were negligible due to piracy and online listening.

EntGroup believes that with the rapid growth in the number of internet users, online movie watching movies online has already become one of the main ways that people watch films and royalties from online showings of films has gradually become the second largest revenue source for royalties after movie theaters.

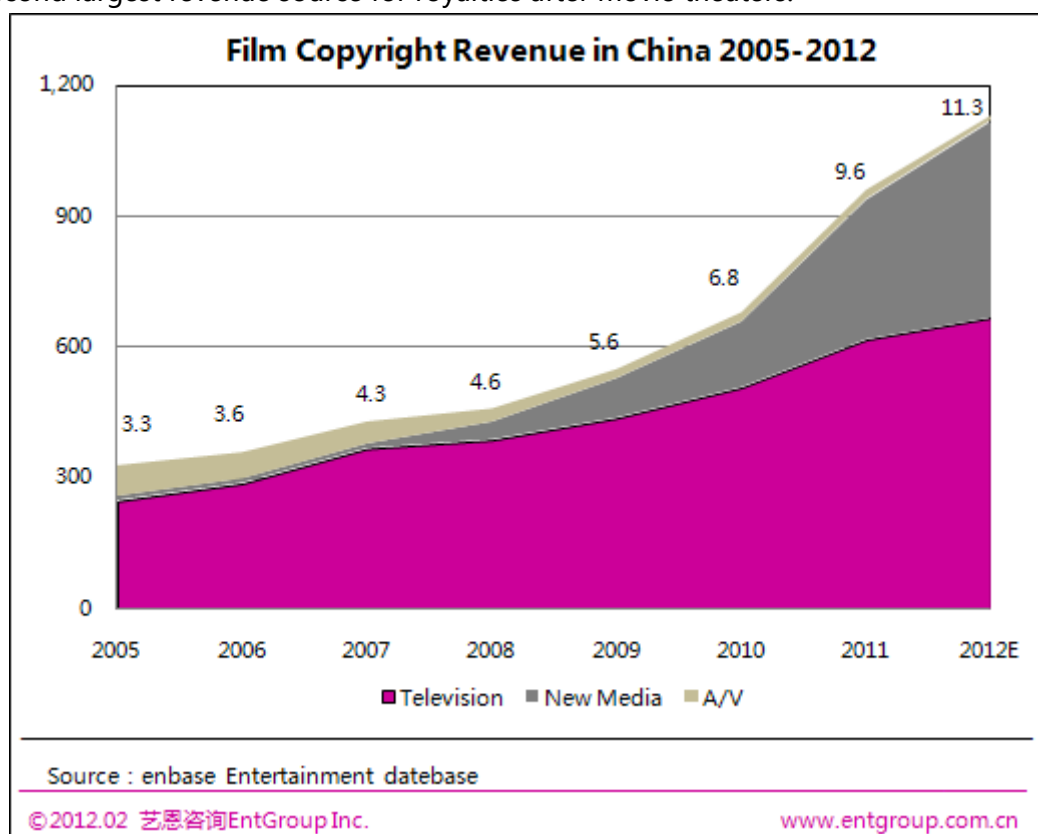


Image 1-6: Film Copyright Revenue in China, 2005-2012

1.2.4 Film Advertising in China

Advertising in China's film industry chain is present in upstream, midstream and

downstream sectors.

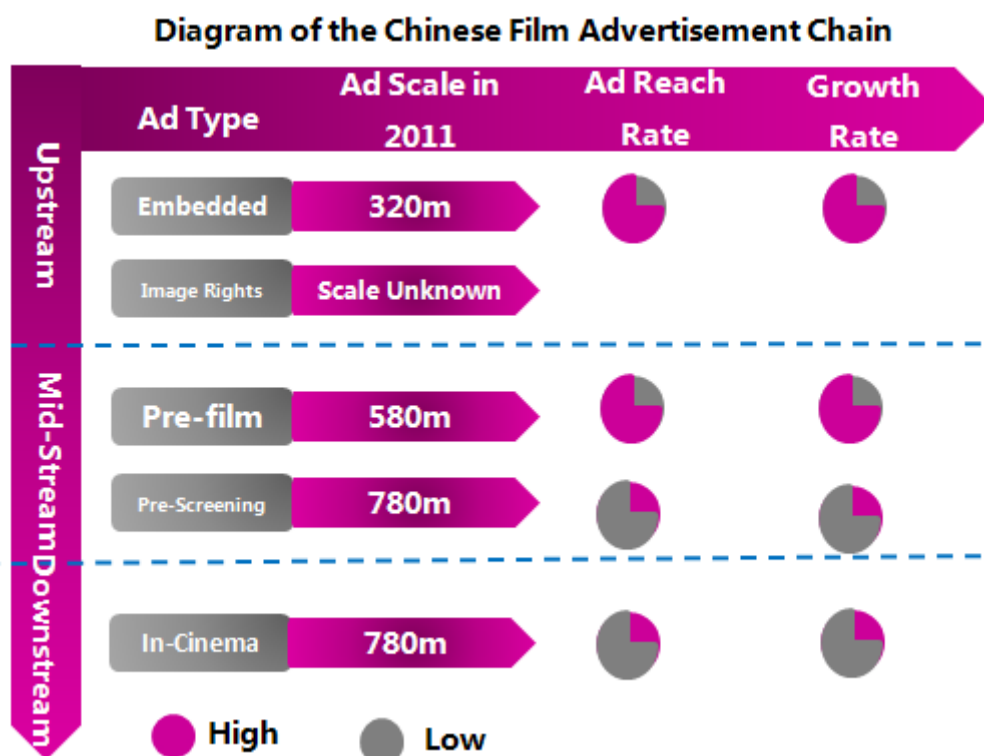


Image 1-7: Diagram of the Advertising Industry Chain in China' s Film Sector

1.2.4.1 Pre-screening and In-film Advertising

According to statistics from EntGroup, revenue from pre-screening advertisement in Chinese movies was 580 million RMB and 780 million RMB from pre-screening advertisements in 2011. While revenue from pre-screening advertisements remained higher than the in-film variety, they were both higher than revenue from embedded advertisement.

On November 29, 2011, SARFT released its Guidelines for Driving the Development of Film Making, Distribution, Screening and Coordination, which clearly stated that all rights to the screening of advertisements should rest with the cinema and that production companies should no longer be involved in developing in-film advertisement. This, in essence, has transferred operation rights of in-film advertisement to cinemas and turned things in their favor.

Currently, most in-film advertisements in China are handled by a third-party advertising firm and the film marketing company. The release of SARFT' s Guidelines have started a new round of intense competition among these companies by cutting out the

production company and changing the structure so that allocation of advertising revenue goes only two the advertising firm and the cinema.

