

# China Film Industry Report, 2009-2010



Currently, China's film industry is experiencing a golden period. No matter what film production, box office, financing and cinema construction witness the explosive growth.

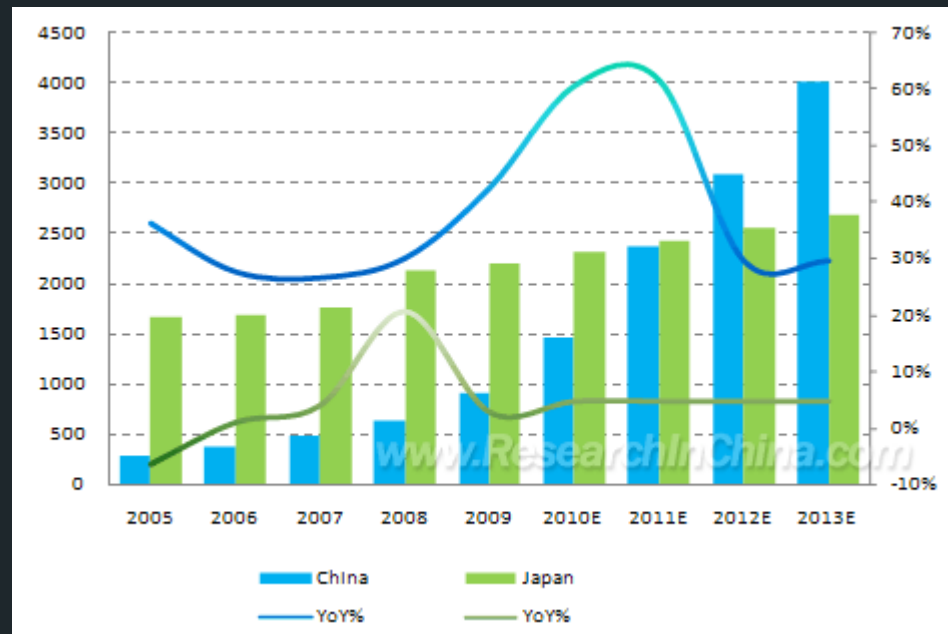
In 2009, Chinese mainland achieved RMB6.206 billion of film box office, with a growth rate of as high as 43%. Over the past five years, it grew at a CAGR of 30%, far higher than that of China's GDP.

In H1 2010, the film box office in China exceeded RMB4.8 billion, rising 107% from that in the same period of 2009, and surpassing that of the year 2008, showing hug potentials of Chinese film market.

In early 2010, the State Council Secretariat Guiding Opinions Concerning Stimulating Flourishing and Development of the Film Industry was issued to firstly specify the film industry into national strategic industries.

The boom of China's film market during 2008-2009 has spurred the flood of capital into the film industry. The film industry of China will continue to grow at a rate of over 60% both in 2010 and 2011, while the growth rate will slow down after 2012. In Japan, the film market gets increasingly saturated, and the growth rate tends to be moderate. As is presented below, China will become the world's second largest film market by 2012, with the domestic box office revenue surpassing Japan's.

### Comparison of China's and Japan's Box Offices and Growth Rates, 2005-2013E (Unit: USD mln)



Source: ResearchInChina

The film producers, distributors and exhibitors all have extended towards upstream or downstream in order to maximize its profit from every industrial link by the model of production+distribution+cinema. The mergers among leading companies in upstream, middle stream and downstream are driven by capital to achieve maximal margin. The state-owned companies like China Film Group Corporation (CFGC) and Shanghai Film Group Corporation are accelerating to build cinemas and cinema circuits by their advantageous positions, and they are expected to go public in 2010 to obtain more fund. Huayi Brothers Media Corporation, the leader in private film firms, was successfully listed in 2009. Poly Bona, a film distribution company, not only participates in cinema construction, but also develops towards the upstream production to make more profit.

Meanwhile, a group of new investment entities presented themselves in Chinese film production market. Especially, the box office success that Perfect World and Letv.com respectively invested Sophie's Revenge and Welcome to Shamatown achieved has attracted foreign capital to aggressively enter the film production sector.

