

# 2014—2015 年中国电影产业研究报告 ( 简版 )

China Film Industry Report 2014-2015 ( In Brief )



## Table of Contents

I RESEARCH BACKGROUND.....	4
II SCOPE OF RESEARCH.....	4
III METHODOLOGY .....	4
IV DEFINITIONS.....	5
V BODY OF THE REPORT.....	7
1 OVERALL SITUATION ANALYSIS OF CHINA'S FILM INDUSTRY IN 2014.....	7
1.1 ENVIRONMENT ANALYSIS OF CHINA'S FILM INDUSTRY .....	7
1.1.1 Policy environment: Diversified policy support boosted leapfrog growth of the film & TV industry .....	7
1.1.2 Economic environment: capital participation upgraded, Internet renovated the film & TV industry chains .....	8
1.1.3 Social environment: audiences grew rapidly, youths born after 1990 became the major force .....	10
1.2 ANALYSIS OF CHINA'S FILM BOX OFFICE MARKET .....	11
1.2.1 Total box office revenue of Chinese films .....	11
1.2.2 Comparison of domestic and imported films in box office income.....	11
2 STUDY OF CHINA'S FILM PRODUCTION INDUSTRY IN 2014 .....	13
2.1 OVERVIEW AND ANALYSIS OF CHINA'S FILM PRODUCTION IN 2014 .....	13
2.1.1 Total production volume of Chinese films in 2014 .....	13
2.2 ANALYSIS OF CHINA'S FILM ENTITIES IN 2014.....	14
2.2.1 Market share of China's film entities in 2014 .....	14
2.3 DEVELOPMENT TREND ANALYSIS OF CHINA'S FILM PRODUCTION INDUSTRY .....	15
2.3.1 Film & TV companies created a wave of M&A with the intent of cross-over extension and internetization .....	15
3 STUDY OF CHINA'S FILM DISTRIBUTION INDUSTRY IN 2014.....	17
3.1 OVERVIEW OF CHINA'S FILM DISTRIBUTION MARKET IN 2014 .....	17
3.1.1 Distribution market share of China's film enterprises in 2014 .....	17
3.1.2 Concentration Ratio Analysis of China's film enterprises' Distribution performance in 2014 .....	18
4 STUDY OF THEATER CHAINS OF CHINA'S FILM PROJECTION INDUSTRY IN 2014.....	19
4.1 OVERVIEW OF CHINA'S FILM THEATER CHAINS IN 2014.....	19
4.1.1 Market overview.....	19
4.2 ANALYSIS OF THEATER CHAIN MARKET IN 2014 .....	22
4.2.1 Market characteristics of China's theater chain .....	22

4.3 DEVELOPMENT TREND ANALYSIS OF CHINA'S THEATER CHAINS .....	23
4.3.1 With listing of the first stock of theater chain was listed, chain concentration is further accelerated .....	23
5 STUDY OF THEATERS OF CHINA'S FILM PROJECTION INDUSTRY IN 2014 .....	24
5.1 OVERVIEW OF CHINA'S FILM THEATER DEVELOPMENT IN 2014 .....	24
5.1.1 Development of theaters and screens in China in 2014 .....	24
5.2 OVERVIEW OF CHINA'S THEATER MARKET IN 2014.....	25
5.2.1 Box office distribution of different grades of theaters in China in 2014 .....	25
5.3 STUDY OF E-COMMERCE DEVELOPMENT OF CHINA'S THEATERS IN 2014 .....	26
5.3.1 Analysis of e-commerce development of China's theaters.....	26
5.4 ANALYSIS OF DEVELOPMENT STATUS OF CHINA'S THEATERS .....	27
5.4.1 Theater construction level declines, driving non-first-tier film watching growth potential .....	27
6 THEMATIC RESEARCH: STUDY ON BAT'S ENTRY INTO THE FILM & TV INDUSTRY.....	28
6.1 OVERVIEW OF BAT'S EXPANSION AND CHARACTERISTICS.....	28
6.1.1 Environment for the expansion .....	28
6.1.2 Overview of the expansion .....	29
6.2 ANALYSIS OF BAT'S FILM UNITS .....	29
6.2.1 Analysis of Baidu's entry into the film & TV industry .....	29
6.3 FUTURE INFLUENCE OF BAT ON THE FILM INDUSTRY .....	32
6.3.1 Innovation in industry chain links.....	32
7 STUDY OF CHINA'S FILM SCHEDULE IN 2014.....	34
7.1 ANALYSIS OF MONTHLY FILM MARKET IN 2014 .....	34
7.1.1 Monthly box office champion in 2014.....	34
7.1.2 Monthly box office trend of Chinese Mainland in 2014 .....	35
7.1.3 Analysis of schedule characteristics in 2014 .....	36
8 IMPORT AND EXPORT OF OVERSEAS COPYRIGHT .....	37
8.1IMPORT OF OVERSEAS COPYRIGHT OF CHINA'S FILM MARKET IN 2014 .....	37
8.1.1 Summary of box office of imported films in 2014.....	37
9 INTERNATIONAL FILM MARKET .....	39
9.1 OVERVIEW OF GLOBAL FILM INDUSTRY IN 2014 .....	39
9.1.1 Analysis of global box office revenue in 2014.....	39
9.2 OVERVIEW OF THE FILM INDUSTRY IN NORTH AMERICA IN 2014.....	40
9.2.1 Performance of North American film market in 2014.....	40

APPENDIX .....43

# I Research Background

In 2014, China's film market continued its rapid growth. Driven by financial capital penetration and Internet economy involvement, the film industry of China strengthened integration with other cultural industries. Main film units accelerated internetization construction and industry integration. Favorable external environment, industry scale expansion and Internet innovation jointly incubated the new normal of high growth of China's film market.

In 2014, China's film box office approached USD 4.8 billion and audiences exceeded 800 million, with more than 5,500 theaters and more than 23,000 projection screens; film watching objects grew continuously, and young people born between 1985 and 1990 and town youngsters (generally referring to young people in tier-3 (and below) cities) became the main audiences. Films of romance, comedy and action still contributed to most of box office, while films of sci-fi, cartoon and horror had market development potentials. Schedule benefit decentralization, creation subject fan-orientation, and film IP orientation became new trends of the film market. Alliance and project cooperation between film units and Internet companies deepened gradually, and Internet giants BAT successively founded their film units to share the profit of the film industry. Although the box office income increased very fast, competition in industry chain links of film production, distribution and projection was still insufficient, and market concentration needs to be improved. Meanwhile, the film industry chain encountered the impact from the Internet economy mode, which intensified the competition among film market subjects. In order to help all involved parties and investors to better understand status quo, characteristics and development trend of China's film industry, EntGroup released the China Film Industry Report 2014-2015 (hereinafter referred to as "the Report") after industry interviews and in-depth research and analysis. The Report is the 7<sup>th</sup> research report on China's film industry released by EntGroup since 2009.

# II Scope of Research

The Report will focus on the following aspects to study and analyze China's film industry from 2014 to 2015. The research in The Report is limited to film market in Chinese Mainland, not including Hongkong, Macao and Taiwan.

# III Methodology

The Report studies China's film industry through qualitative and quantitative analysis based on film market revenue data. Data used in the Report are mainly those from online ticket selling center of State Film Special Fund Office published on China Film News, those of market ranking published by China Film Distribution and Projection Association and those provided by main theater chain companies in China and verified by interviewing with main theater chain companies and distribution companies. Data in the Report are collected from multi-channels above, crossly checked and comprehensively studied to guarantee authenticity and accuracy.