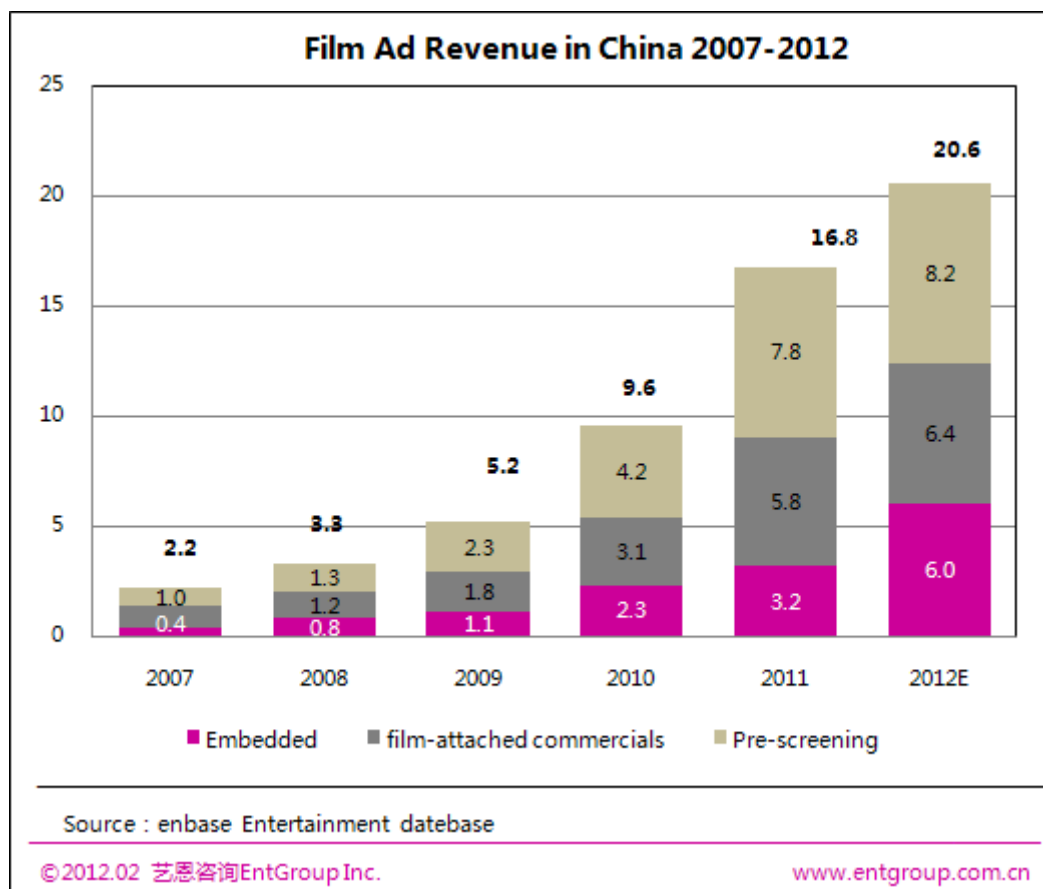


Image 1-8: Film Ad Revenue in China, 2007-2012

2. Chinese Film Production

2.1 Overview and analysis of Chinese film production

2.1.1 Minor slow-down of production growth

In 2011, China's film production volume reached 791 films, which is a 9.7% increase on the production volume of 2010. It is the 9th year consecutive production increase since China began to reform on its film industry in 2002. About 28.1% of the 791 productions were released in movie theaters in 2011.

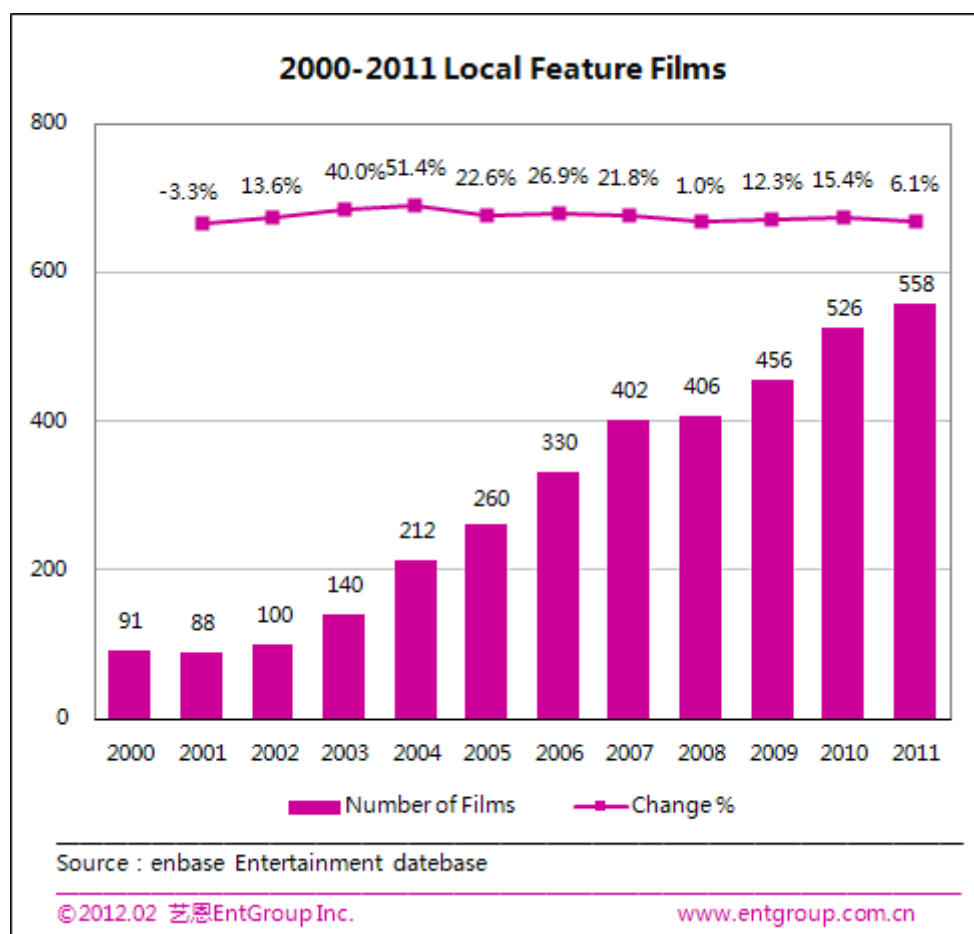


Image 2- 1 2000-2011 Local Feature Films

The production figures in the past 5 years indicate that the growth of film production is slow down in 2011. The slump in film production has created a general concern among production companies. Meanwhile, the influx of hot money has slightly calmed down. In terms of the number of productions, the film market is nearing saturated. This report believes that in the future, the number of productions will not be largely increased but will be fluctuated and adjusted according to market situations.

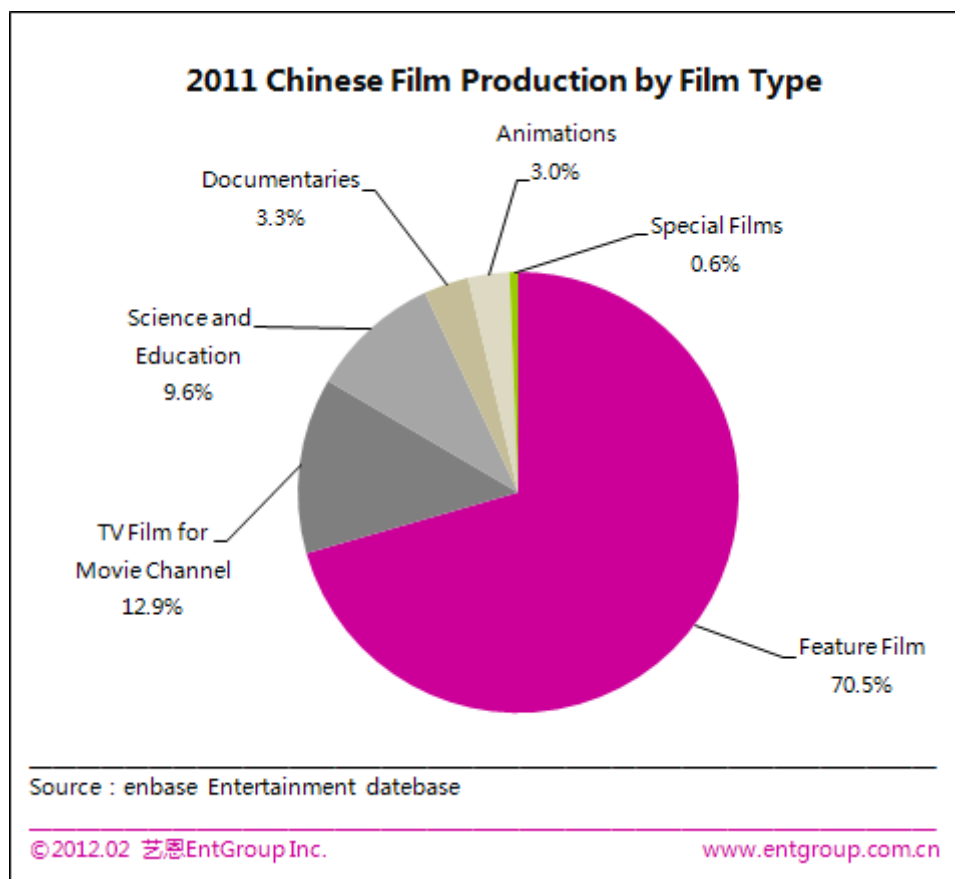


Image 2-2 2011 Chinese Film Production by Type

In 2011, there are 558 feature films, 24 animated films, 26 documentaries, 76 science and education films or special films and 102 TV films produced in China. The number of feature films increased 6.1% compared to year 2010. The increase rate of feature films is lower than the increase rate of total production.