China's film production market characterizes still a low concentration degree. CFGC and Huayi Brothers, respectively ranking the first and the second places, only occupies 10% and 9% market shares. Meanwhile, China's top four film producers only accounts for 26% of total film box office, still less than that of the United States' three producers in China, 27%.

However, the film distribution market of China is comparatively monopolized, with a higher concentration degree in box office. In 2009, the top four film distributors, CFGC, Huaxia Film Distribution, Poly Bona and Xiyong Huayi occupied 75.7% market shares in all, and revenue-sharing imported film could be only distributed by CFGC and Huaxia Film Distribution. CFGC continued to take a lead in distribution market by right of its rich cinema circuit resource.

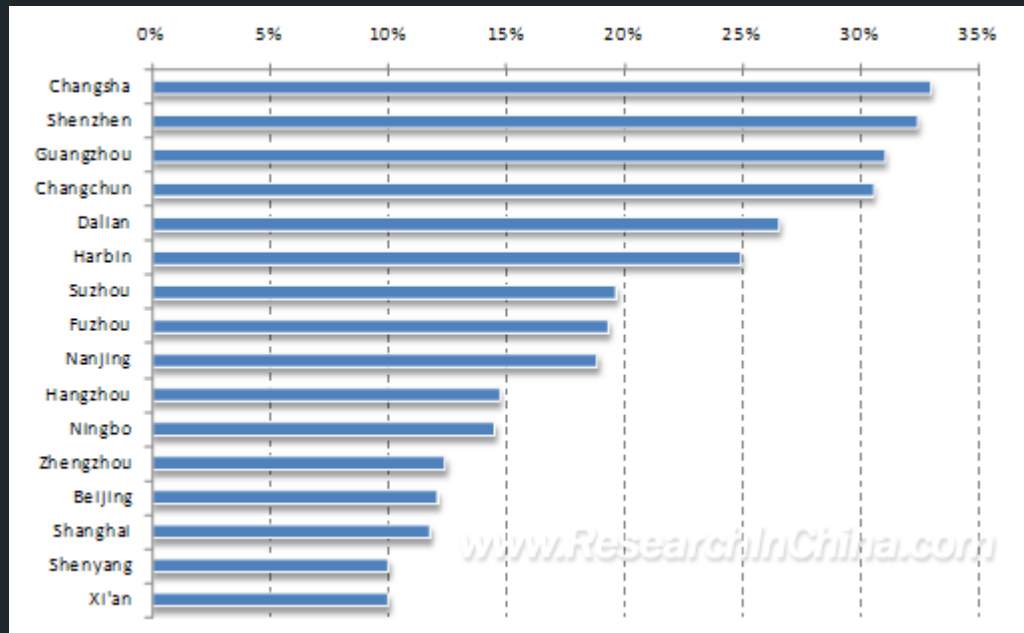
China has a relatively high concentration degree in cinema circuit field, since the top four, Wanda International Cinema, China Film Stellar Theater Chain, Shanghai United Circuit and New Film Association, totally covers 46.8% of box office shares. Of which, backed by Wanda's business, Wanda cinema circuits have seized the central business district, and increases 100 screens annually.

Along with the explosive growth of film box office, only approximately 130 films of the total 465 China-produced films were exhibited in cinemas in 2009, and the rest 2/3 were not, which was mainly caused by the inadequacy of cinemas and screens that couldn't afford to exhibit so many films. Therefore, cinema investment will be the focus of China's film industry development in a long run.

In spite of the strong growth of film box office revenue in first-tier cities like Beijing, Shanghai and Guangzhou as well as still vast room for cinema investment, the fierce competition also get increasingly intensified. In comparison, the emerging second-tier and third-tier cities such as Changchun, Changsha, Dalian and Xi'an grow up and all have great market potential. Based on the analysis of comprehensive factors like consumption level of urban residents, cinema box office, regular urban population, audience number per exhibition, local housing price, cinema number and screen number, the cinema investment rating model is built to conclude the ranking of top 16 cities in China by investment value, as is shown below.

The report makes an in-depth analysis of status quo, competition layout and major companies of production, distribution, exhibition and derivative commodities of China's film industry chain, and forecasts cinema construction in hotspot cities, and film derivative market.

## China's Top 16 Cities by Cinema Investment Value, 2010



Source: ResearchInChina

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