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Investment in Chinese Film Market Strong in Words but Weak in Action

Written by Yolanda Zhang, Zero2IPO Research Center

In accordance with the latest China Film-making Industry Investment Research Report 2010 issued by Zero2IPO Research Center, the Chinese film-making industry entered into a golden period of development in 2009. Its development had the following three features:

(I) Chinese Film Market Enjoys Loose Policy and Accelerated Commercialization after Long-term Strict Control

In 2009, the State Administration of Radio, Film and Television promulgated the Interim Provisions on the Qualification Access for Operating Film Enterprises, Interim Provisions on the Administration of Chinese-foreign Equity and Contractual Joint Ventures of Radio and Television Program Production and other policies in succession. After the Chinese film industry experienced the strict single economy system, the promulgation of the abovementioned relevant policies attracted the attention of various capitals such as private capital and foreign capital. In the capital operation process, Chinese film industry ushered in the market reform, mitigating the problem of capital shortage and vitalizing the market.

(II) Chinese Film Industry Makes Great Achievements and Enters a Critical Period of Development in 2009

There has been a continuous increase in the number of Chinese home-made films since 2003. In 2009, the number hit 456, up 12.32% on a year-on-year basis. The year 2009 has been a banner year in the output of home-made films since 2006. In certain sense, the year 2009 was a critical period of development for Chinese film industry. In the very year, the gross revenue of the Chinese film market reached RMB10.67B, up 26.47% compared with RMB8.43B in 2008.

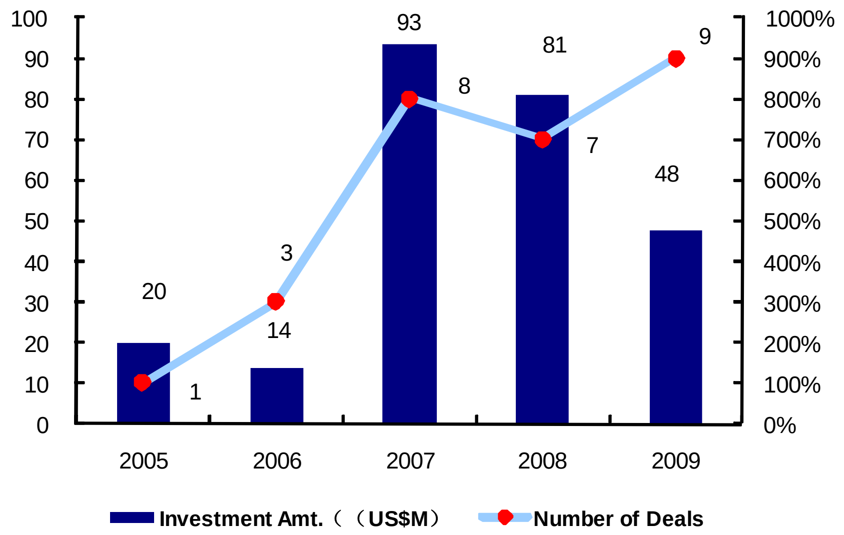
(III) Private Film Bodies Play An Increasingly Important Role in Chinese Film Industry, and Huayi Brothers Media Group's Listing on Shenzhen's ChiNext Board Pushes Private Film Bodies to An Unprecedented High Position Once Again

Huayi Brothers Media Group and Beijing Polybona Film Distribution Co., Ltd. (Polybona Films) are the leading private film bodies. Take Huayi Brothers Media Group as an example, under the flagship of Huayi Brothers Media Group, Huayi Brothers Pictures Co., Ltd. realized the complete industrial chain system from screenwriting, direction, filmmaking and marketing to distribution. The films, including the Rabe's Diary and The Message, which Huayi Brothers Media Group invested in and participated in the operation in 2009, acquired good box-office takings in succession. Furthermore, the film, such as *Tangshan Earthquake* and *You Are the One 2*, which Huayi Brothers Media Group invested in 2010, are expected to obtain the good box-office takings and worth waiting for. On Oct. 30, 2009, Huayi Brothers Media Group listed on Shenzhen's ChiNext Board. Depending on the operation platform of the capital market, Huayi Brothers Media Group greatly improved its market competitiveness and entered the rapid development period once more. The listing of Huayi Brothers Media Group put forth a brand new development model for various private film bodies and further hoisted the position of the private film bodies in Chinese film industry.