2.1.2 Mainstream production -- romance, action and comedy

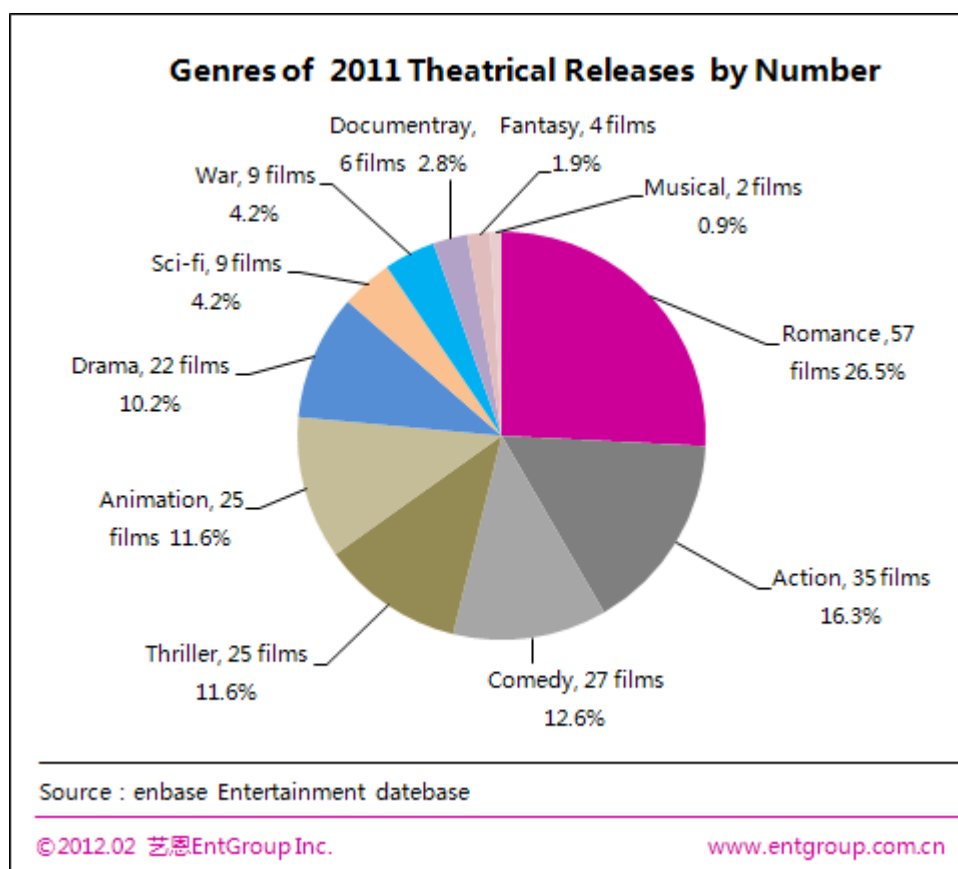


Image 2-3 Genres of 2011 Theatrical Releases by Number

Romance, action and comedy are three main genres of Chinese film production in 2011. Films of the three genres account for half of the total number of feature films. The number of animated films is also on the rise. After a few low-budgeted thrillers winning box office success last year, animations become another fast-growing genre in 2011 that has caught the eyes of film investors. On the other hand, maintaining the popularity in the past two years, romantic films continued to top the number of productions in 2011. Romantic drama *Love Is Not Blind* created a sensation in late 2011. With a relatively low budget, the film earned a box office of over 300m yuan and became a dark horse in 2011 film market.

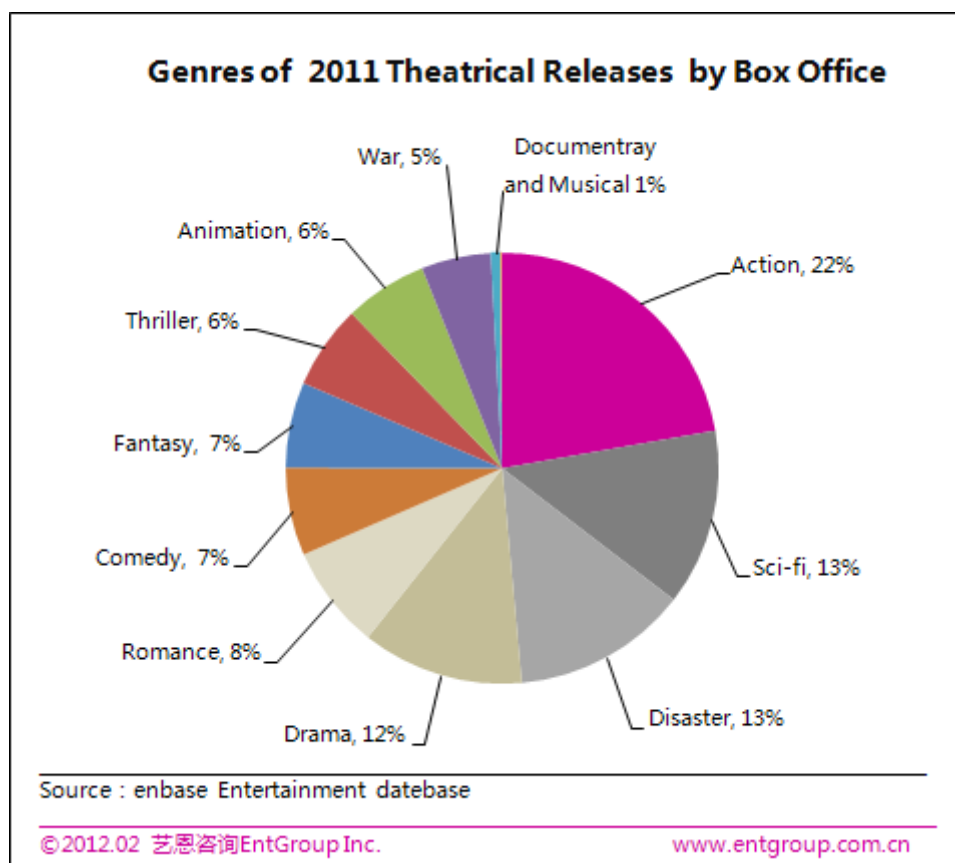


Image 2-4 2011 Genre of Theatrical Releases by Box Office

3. Chinese film distribution

3.1 2011 Distribution Characteristics

3.1.1 Market Analysis

In 2011 there were 250 distribution companies in Mainland China, 90% are privately owned. According to research done by EntGroup, out of the 226 films that were released, 27% made \$100,000,000 RNB or more, 12% made between \$50,000,00 to \$100,000,000, 36% made between \$100,00,000 to \$5,000,0000. Compared to last year' s 18%, 14%, 32%, and 36% respectively there' s a significant increase in films that made over \$100,000,00 RNB at the box office.