## IV Definitions

### **Chinese theater audience**

Audience who watched at least one film in a theater in China (excluding Hongkong, Macao and Taiwan) in the past year. All sample audiences in the Report are theater audiences.

### **Production companies**

Responsible for fund-raising for, shooting and post-production of films, production companies are mainly comprised of the production and post-production companies. The production company owns the film's copyright, and can sell certain period of film copyright to distribution companies or other distributors.

### **Distribution companies**

Responsible for formulation and execution of marketing strategies, as well as discussion for the release of copies with theatre chains. Distribution company buys or procures the distribution right of a film from the production company. Then, through cooperation with the theatre chain companies via buy-out, box office revenue-sharing or according to the agreement, the films will be projected in the participating theatres. Normally, the production and distribution of films are conducted by the same company.

### **Theatre chains**

The management companies of film theatres are responsible for the communication with the distributors to schedule the projection of films in theatres. If a theatre chain consists of several film theatres, a theatre chain company would manage, schedule and provide films in a centralized manner. Film copies are obtained according to the box office revenue-sharing method. Theatre chains usually would arrange the projection of all blockbusters. However, distributors of some low-mid budget films need to work hard for the support from theatre chains to obtain the maximum projection opportunities.

### **Film theatre**

As one of the ends of the film production chain, the film theatre is the actual site and the first link for film projection and box office recycling. As for the revenue model of film theatres, besides revenue-sharing films, sales from popcorn, coke and other additional products as well as sales films' derivative products contributes to approximately 10%- 16% of the total income. Thus, it is also an important component in film theatre revenue.

### **Digital films/ Digital copies/ Digital projection screens**

Digital films refer to films produced and saved by using digital technology and gadgets as well as projected on screens after digital signals are restored to images and sounds meeting films' technical standards via physical media such as satellite, fiber optic, disc and CD, etc.

Compared to film reel movies, digital films boast the biggest advantages of low cost, no wear and tear as well as convenient transportation.

Digital copies refer to film copies distributed in a digital format. Currently, the main digital format in China is hard disc.

Digital projection screens refer to movie theatres' screens installed with digital projectors for projection of digital copies. The number of digital projection screens is the main factor used to evaluate the projection space for digital films.

### **3D films/3D screens**

3D films, also known as stereoscopic films, refer to films projected in a three dimensional format after being shot by one or two cameras and achieved the by a computer. When watching them, viewers need to wear 3D glasses.

3D screens, refer to movie theatres' screens installed with digital projectors for projecting digital copies. The number of digital projection screens is the main factor used to evaluate the projection space for 3D films.

### **IMAX films/ IMAX screens**

IMAX, abbreviated as "Image Maximum" and also defined as "largest image", is a system for projecting films of a larger scale and higher display resolution than the traditional films.

IMAX films refer to extra high-resolution films shot by 70mm films or processed by computers and projected on IMAX screens. IMAX screens refer to screens for projecting IMAX films, the standard dimension of which is 22m in width and 16m in height, and the width-to-height ratio of which does not necessarily strictly conform to the standard.

### **Product placement**

Incorporate product or brand or its representative visual signs or even service contents into film, TV series or program in a strategic way, and make them leave impression on audiences through reappearance of the scene to achieve the purpose of marketing.

### **Cinema advertising**

Advertising specially made for films of public projection and broadcasted before formal projection of a film.

## **V Body of the Report**

# **1 Overall Situation Analysis of China's Film Industry in 2014**

## **1.1 Environment analysis of China's film industry**

### **1.1.1 Policy environment: Diversified policy support boosted leapfrog growth of the film & TV industry**

The film industry is faced with a favorable policy environment on the whole. The film industry plays an important role in the cultural industry and shows highlighted values. The new state leaders paid increasing attention to the cultural industry, and donated film & TV works in cultural diplomatic activities. This is an epitome of exporting film & TV contents and forming international impact.

Policies concerning the film industry in this period have several characteristics: 1) interaction and cooperation between ministries and commissions deepened. Implementation of policies promulgated by the Ministry of Culture and SARFT was supported and supplemented by competent authorities including the General Office of the State Council, the Ministry of Finance and PBOC, which was favorable for industrialized operation and scale development of the film industry. 2) Capital and capital clauses are the key. Special film fund, talent cultivation program, financial product design and other measures involving capital and market were further diversified. 3) Orientation of Internet culture and content creation was further regulated, and theme and affinity to the populace were emphasized for content, culture and awareness. 4) The cultural industry had shifted to a stage of quality group development, which is consistent with the state planning that the cultural industry will become a pillar industry of the national economy and is the only way for enterprises to enhance industry competitiveness and international impact.

Policies concerning the film industry from 2013 to 2014			
Time	Policy	Major contents	Significance
October 2014	Lecture of Xi Jinping at Art and Entertainment Work Symposium	Creation is a central task; people oriented; art and entertainment development should not blindly follow the market.	Regulate the orientation of content creation
August 2014	Implementation Opinions on Vigorously Supporting Development of Small and Micro Businesses	State SME Galaxy Training Program; online class construction; professional title appraisal; cultural industry start-up and innovation talent support program	Special projects, measures and talent support for small and medium cultural enterprises
May 2014	Notice on Some Economic Policies to Support the Development of Film Industry	Arrange USD 16 million each year, submit key films case by case for approval and support 5-10 key subject films with impact.	Support the film industry development from tax, capital, land and finance
March 2014	Opinions on Deeply Promoting Cultural Financial Cooperation	The Ministry of Culture and PBOC will build cultural and financial cooperation demonstration areas in some regions with mature cultural industry and good financial service basis; play the role of public service platform of the Ministry of Culture for cultural industry investment and financing	Promote cultural and financial cooperation, and encourage the combination of social capital, financial capital and cultural resources
November 2013	Decision of the 18th CPC Central Committee on Steadily Promoting the Construction of Socialist Cultural Power	Online construction, online theme; scale-up, intensification and specialization of the cultural industry	Requirement for overall strengthening of the cultural industry and group internationalization
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Table 1- 1: Policies concerning the film industry from 2013 to 2014

## 1.1.2 Economic environment: capital participation upgraded, Internet renovated the film & TV industry chains

Capital, Internet economy and industrialized layout of film & TV became the main economic environment factors for development of the film industry in 2014.

By middle December 2014, there had been 159 cultural industry M&A cases, involving the capital of USD 16.1 billion, while the figures in 2013 were 96 and USD 8 billion respectively. In 2014, the capital penetrated into the film industry in a pyramid-shaped manner: capital heat and prosperity in 2013 continued in the beginning of the year; number of M&As, participants, capital scale and valuation level surged in the middle of the year, mainly in the form of film & TV fund, backdoor listing, M&A of listed company and group listing; at the end of the year, internal and external causes such as audit results, performance VAM, strategy adjustment and capital return led to M&A failure, expectation failure and audit suspension, so that

the capital investment cooled down temporarily.

Subjects of Internet economy and commerce represented by BAT started involvement in film & TV business and established companies or business divisions such as Iqiyi Film, Baidu Film, AliFilm and Tencent Film+ to develop the stock market of the film industry chain and incremental links of post-film industry chain. Video websites such as Heyi Film and Tencent video invested in films and participated in joint production, played the role of online marketing, and established entertainment and interaction platforms for fans to explore Internet big film production model.

