



2010

Report on Investment in China's Film Industry 2010

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Special Issue

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1.1 Overview of Development of China's Film Industry in 2009

With the development of Chinese economy and the further deepening of cultural system reform, the regulation system of China's film & TV industry has gradually moving from single planning economy-based regulation to market-based one. As an important part of the culture and entertainment market, the film & TV market has maintained constant growths for years. Various social capitals were gradually injected into the film & TV production industry. Except the state-owned capital which dominated the original film & TV production market, private capital and foreign investment also got involved into this industry, driving benign development and also intensifying the market competition of film & TV industry.

As the State Administration of Radio Film and Television (SARFT) has further opened the market to the foreign film & TV companies since 2009 and a series of policies, including the *Interim Provisions on Operation Qualification Entry for Film Enterprises* and *Interim Provisions on Administration over Joint and Cooperative Radio & TV Programs*, were issued, the attention of the capital market, especially the foreign capital to China's film industry significantly alleviated the capital shortage of China's film industry, injecting new development drivers to the China film market with great potentials.

1.1.1 Industry Environment for China's Film Industry in 2009

According to Zero2IPO Research Center, the film industry is defined as the profit-driven activities on film production, distribution, playing (or sales), promotion and related derivative markets. The fundamental nature is profit-driven commercial operation. To be specific, the film distribution and promotion is the core links of the film industry. The film production refers to producing and providing films and auxiliary products (mainly film & TV cities) that offer services to the film production; the film production and promotion mainly depend on the movie

theatres to establish a bridge between film production enterprises and consumers through a series of intermediary links, thus achieving the market-based operation of the film industry to make profits.

The year of 2009 marked the 7th year of China's film industry for completing industrialization, which was a critical year and also a fruitful year for the development of China's film industry.

In terms of the external environment, the development of China's film industry in 2009 was characterized by three features:

(I) As A Critical Link of China's Cultural Industry, Film Industry Has Become One of China's Strategic Industries.

Since the 17th CPC National Congress, both the CPC and the government have issued a lot of policies for the cultural creativity industry. The *Rejuvenation Program for Cultural Creativity Industry*, issued in 2009, provided the support for the film industry from such aspects as policy guarantee, government investment, preferential policies, financial support and talent training, and lifted the film industry to China's strategic industry for support.

(II) China's Disposable Income Per Capita Increases Year by Year; the Percent of Urban Citizen Spending in Education, Culture and Entertainment Has Increased.

With the continual and fast growth of the national economy, the consumption desire and capability of citizens for cultural and entertainment products have been improved. According to the data from the National Bureau of Statistics (NBS), the per capita spending of urban citizens in 2008 was RMB11,242.85, of which education, culture and entertainment accounted for RMB1,358.26 or 12.1%. In accordance with the forecast of the industry research institutes, the spending of urban citizens in education, culture and entertainment in 2009 will further increase.

(III) Such Entities as Banks and VC/PEs Involve into the Production and Distribution, Demonstrating the Strong Impetus from Capital Market.

With the further opening of China's film market, especially that social, personal and foreign capital are allowed to get involved into the film production, distribution and playing, the capital market further focuses on the film industry. On the one hand, financial institutions including banks have gradually started to provide capital support for film enterprises. For example, Bank of Beijing and Beijing Municipal Cultural Creative Industry Promotion Center entered into a cooperative agreement on the credit of RMB5.00B, providing loans to Huayi Brothers, Enlight Media and Poly Bona in succession. On the other hand, such institutions as VCs and PEs have started to pay attention to the development of China's film industry and make investment at the capital level. However, these capitals mainly focused on the film projects and film production, as the strategic investment with the considerable scale has not yet happened. For example, in September 2009, IDG invested dozens of millions of RMB in the Turandot directed by Zhang Yimou and staged at the Bird's Nest.

As for the internal environment, the development of China's film industry in 2009 had the following eight features:

(I) China's Film Industry Is on the Track of Marketization, Professionalization, Centralization and Scalization.

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