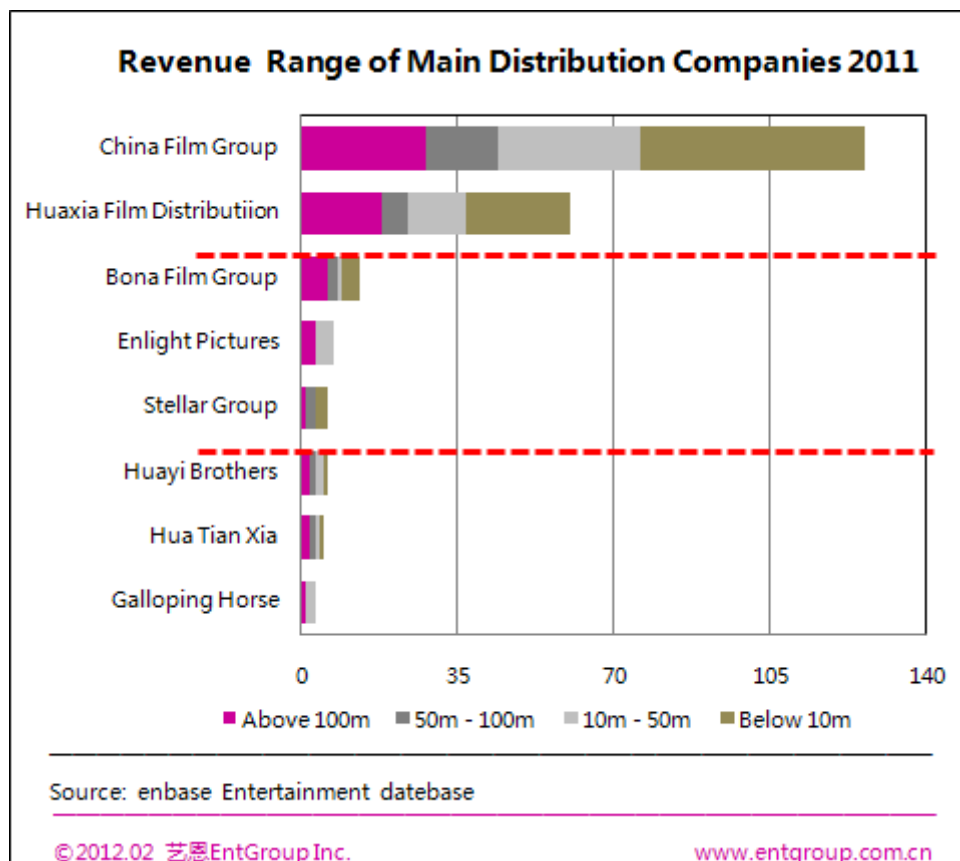


Image 3- 1 Revenue Range of Main Distribution Companies 2011

Amongst these distribution companies, State-owned companies had the lion' s share of the profit, while private-owned companies often experience fluctuations. The top ten distribution companies take up 85% of the profits, and market concentration is in the three large-scale private companies.

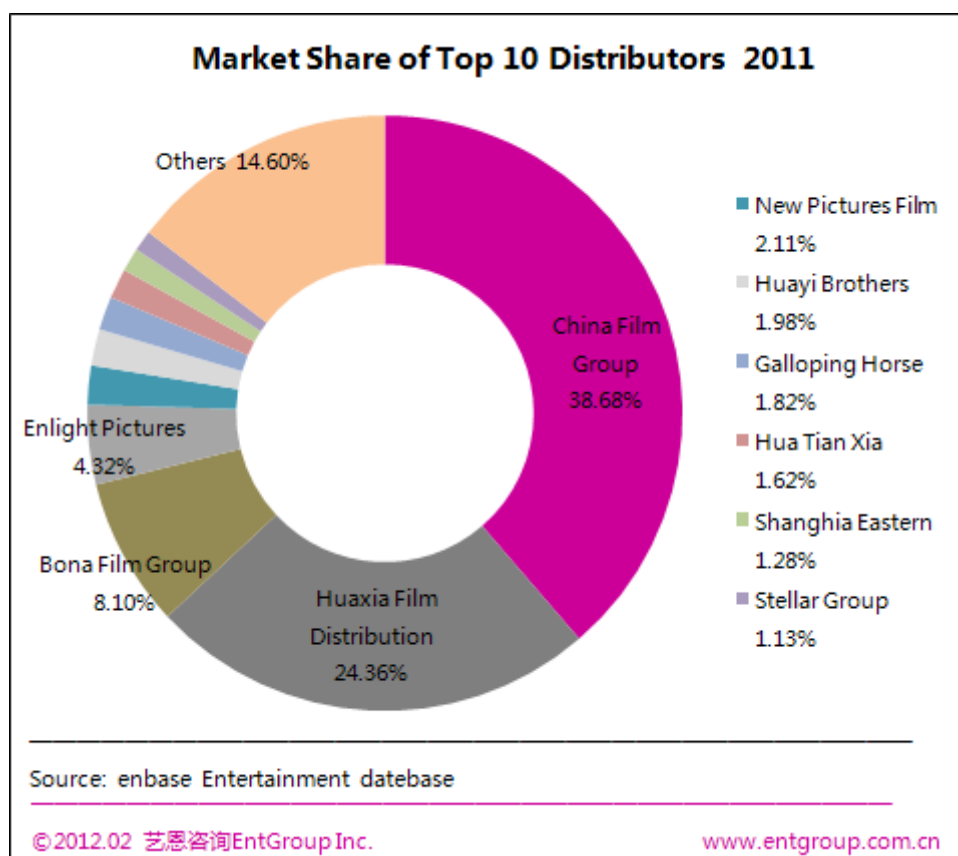


Image 3- 2 Market Share of Top 10 Distributors 2011

4. Chinese Film Exhibition: Theater Chains

4.2 Summary of Chinese Theater Chains in 2011

4.2.1 Market Summary

➤ Number of Theater Chains

As of the end of 2011, China had a total number of 39 urban theater chains. From 2003 to today, this number has gone through three periods of rise and fall. Between 2003 and 2005, the number of theater chains increased from 32 to 36, seeing a period of slight growth. Between 2006 and 2008, the industry saw three years of restructuring, after which there was a short growth spike in 2009. In 2010 and 2011, there was another downturn in the growth of theater chains with steady growth of one theater chain a year.

According to data collected by EntGroup, theater chains in rural regions of China began to form 2008 and continue to grow. 2009 was a year of rapid growth for rural theater chains with a growth rate of 45.3% and by 2010, growth entered a more stable range and in following years continued to slow slightly. In 2011, there were 246 theater chains in rural China, only six more than 2010.