Listed films and video companies sought for diversified development and improvement of the industry chain. For example, Huayi Brothers acquired maizuo.com, completed a private placement of USD 579 million and established strategic cooperation with Tencent and Alibaba; Enlight Media acquired an animation company, bought shares from a game company, and established a joint venture with 360 to try film pay per view; Huace Media planned film business, founded Beijing Film Operation Center and joint venture HuaceIqiyi Media and established 7 major business groups to gradually improve its full media channel matrix; meanwhile, it accelerated implementing its internationalization strategy, became a shareholder of Korean company NEW and introduced more international content resources.

<b>Main film and TV M&amp;A cases in 2014</b>			
<b>Time</b>	<b>Acquirer</b>	<b>Seller</b>	<b>Funds for M&amp;A</b>
January	Great Wall Group	Shanghai Woshi Cultural Transmission Co., Ltd.	USD 4.83 million
March	Alibaba	ChinaVision	USD 805 million
April	Hualu Baina	Blue Flame	USD 402 million
	Hesheng Special Material	Jinyingma	USD 35 million
May	Enlight Media	Xian Hai	USD 37 million
June	Enlight Media	MiaoQuHengSheng	USD 26 million
		Reifeng Network	USD 28 million
		Bluearc Animation	USD 33 million
	Royal Dairy	Sun Shine and BAMC HDTV	USD 222 million
		Yujia Entertainment	USD 110 million
August	Songliao Automotive	JACKIE CHAN	USD 75 million
	BesTV	adSage	USD 100 million
September	Huayi Bros.	GDC Technology Limited	USD 80 million
	Great Wall Group	Deepsea Games	USD 119 million
October	Alpha Animation	Discovery Entertainment Capital GP Limited	USD 20 million
	Beijing Jingxi Culture & Tourism	Beijing Century Partner Culture & Media Inc.	USD 217 million
		Zhejiang Xinghe Culture Broker Limited Company	USD 121 million
		Lhasa Qunxiang Culture Media Co., Ltd.	USD 68 million
	Huace Film & TV	Next Entertainment World	USD 48 million

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Table 1- 2: Main film & TV M&A cases in 2014

### 1.1.3 Social environment: audiences grew rapidly, youths born after 1990 became the major force

In 2014, China's total film audiences increased rapidly again, with a year-on-year increase of 218 million man-times. In age distribution, China's film audiences between 19 and 40 accounted for 87% of the total in recent 2 years, among whom, audiences aged between 19 and 30 accounted for more than 50% and became the major film audiences; in education background distribution, audiences with a bachelor's degree or junior college's degree accounted for 80%. Senior intellectuals and white collars became the core audiences in China, whose consumption and demands for films reflect the situation of major film audiences.

Meanwhile, the new force of Chinese films is emerging rapidly as new or cross-over directors' works and topic and fan films increased significantly. Such films break the fixed model and are favored by youngsters and core audiences. With the development of theaters, audiences can accept increasingly extensive contents and information, be able to and tend to have fixed and fine demands for film contents.

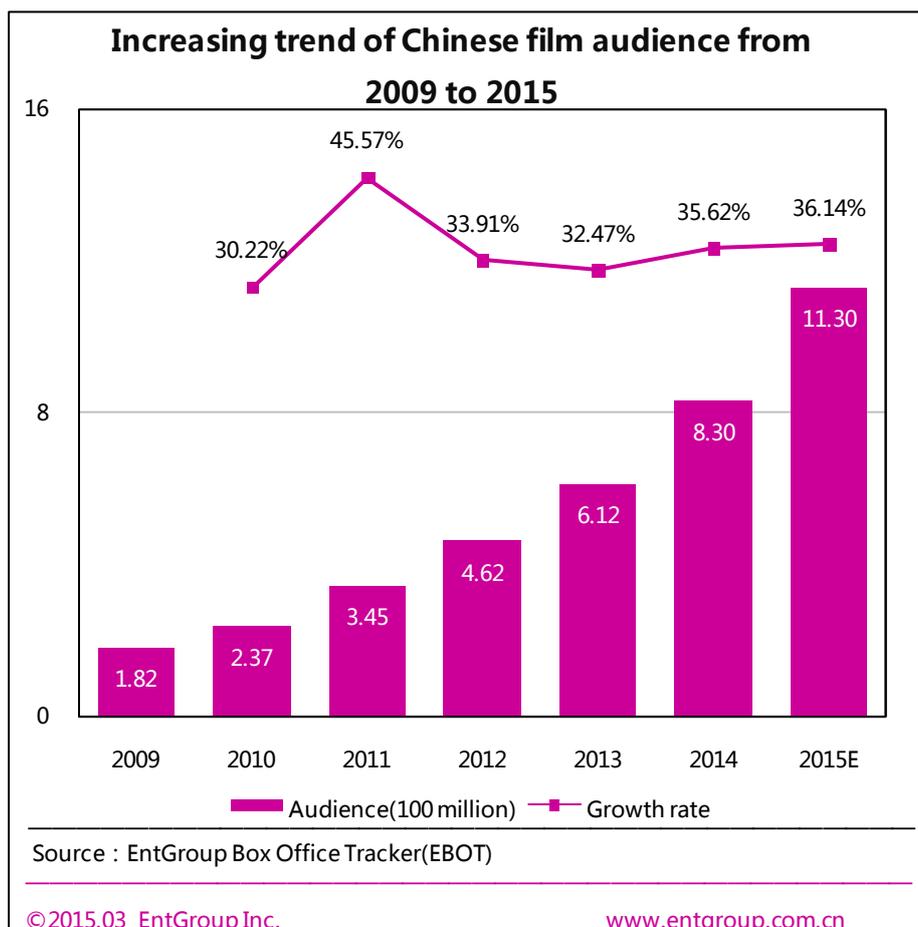


Figure 1- 1: Increasing trend of China's film audiences from 2009 to 2015

## 1.2 Analysis of China's film box office market

### 1.2.1 Total box office revenue of Chinese films

Total box office revenue of Chinese films in 2014 reached USD 5.1 billion, with an increase of almost 36%. Domestic box office amounted to USD 4.76 billion, while overseas box office income was only USD 0.31 billion. Thus, the high growth was mainly driven by domestic box office. The performance of Chinese films in overseas markets still had no significant improvement. However, as domestic capital and film & TV companies started to discuss with Hollywood on cooperation through various channels and the two sides have signed investment and distribution agreements, overseas distribution of Chinese films is expected to improve, and some Sino-US co-production films may expand overseas distribution markets.