The rapid development of the private film bodies, including Huayi Brothers Media Group, Orange Sky Entertainment Group (International) Holdings Ltd. and Polybona Films, not only aggravated the market competition between state-owned film enterprises and private film bodies but also vitalized Chinese small-and-medium-budget film-making market.

The Chinese film-making market showed a sound development gradually. PE/VC took a wait-and-see attitude towards the Chinese film-making market in general. According to the latest *China Film-making Industry Investment Research Report 2010* issued by Zero2IPO Research Center, there were 28 investment deals in Chinese film industry from 2005 to 2009, including 26 deals whose investment amount was disclosed with a total investment of US$256.00M and US$9.85M in average.

Year-on-year Comparison of Investment Scales of Chinese Film Industry between 2005 and 2009



Source: Zero2IPO Research Center

There were nine investment deals in Chinese film industry in 2009, which has reached the peak since 2005. Between 2007 and 2009, the number of investment deals in Chinese film industry increased considerably. Especially in 2007, the number was eight, with a total investment of US$93.37M, creating the highest figure on record. Thought under the influence of the financial crisis in 2008, it created the highest record of single-deal investment since 2005. The single-deal average investment hit US$13.52M.

Moreover, there was one investment deal in Chinese film industry in Q1'10, with a disclosed investment amount of US$10M.

Though all kinds of social capitals (including PE/VC) attached high attention to the Chinese film-making market, PE/VC's investment in Chinese film market was strong in words but weak in action in H1'10 due to the special investment mode of PE/VC. The film-making companies which obtained investment in the primary stage, were mainly cartoon-making companies instead of film-making companies, and the number was very small. It expected that, in the wake of the further improvement of the marketization in Chinese film-making industry, the investment deals in Chinese film-making market will gradually increase in future, while there will be no sign of overheating in a short run.

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GGV Capital Joins Hands with Lightspeed Venture Partners to Invest in MediaV

Aug. 19, 2010, Zero2IPO News

MediaV, a leading provider of digital advertisement technology and value-added service in China, declared on Aug.18 that it has received more than RMB100M investment from GGV Capital and Lightspeed Venture Partners. This is the 2nd round of financing of MediaTV in a period of less than one year following Lightspeed Venture Partners' first round of investment in 2009.

MediaV declared at the same time that Wang Nan, the former deputy president of & C. under Dentsu will act as deputy president of MediaV. The company also officially promulgated its AdViva, the advertisement management system for advertisers, PubViva, the advertisement management system for websites and DealViva, the open advertisement network operational platform.

Incorporated in early 2009, MediaV is a professional advertisement technology and service agency specialized in accurate and precise marketing and digital marketing.

Qinghai Sees Launch of a RMB5B VC Fund

Aug. 19, 2010, Zero2IPO News

Qinghai Chengfu Circular Economy Venture Capital Fund (Kunlun Fund), the first VC fund on the Qinghai-Tibet Plateau, was set up in Qinghai recently. Kunlun Fund has a total size of RMB5B and will raise RMB250M in the first phase.

It is learnt that five contributors that include Fukang Group, the initiator of Kunlun Fund, invested RMB150M in total. And application will be made to the National Development and Reform Commission (NDRC), Ministry of Finance (MOF) and relevant provincial authorities for the rest of the funds in line with the Notice of NDRC and MOF on Research and Development Funds in the Establishment of VC Funds. Kunlun Fund will be devoted to promoting the development of circular economy, building listing pipeline and effectively helping SMEs with their financing.

In 2009, the first batch of 20 VC funds in seven provinces (municipalities) were approved and granted support from state funds. Kunlun Fund is the first VC fund established in line with the spirit of the Notice in Qinghai.

Vienna Hotel Gets US $20M from US Mount Kellett Capital Partners

Aug. 19, 2010, China Business News, Huang Shuhui

The US PE fund Mount Kellett Capital Partners recently has completed its US$20M VC investment in Vienna Hotel. With the funds, the chain hotel will speed up its expansion by opening 60 hotels per year.