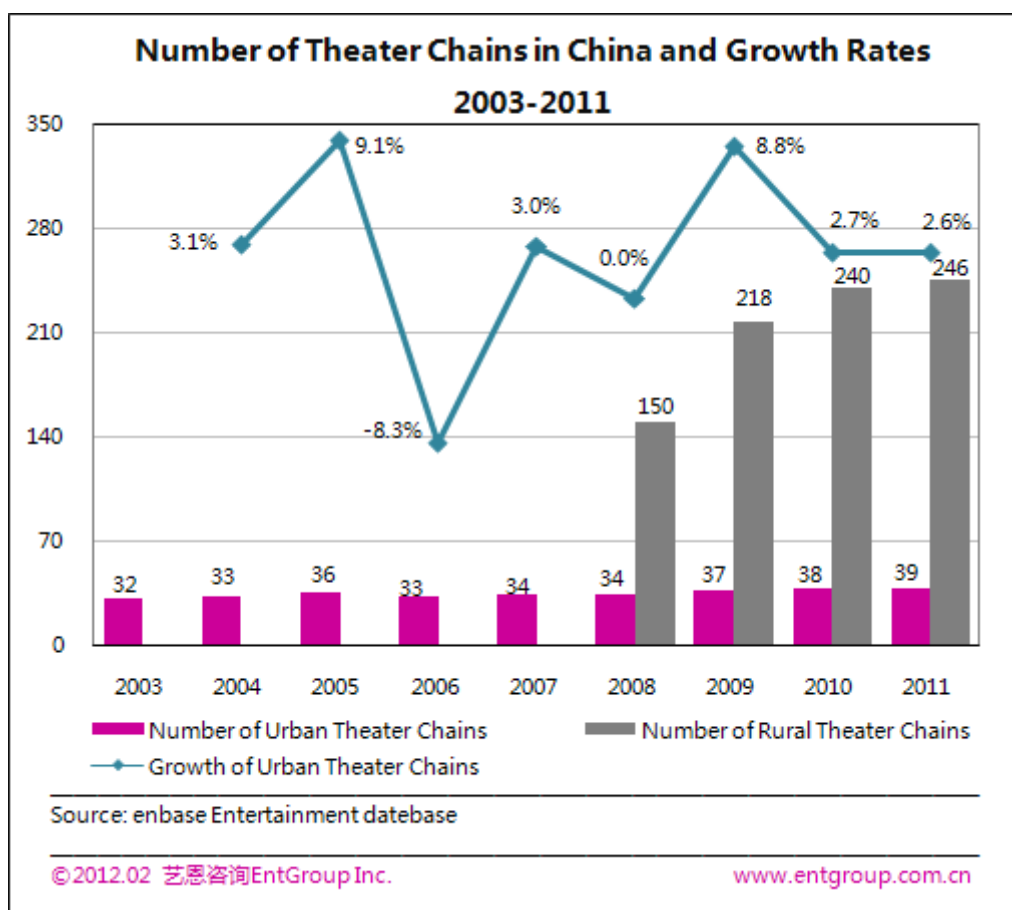


Image 4-1: Numbers and Growth Rates for Chinese Theater Chains 2003-2011

➤ Scale

In 2011, the number of Chinese theater chains that made over 100 million RMB in box office sales increased from 20 in 2010 to 24, including Blue Sea Asia (Jiangsu), Xingguang (Zhejiang), Daguangming (Shanghai) and New Century (Shandong). In addition to Wanda, China Film Stellar and Shanghai Union, China Film Southern became the fourth additional theater in 2011 to see box office sales over 1 billion RMB. In addition, of the top ten theater chains number-ten ranked Liaoning Northern brought in 382 million RMB, up 19.4% from the previous year.

Chinese Theater Chains with Box Office Revenue over 100 Million RMB

2007-2011

Year	2007	2008	2009	2010	2011
Number of Theater Chains with Box Office Revenue over 100 Million RMB	8	10	14	20	24
Lowest Box Office Revenue of Top Ten Theater Chains (millions of RMB)	0.54	1.00	1.41	3.20	3.82
Source: enbase Entertainment database					
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Table 4-2: Chinese Theater Chains with Box Office Revenue over 100 Million RMB

2007-2011

5. Chinese Film exhibition: Theaters

5.1 The development of Chinese cinemas 2011

5.1.1 Number of theaters and screens

The number of movie theaters and screens continued to increase rapidly in 2011, with 803 theaters and 3030 screens increased during the year. In average there were 8.3 new screens increased per day. By the end of 2011, there are in total 2800 movie theaters and 9200 screens across the country. As more and more private investment companies interested in cinema investment, and the government continues to encourage cinema development, cinemas in China will continue to grow rapidly. EntGroup estimates that in 2012, the number of screens will reach 11800.

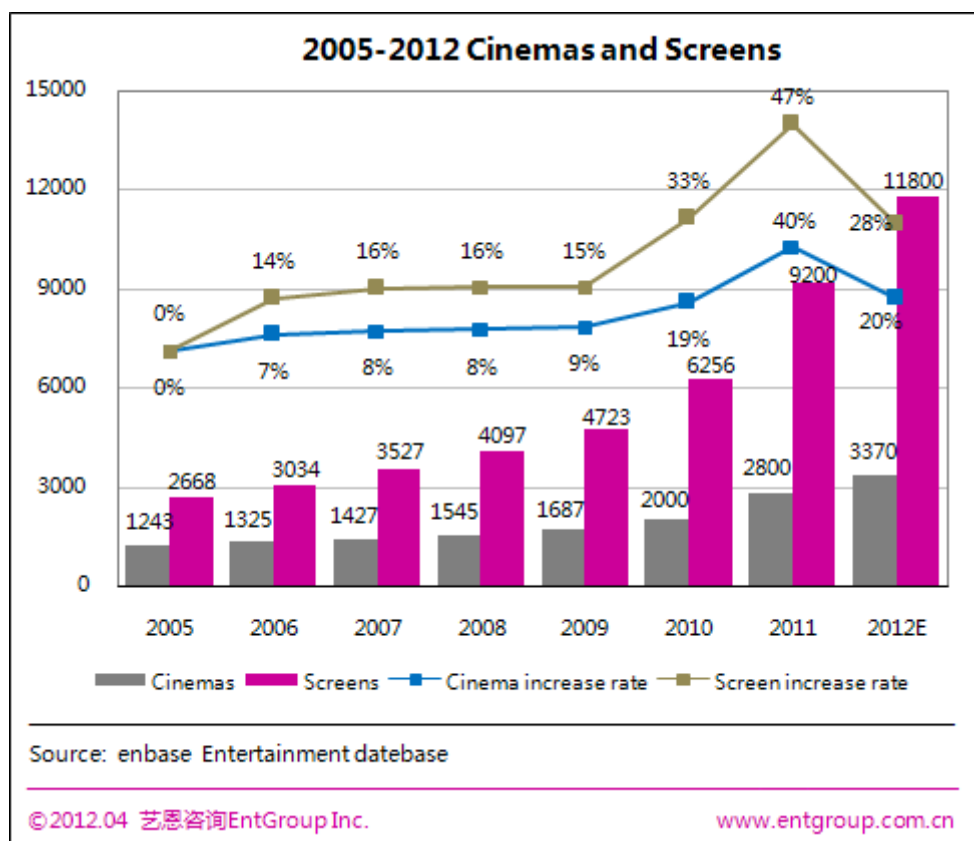


Figure 5- 1 2005-2012 Cinemas and Screens

5.1.2 The Development of Digital Screens

Among the 9200 screens, 8393 screens, or more than 90% of the screens are digitized. The rapid growth of digital screens has played a crucial part in the development of the Chinese film industry, specifically in small and middle-sized cities. Worldwide, the digitization of global movie theaters has so far reached 50%. It is estimated that in 2015, the world' s cinemas will be fully digitized.