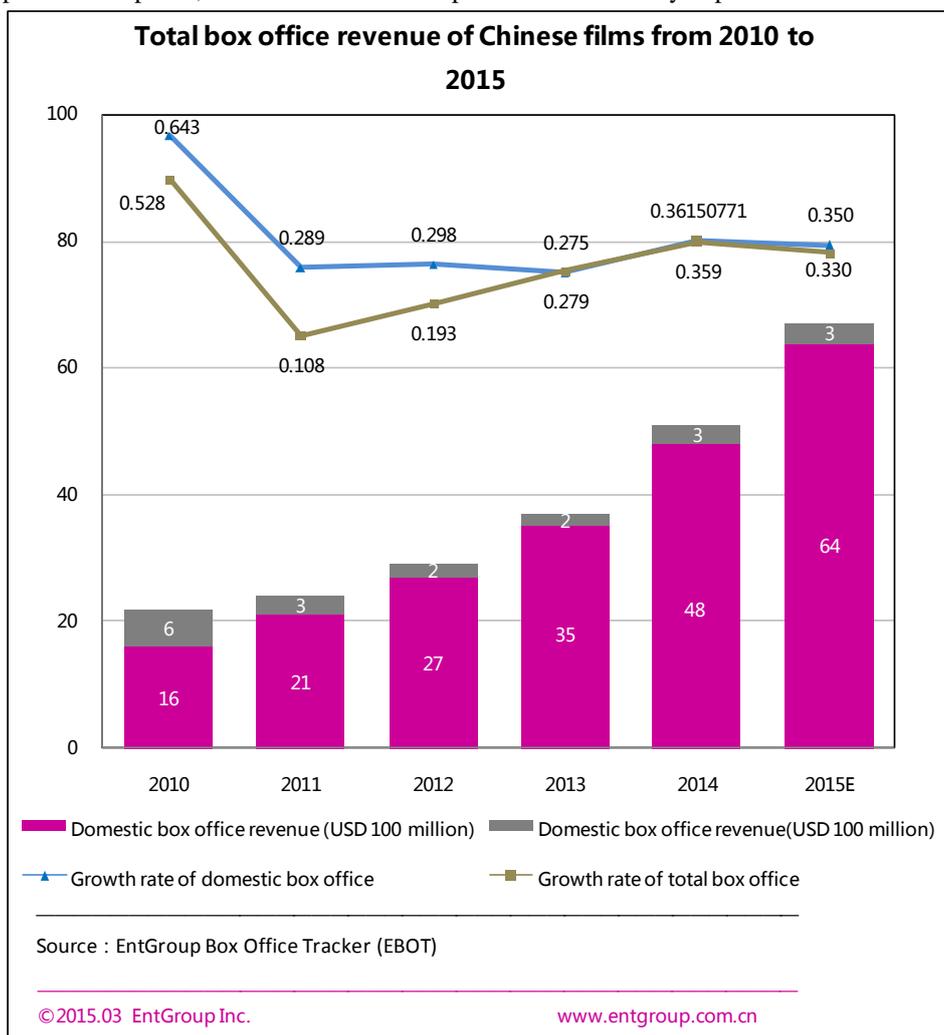


Figure 1- 2: Total box office revenue of Chinese films from 2010 to 2015

### 1.2.2 Comparison of domestic and imported films in box office income

Ratio of net difference in box office contribution between domestic and imported films maintained at 8-12% from 2009 to 2011, dropped to -4% in 2012, rebounded and rose to 18% in 2013 and returned to average in 2014. Under the dual effect of hidden scheduling protection policies and censorship for imported films, the net difference in box office contribution between

domestic and imported films is expected to stay in the average range in the coming few years. The average growth rate of box office from domestic films and imported films was 37% and 40% respectively. The contribution of Chinese films fell behind imported films, and domestic films had to further improve their box office competitiveness.

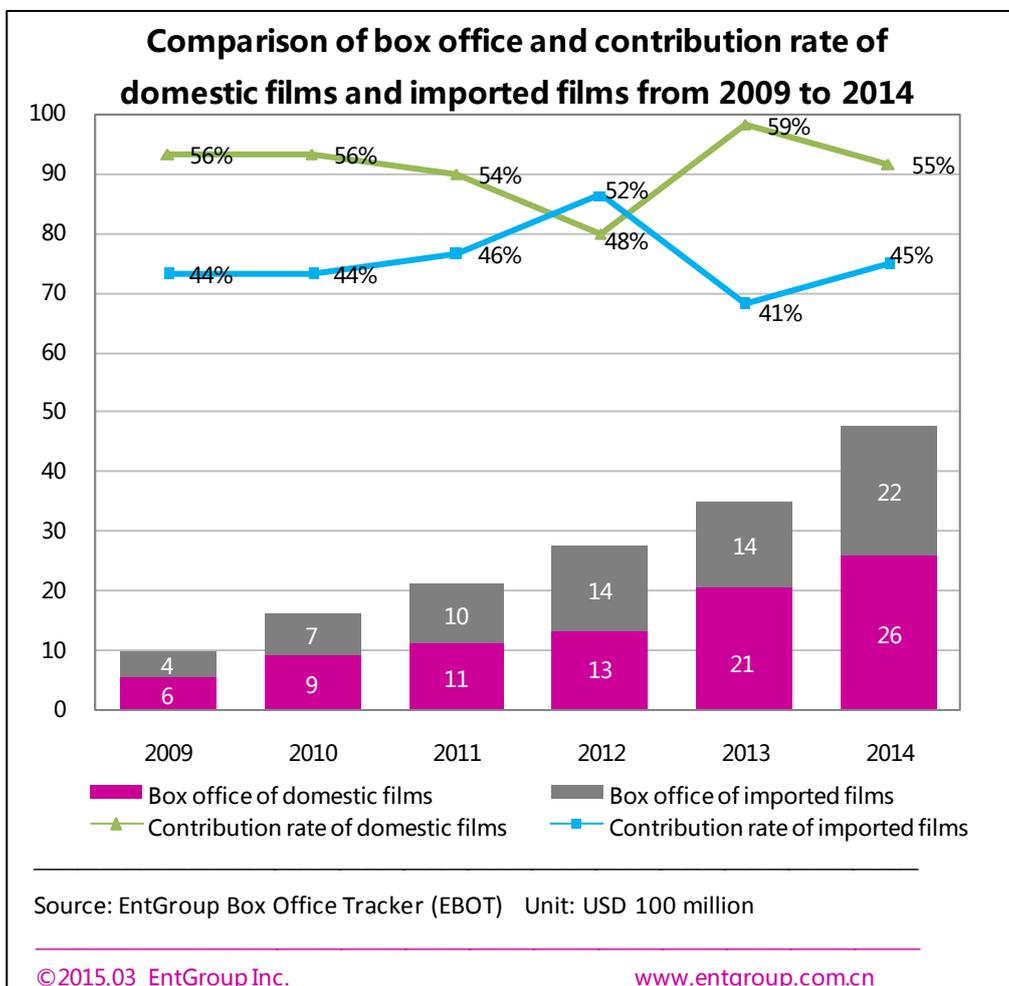


Figure 1-3: Comparison of box office and contribution rate of domestic films and imported films from 2009 to 2014

## 2 Study of China's Film Production Industry in 2014

### 2.1 Overview and analysis of China's film production in 2014

#### 2.1.1 Total production volume of Chinese films in 2014

With 2012 as a demarcation point, domestic feature films have undergone changes from steady increase to decrement and deceleration, and domestic films have been involved in the competition shifted from quantity to the single film's production volume effect and box office, so improving the rate of capacity utilization becomes the key. As the last link of film production, projection in theaters is the basic element for measuring a film's ROI. The projection proportion of domestic films increased from the low level in 2010 to 50% and maintained a 31% compound growth rate in recent 5 years. However, film investors and entities also should pay more attention to soft indicators such as growth potential and reasons of growth, in addition to box office.

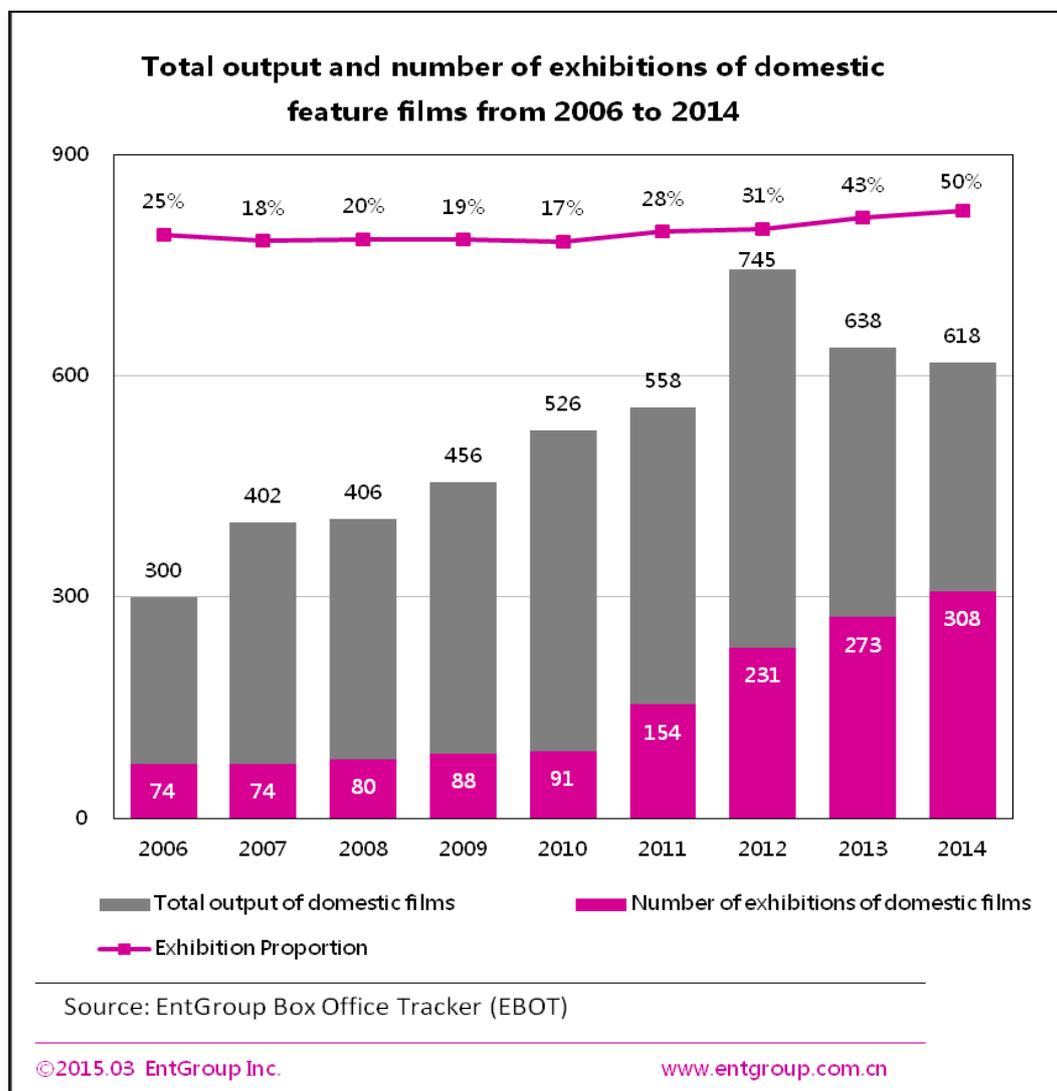


Figure 2- 1: Total production and projection volume of domestic feature films in 2006-2014

## 2.2 Analysis of China’s film entities in 2014

### 2.2.1 Market share of China’s film entities in 2014

In 2014, top 15 film entities accounted for approximately 30% market share with the average of 2%, the market was relatively scattered, there was no significant gap between subjects, and the market giants had limited strength. Among traditional film entities, China Film Group maintained its leading position by the advantage in quantity, Wanda Media strengthened its film production business and jumped to the top among private companies; market shares of Enlight Pictures and Huayi Brothers declined due to the main efforts of promotion and release and the implementation of film removal strategies respectively. As a subsidiary of the Movie Channel-CCTV6, m1905.com ranked top 5 with quickest market rise and the stimulus by high box office of Transformers 4. The cultural investment company Beijing HuagaiYingyue Entertainment earned 1.27% market share by participating in the production of the annual domestic blockbuster Breakup Buddies; Beijing Asian Union Culture & Media Investment, Huace Film & TV and Talent International Media Group with TV series as main business also have successively entered top 10 under the joint effect of bullish film market and linkage between film & TV.