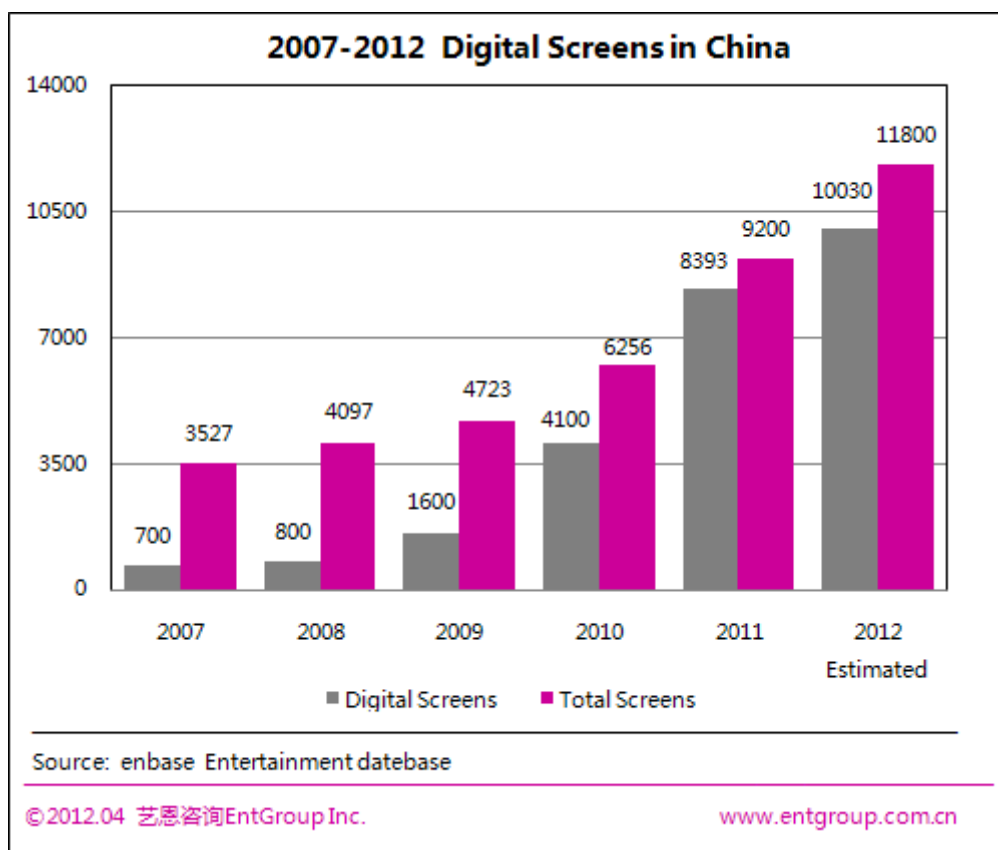


Figure 5- 2 2007-2012 Digital Screens in China

6 Theatrical Release Scheduling

6.1 2011 Film Market Analysis by Month

6.1.1 2011 Box office distribution trend, by month

The total box office revenue in China reached RMB 13.115 billion yuan in 2011, with the monthly average close to RMB 1.1 billion yuan. The monthly average is nearly RMB 300 million yuan higher than, or a 37.5% on the RMB 800 million yuan average in 2010. The Chinese film market usually has two box office peaks in a year. The first falls on summer season: June to August, especially July, which is the highest-grossing month in the whole year. The other peak is the period from year-end to the Chinese New Year. In December there was a 54.3% increase on the box office of November. In contrast, the box office performance during the National Day holiday was weak; October and March are the two months of the lowest revenue in 2011.

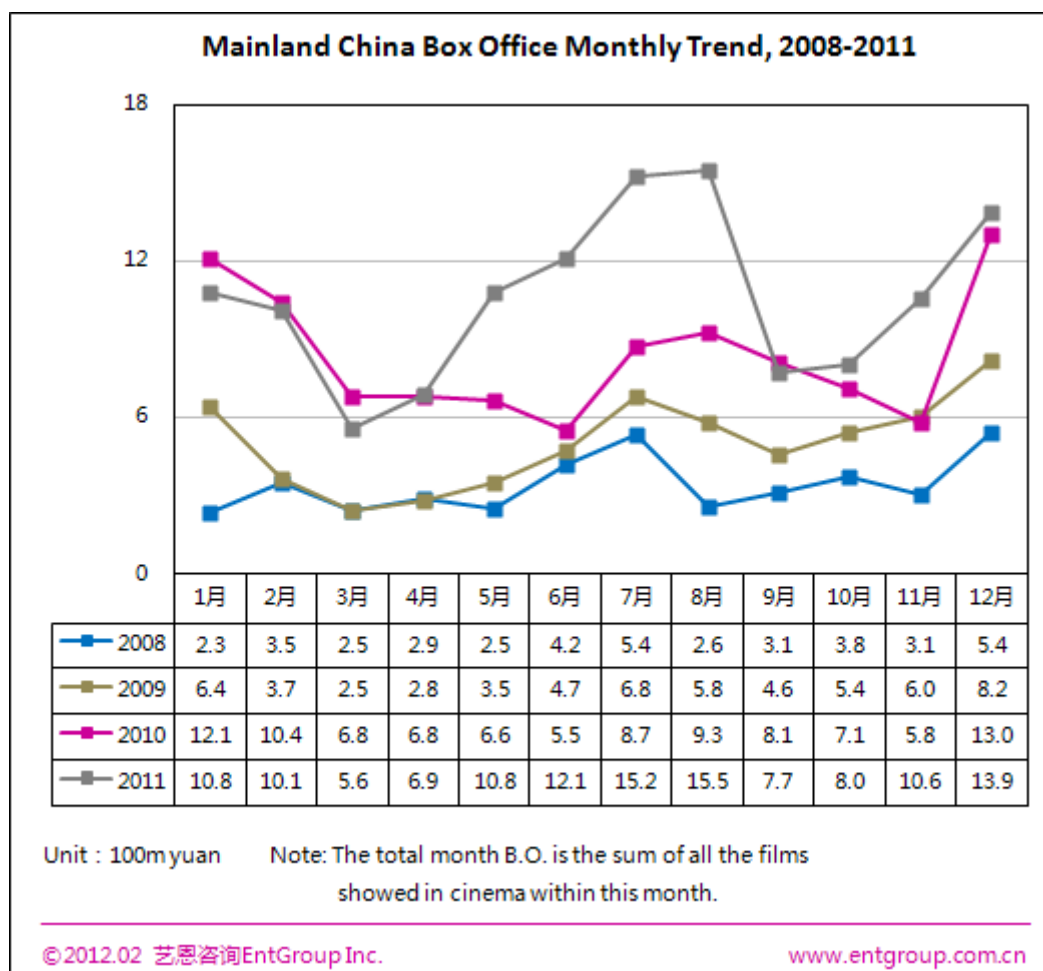


Figure 6-1 Mainland China Box Office Monthly Trend, 2008-2011

6.1.2 Release Month of Top 10 box office hits in 2011

In 2011, Transformers: Dark of the Moon is the highlight in the film market. Its total box office was more than 1 billion yuan, and was close to the record set by of Avatar in 2010. The total box office of top ten films reached 4.78 billion yuan, or 36.4% of year total. Compared to the proportion of top 10 films in 2010 (55%), the decrease of proportion of top 10 films in fact represent a more mature market situation. It shows that the market is not as much influenced by just a few large productions as in the previous years.

While the top ten films of 2010 were evenly distributed in the year, the top ten films in 2011 concentrated mainly in summer and year-end season. Three of the top ten films were released in May, and two were in August while the other two in December. In other words, 70% of the top ten films were released in the three months of May, August and December. No top 10 films were released in the periods from January to April, and from September to October.



2011 Release Months of Top 10 Films

Month	Rank	Film	Genre	Box Office (10,000 yuan)	Region	Film prints	Release date
May	2	Kung Fu Panda 2	Animation	61,711	US	150 film + Digital +3D+IMAX	2011-05-28
	3	Pirates of the Caribbean: On Stranger Tides	Fantasy	47,635	US	100 film + Digital + 3D + IMAX	2011-05-20
	10	Fast Five	Action	26,315	US	150 film + Digital	2011-05-12
June	6	Beginning of the Great Revival	History /Drama	41,240	China - Hong Kong	200 film + Digital + IMAX	2011-06-15
July	1	Transformers: Dark of the Moon	Sci-fi	111,160	US	200 film + Digital + 3D + IMAX	2011-07-21
August	5	Harry Potter and the Deathly Harrows Part II	Fantasy	41,924	UK - US	200 film + Digital + 3D + IMAX	2011-08-04
	9	The Smurfs	Animation	26,372	US	Digital + 3D	2011-08-10
November	8	Love is Not Blind	Romance	35,218	Mainland China	50 film + Digital	2011-11-08
December	4	The Flowers of War	History /Drama	46,021	Mainland China	100 film + Digital	2011-12-15
	7	Flying Swords of Dragon Gate	Action	40,882	China - Hong Kong	30 + Digital + 3D+ IMAX	2011-12-15
Source:enbase							
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Table 6-1 2011 Top 10 Films by Month

7 Import and Export

7.1 Import

As the Chinese government implemented the WTO ruling on China-US film related trade issues in 2012, China's film market is further opened. In addition to the current film import quota, China will import another 14 US films each year in the 3D or IMAX formats. US companies will also be able to take a larger share of the film's box office than in previous years.

7.1.1 Box Office of Imported Films

According to the statistics from enbase, there are 71 imported films released in 2011, with total box office reaching 6.2 billion yuan. The revenue of foreign films accounted for 46.4% of total box office revenue in 2011, a 2.7% increase on the 2010 market share (43.7%).

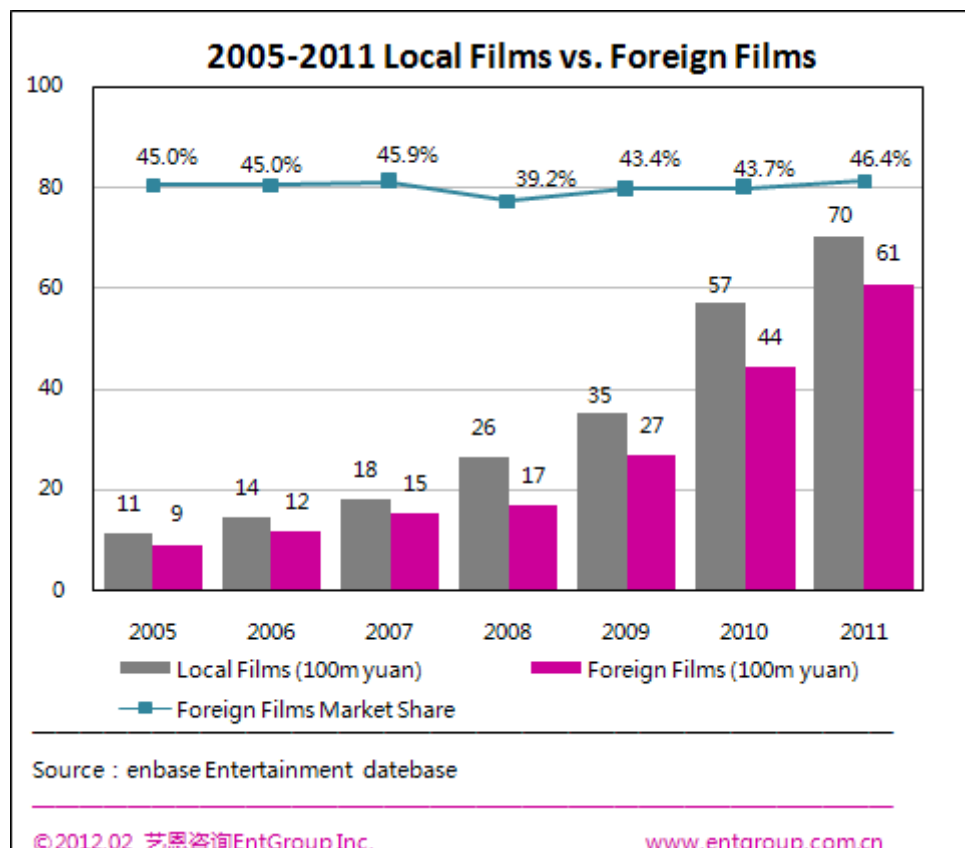


Figure 7- 1 2005-2011 Local Films vs. Foreign Films

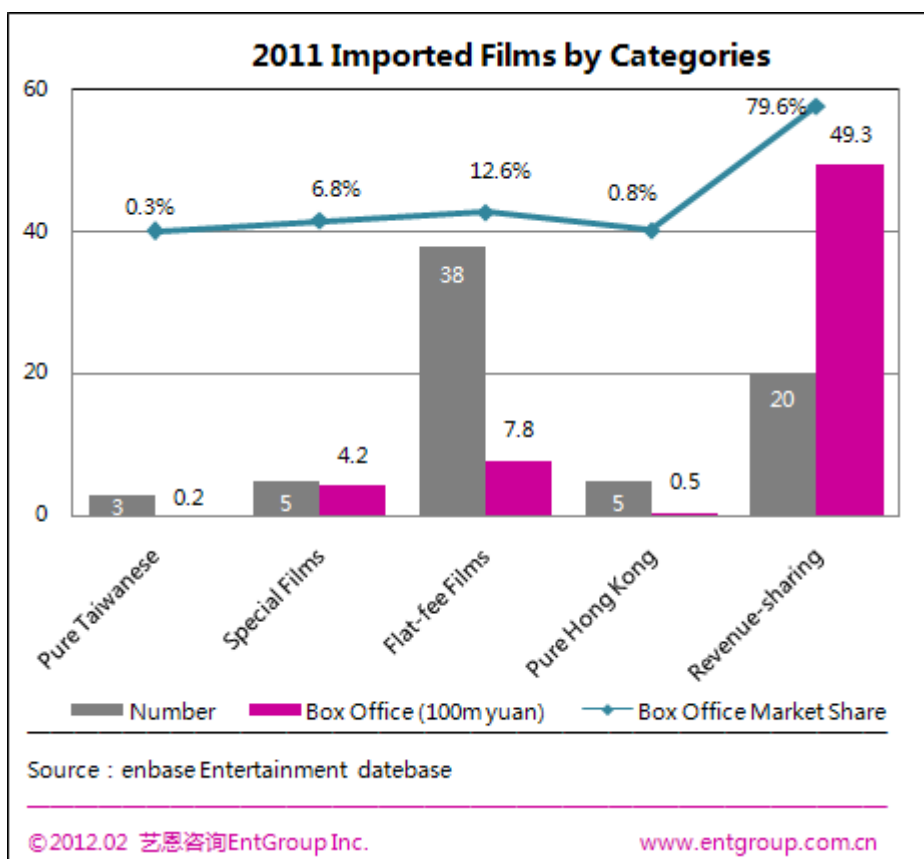


Figure 7- 2 2011 Imported Films by Categories

7.2 Film Export

7.2.1 Overview of Chinese film exports in 2011

Based on related statistics compiled by EntGroup, in 2011 there were 23 Chinese production companies selling 52 films in 22 overseas countries or regions, with a total of 163 sales deals. Among the 52 films, 50 are co-produced films. The total revenue of overseas sales reached 2.024 billion yuan, with 1.042 billion yuan being box office revenue and the remaining 982 million yuan as post-theatrical release sales.

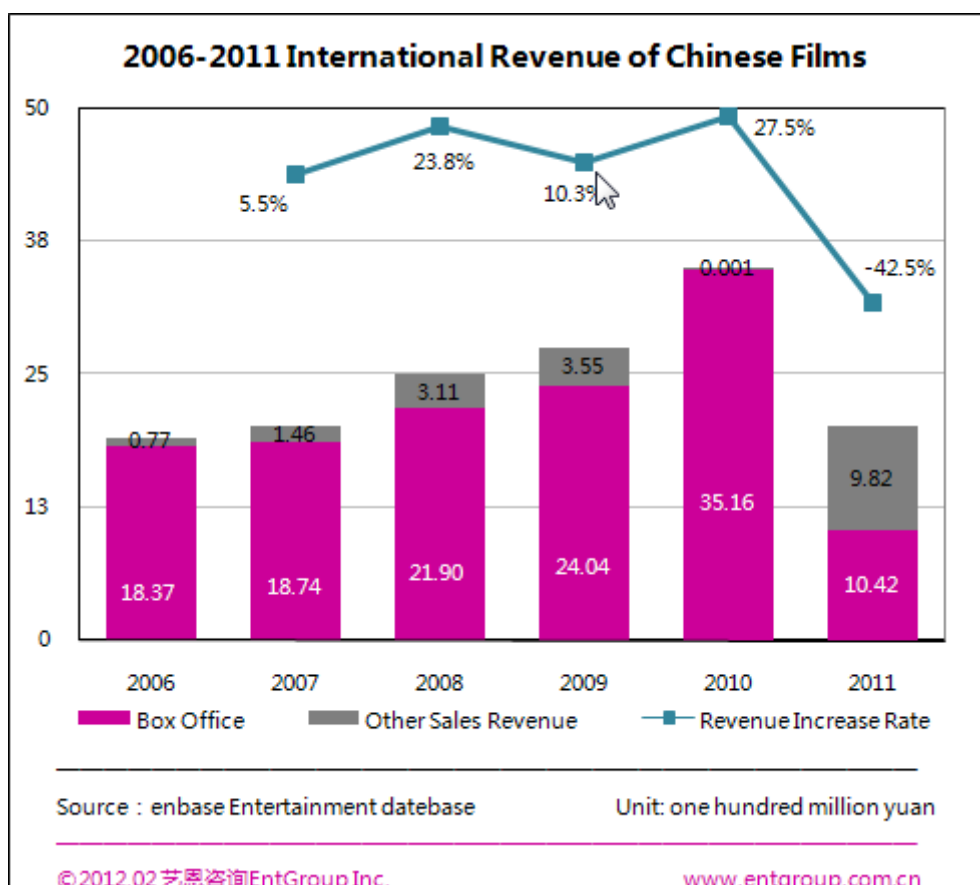


Figure 7- 3 2006-2011 International Revenue of Chinese Film

Films that traveled abroad in 2011 are mostly produced by major Chinese production companies. These companies' films make up 75.49% of the film export market. They include China Film Group, Shanghai Film Group, New Pictures Film, Enlight Pictures, Sil-Metropol and Bona Film Group.