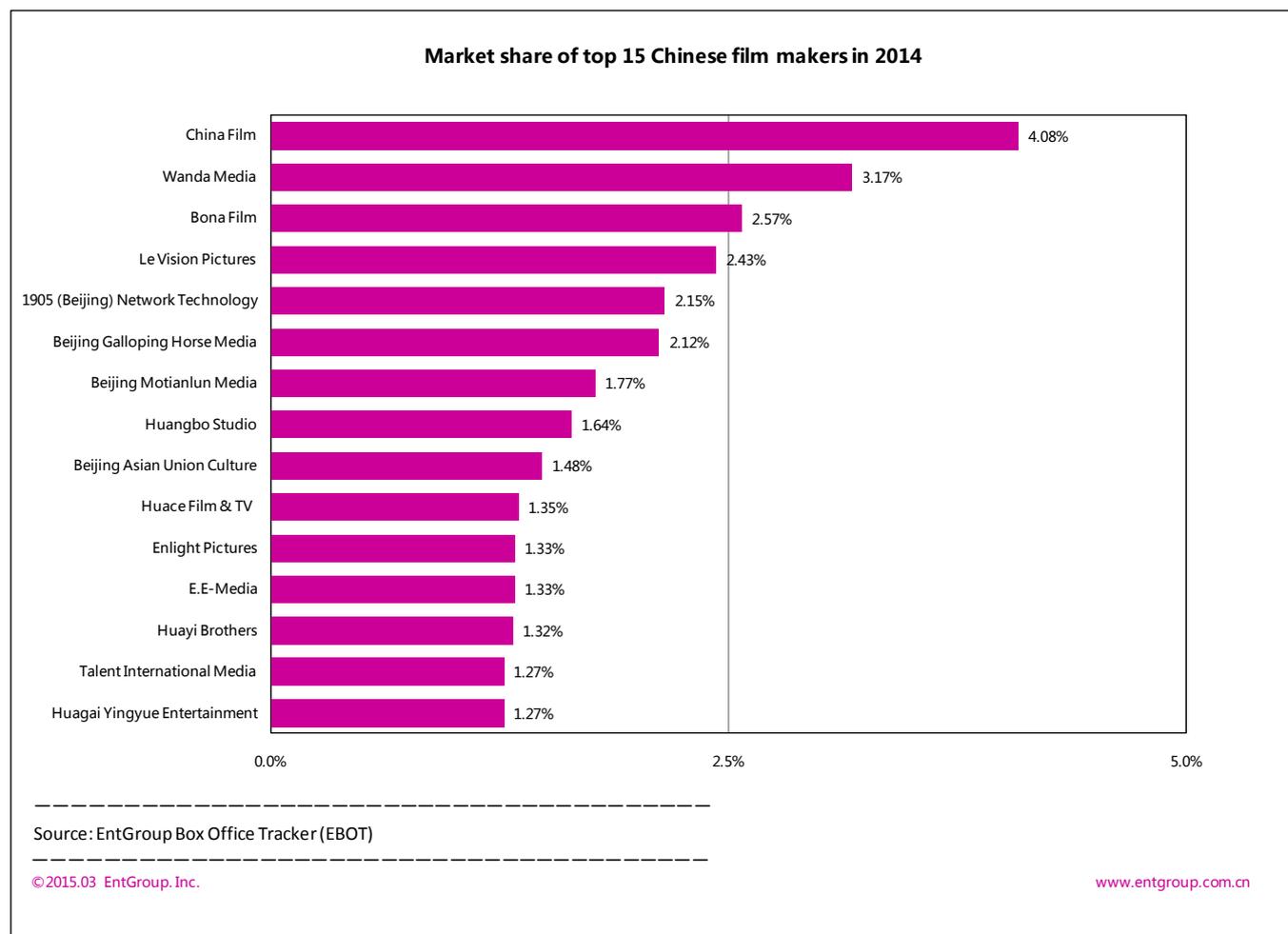


Figure 2- 2: Market share of top 15 China's film entities in 2014

## **2.3 Development trend analysis of China's film production industry**

### **2.3.1 Film & TV companies created a wave of M&A with the intent of cross-over extension and internetization**

Alliance between film and media companies and the Internet is reflected in the cross-over extension and internetization. internetization of Huayi Brothers involves the widest scope. Content production, terminals and derivatives in the industry chain become an important orientation for internetization. For example, Alibaba and Tencent participated in Huayi's private placement of USD 579 million in 2014, so that Huayi was able to access Alibaba's ecommerce and Tencent's social and entertainment resources and conduct project cooperation and plan execution purposefully; Youzu Networks, Alpha Animation and Huace Media, with game, animation and TV series as main business respectively, entered the film industry by developing film projects based on content IP. The cross-over actions of film & TV companies centered on segments of the industry chain, mobile phone game business with clear profit model became an important investment target of many film & TV companies; the promotion and distribution was subject to direct impact of Internet, so it became the key link for film & TV companies to strengthen integration of the industry chain, and such companies covered online ticket selling related business by means of external acquisition and product R&D.

Cross-over and Internetization analysis of film and TV companies in 2014						
Company	Production	Terminal	Derivative	Mobile game	Internet distribution	Fans economy
Huayi Bros.	Private placement participated by Alibaba and Tencent			Investing in Yinhan Games	Investing in www.maizuo.com	Setting up Xingying Lianmeng by cooperating with Tencent
Enlight Media		Founding a joint venture with 360		Investing in Refeng Network and Xianhai Science and Technology		
Le Vision Pictures		Cloud video platform	Le Vision Mall		Leyingke	
Wanda Media					wandafilm.com	
Stellar Mega Films				Investing in Linekong	lpiao.com	
1905 Pictures		1905 Movie Box series				
Youzu Pictures	6-8 films/year			Youzu Interactive		
Alpha Pictures	Animation+ game + film		Investing in 451 Media Group			
Huace Film & TV	Investing in Next Entertainment World/setting up Huace iQIYI Film & TV Company/purchasing Croton Media			Investing in Fantasy games		
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Table 2- 1: Cross-over and internetization analysis of film & TV companies in 2014

## 3 Study of China's Film Distribution Industry in 2014

### 3.1 Overview of China's film distribution market in 2014

#### 3.1.1 Distribution market share of China's film enterprises in 2014

China Film Group remained at the top position in market share in 2013, and Huaxia Film was the only company in the second group with more than 20% market share. The two state-run enterprises monopolized half of the market share. Enlight Media, Bona Film and Wanda Media ranked among top 5 private film units, and United Exhibitor Partners, Heng Ye Film Distribution and Beijing Anshi Yingna Entertainment rose sharply. In particular, Heng Ye Film Distribution, which is mainly engaged in distribution of small and medium cost genre films, gained 1.8% market share in 2014 with *The House That Never Dies* and *Close Friend*; comparatively, Huayi Brothers, a competitive veteran, experienced a downturn.

Among the five major private enterprises, Enlight Media and Wanda Media distributed most films (Each distributed 11 films). As for average box office of single film, Bona Film ranked top with the high box office of *The Taking of Tiger Mountain 3D*, and Enlight Media's box office from *Dad*, *Where Are We Going*, *Breakup Master* and *Fleet of Time* exceeded USD 32 million. Compared with 2013, the average single film box office of these private enterprises showed a declining trend on the whole, and failed to reach USD 80 million or even USD 48 million.

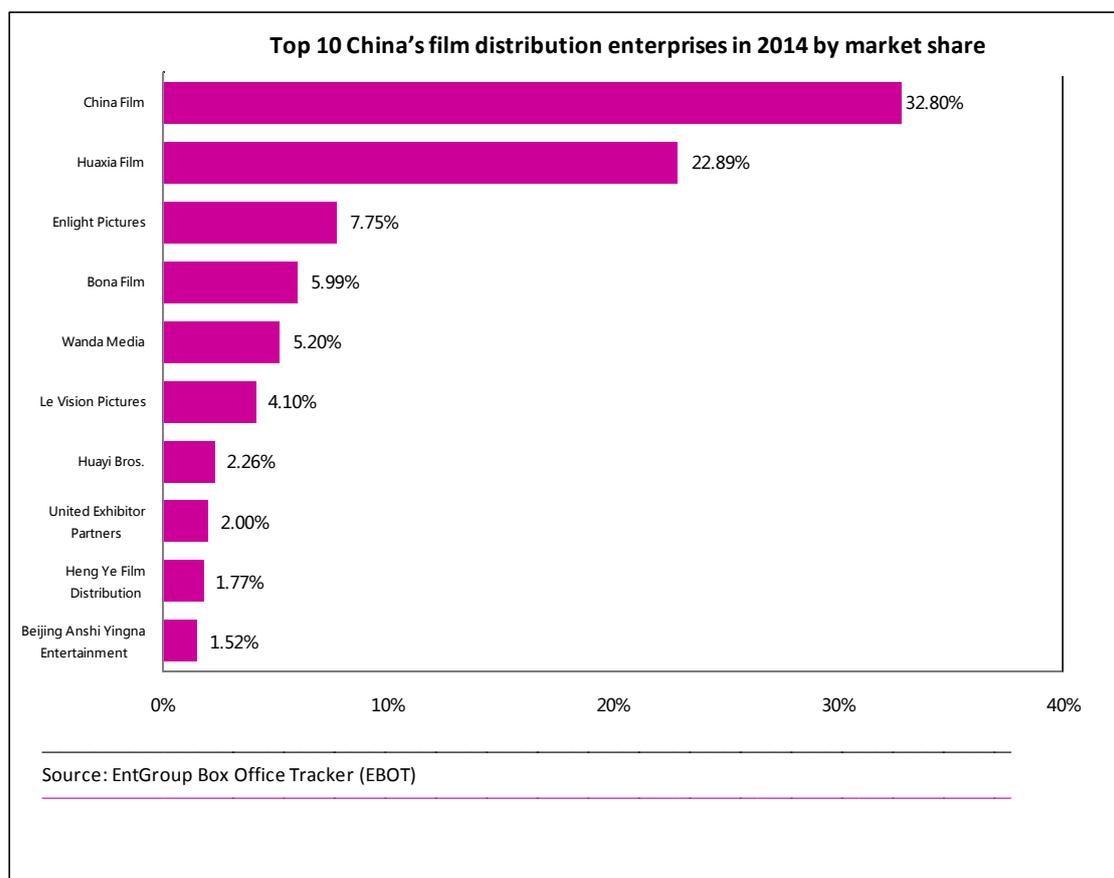


Figure 3- 1: Top 10 China's film distribution enterprises in market share in 2014