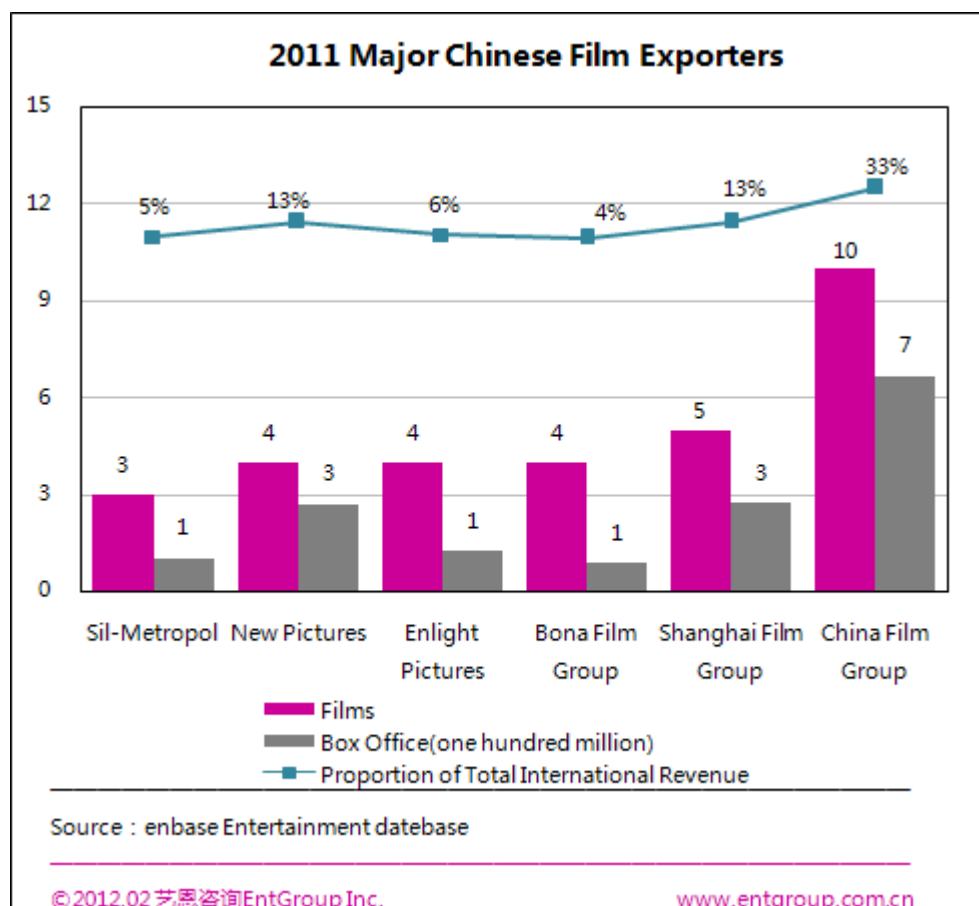


Figure 7- 4 2011 Major Chinese Film Exporters

As in previous years, the overseas revenue of Chinese films in 2011 mainly comes from North America and Asia Pacific region. In 2011, there are more sales to the United States than in 2010, and more new theatrical releases in the US. However, the sales revenue dropped from 1.223 billion yuan in 2010 to 859 million yuan in 2011. Sales revenue to Europe dropped significantly in 2011, from 670 million yuan to 175 million yuan. Asia Pacific region has been the main revenue stream of Chinese film exports in the past few years. However, in 2011, the revenue began to drop too. While the number of sales deals is increasing 2011, the total sales revenue decreased by 339 million yuan.

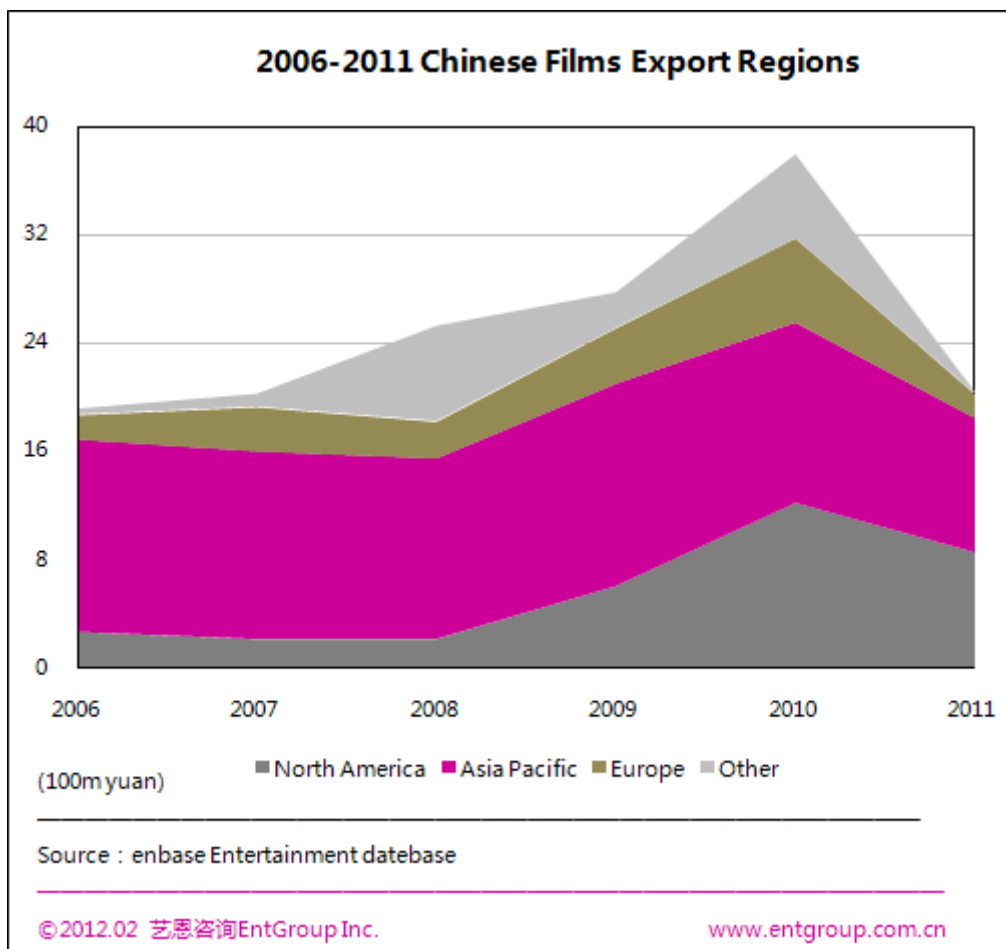


Figure 7- 5 2006-2011 Chinese Films Export Regions

Appendix 1:

2011-2012 Chinese Film Industry Report (Pay Version)

Report Type: annual report

Graphics and Charts:

Length:

Price: \$ 4000

Contact: Tel: +86-10-85899985 E-mail: contact#entgroup.cn (replace # with@)

Related links: 2010-2011 Chinese Film Industry Report (Pay Version)

2009-2010 Chinese Film Industry Report (Pay Version)

Published by EntGroup Consulting, the 2011-2012 Chinese Film Industry Report is a comprehensive report on all sections and aspects of the Chinese film industry as well as chapters on overseas markets and a moviegoer survey. The content of the report includes:

I Research Background

II Research Scope

III Methodology

IV Survey Background

V Definitions

VI The Report

1. Overall Trends in China's Film Industry in 2011

1.1 Analysis of China's Film Industry in 2011

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Appendix 2:

2011-2012 Chinese Moviegoer Survey (Pay Version)

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Related links:

2011-2012 Chinese Film Industry Report (Pay Version)

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