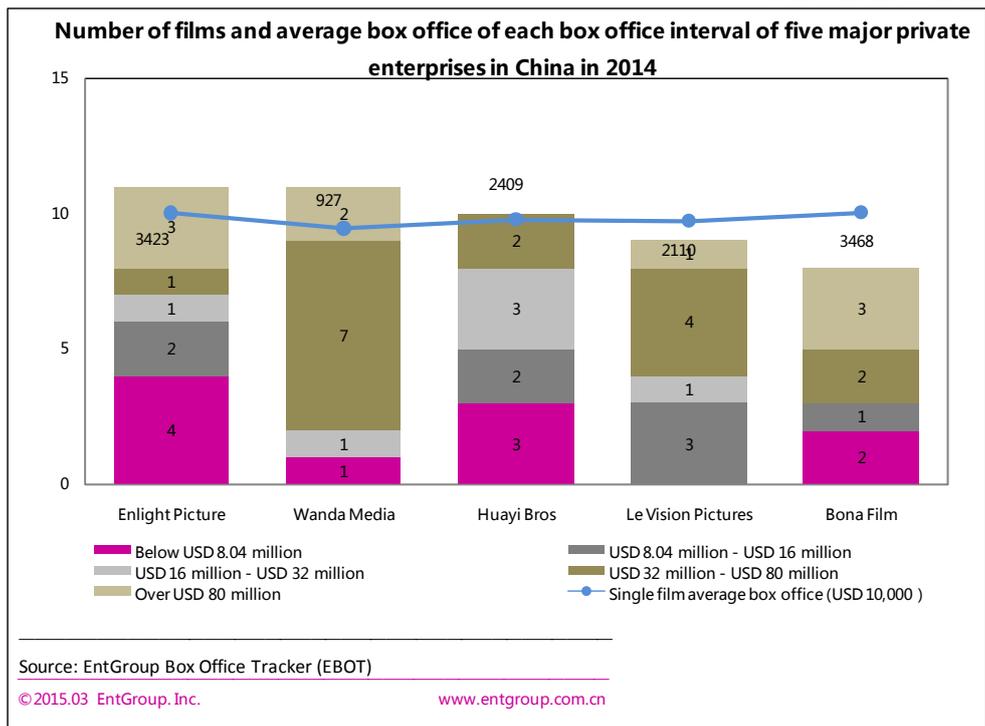


Figure 3- 2: Films distributed by five major private enterprises in China in 2014 and the average box office

### 3.1.2 Concentration Ratio Analysis of China's film enterprises' Distribution performance in 2014

CR4 of China's film distribution market in 2014 increased by 0.04% than 2013, while CR8 increased by 3.39%, which indicated that the concentration ratio of the distribution market was further improved. On the one hand, the two magnates, namely China Film Group and Huaxia Film, regained their market share; on the other hand, top private enterprises such as Enlight Media, Bona Films and Le Vision Pictures, especially Wanda Media, enhanced their market share steadily. All private companies except Huayi Brothers further strengthened their distribution.

Specifically, many Hollywood blockbusters such as *Transformers: Age of Extinction*, *Interstellar* and *X-MEN: DAYS OF FUTURE PAST* all achieved sharp increase in box office in 2014, which brought great advantages to China Film Group and Huaxia Film having rights which have rights of sharing revenue from imported films. Thanks to rapid box office increase of some hot domestic films, the private enterprises earned considerable profits from film distribution. Besides, the emergence of three new companies in Top 10 list, namely United Exhibitor Partners, Heng Ye Film Distribution and Beijing Anshi Yingna Entertainment, indicated the change of competition situation in the distribution market.

United Exhibitor Partners only participated in the distribution of three films, and only two of them, namely the *Breakup Buddies* (USD 188 million) and *My Old Classmate* (USD 72 million) helped it overtake Huayi Brothers; Heng Ye Film Distribution distributed six films, but it mainly benefited from *The House That Never Dies* (USD 66 million) and *Close Friend* (USD 32 million); the rise of Beijing Anshi Yingna Entertainment mainly owed to the USD 168 million box office of *The Monkey King*.

Top 10 China's film distribution enterprises from 2012 to 2014 by market concentration degree						
Ranking	2012		2013		2014	
	Distributed by	Market share	Distributed by	Market share	Distributed by	Market share
1	China Film	38.24%	China Film	32.41%	China Film	32.80%
2	Huaxia Film	23.51%	Huaxia Film	17.45%	Huaxia Film	22.89%
3	Huayi Bros.	10.22%	Huayi Bros.	12.55%	Enlight Pictures	7.75%
4	Enlight Pictures	7.37%	Le Vision Pictures	6.98%	Bona Film	5.99%
5	Bona Film	3.34%	Enlight Pictures	3.69%	Wanda Media	5.20%
6	Mei Ah Huatianxia Film	2.21%	Bona Film	3.18%	Le Vision Pictures	4.10%
7	Le Vision Pictures	1.32%	Wanda Media	1.85%	United Exhibitor Partners	2.26%
8	Stellar Mega Films	1.08%	Edko Film	1.50%	Huayi Bros.	2.00%
9	Edko Film	1.06%	Union Pictures	1.47%	Hengye Film	1.77%
10	Sil-Metropole Organisation	0.83%	SMG Pictures	1.21%	Anshi Yingna Entertainment	1.52%
<b>Others</b>		10.82%	17.71%		13.72%	
<b>CR4</b>		79.34%	69.39%		69.43%	
<b>CR8</b>		87.29%	79.60%		82.99%	
Source: EntGroup Box Office Tracker (EBOT)						
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Table 3- 1: Top 10 China's film distribution enterprises in market concentration ratio in 2014

## 4 Study of theater chains of China's film projection industry in 2014

### 4.1 Overview of China's film theater chains in 2014

#### 4.1.1 Market overview

##### ➤ Quantity

According to EntGroup's statistics, there were 47 urban theater chains and 252 rural theater chains in China by the end of 2014, both of which will increase. In fact, many rural theater chains were run together, so the actual number of rural theater chains was 231. EntGroup believes that urban theater chains in China will witness an increase in market concentration and operation efficiency in the future through integration and M&A, and there will be 5-10 leading theater chains with relatively large scale; besides, rural theater chains will increase slowly under policy expansion protection.

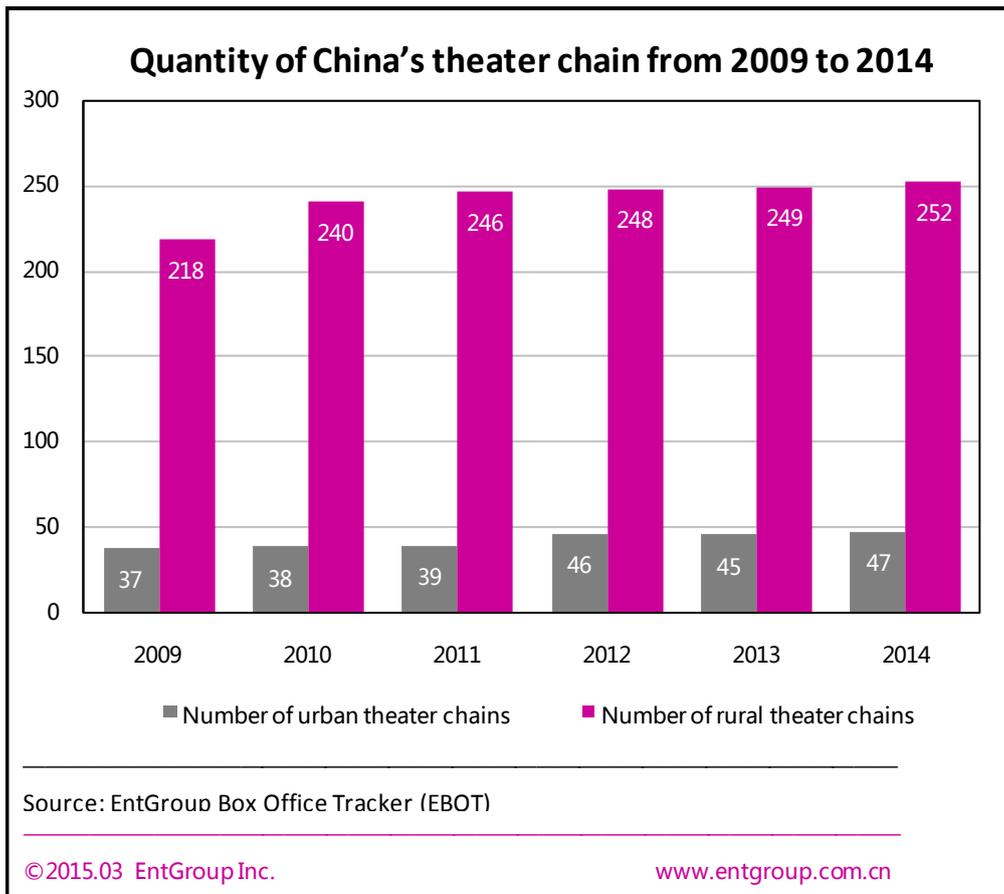


Figure 4- 1: Quantity of China's theater chain from 2009 to 2014

➤ **Scale**

According to EntGroup, urban theater chains in China achieved the a total box office of USD 4.733 billion in 2014. 33 of the 47 urban theater chains gained the box office of over USD 16 million, an increase of 4 YoY, but the growth rate declined by 1.7%; such theater chains accounted for 80% of the total, and the market share increased by 7%.

Box office concentration of urban theater chains further improved. The number of theater chains with the box office of over USD 161 million reached 10, an increase of 4 than the previous year, accounting for 21% of total urban theater chains, and their box office accounted for 66% of total urban box office. This conforms to the 20/80 principle. As theater chain market becomes more mature, small and medium sized theater chains will be merged and acquired.

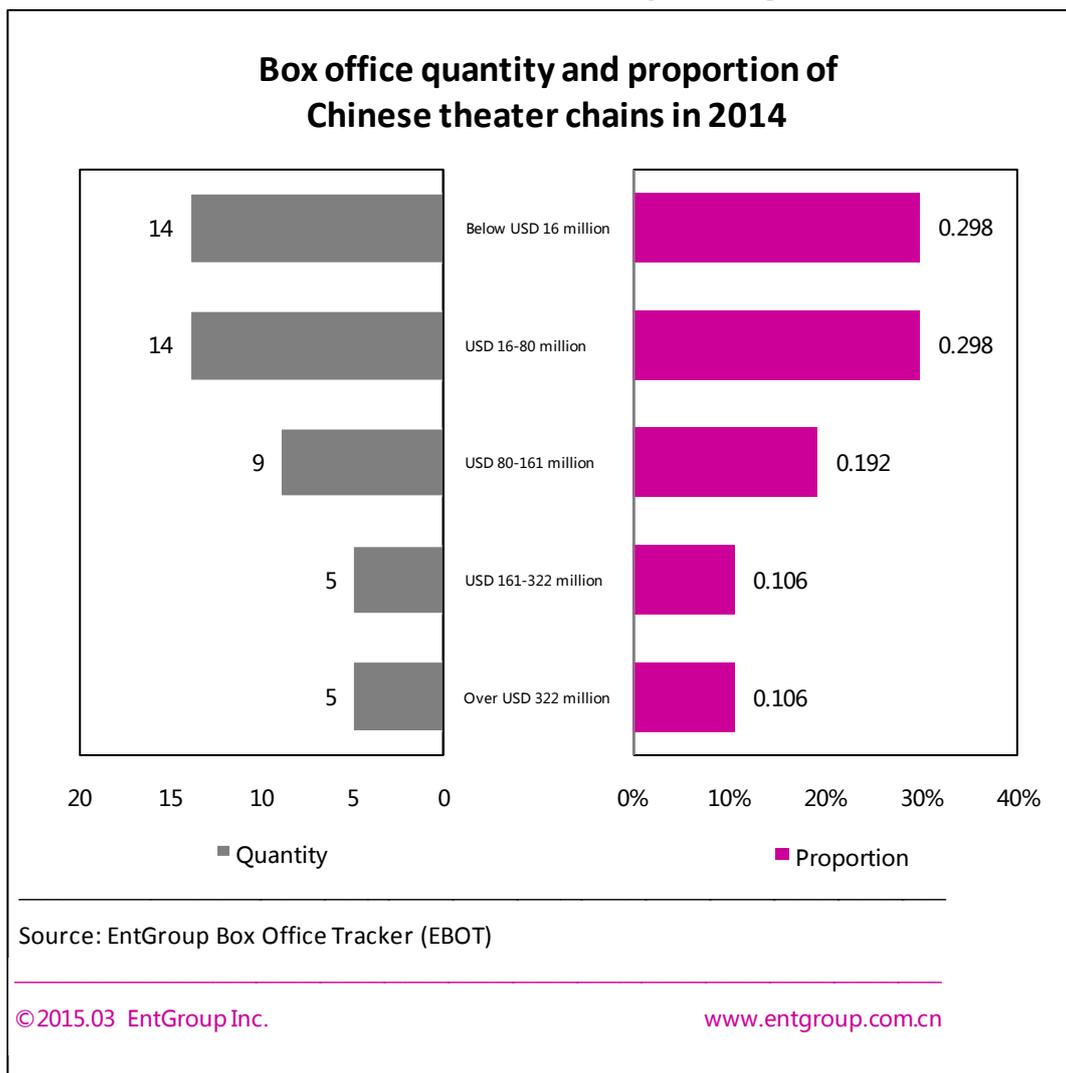


Figure 4- 2: Box office quantity and proportion of Chinese theater chains in 2014

## 4.2 Analysis of theater chain market in 2014

### 4.2.1 Market characteristics of China's theater chain

In 2014, total box office of urban theater chains in China increased by USD 1.287 billion YoY, and the number of theater chains with the box office of over USD 161 million increased from 4 to 10. Major theater chains further expanded their scale, and the situation of “one superpower and several major powers” maintained. According to annual total box office, growth rate and market share of theater chains, EntGroup redefined the first three groups of theater chains in 2014: first group with annual total box office of above USD 643 million, currently only including the listed Wanda Cinema Line, the superpower; second group with the annual total box office between USD 241-483 million, consisting of China Film Stellar, Dadi Theater Circuit, Shanghai United Circuit, Guangzhou JinyiZhujiang and China Film South Cinema Circuit; third group with the annual total box office between USD 161-241 million, consisting of Zhejiang Time Cinema, China Film Group Digital Cinema Line, Hengdian Cinema Line and Beijing New Film Association.

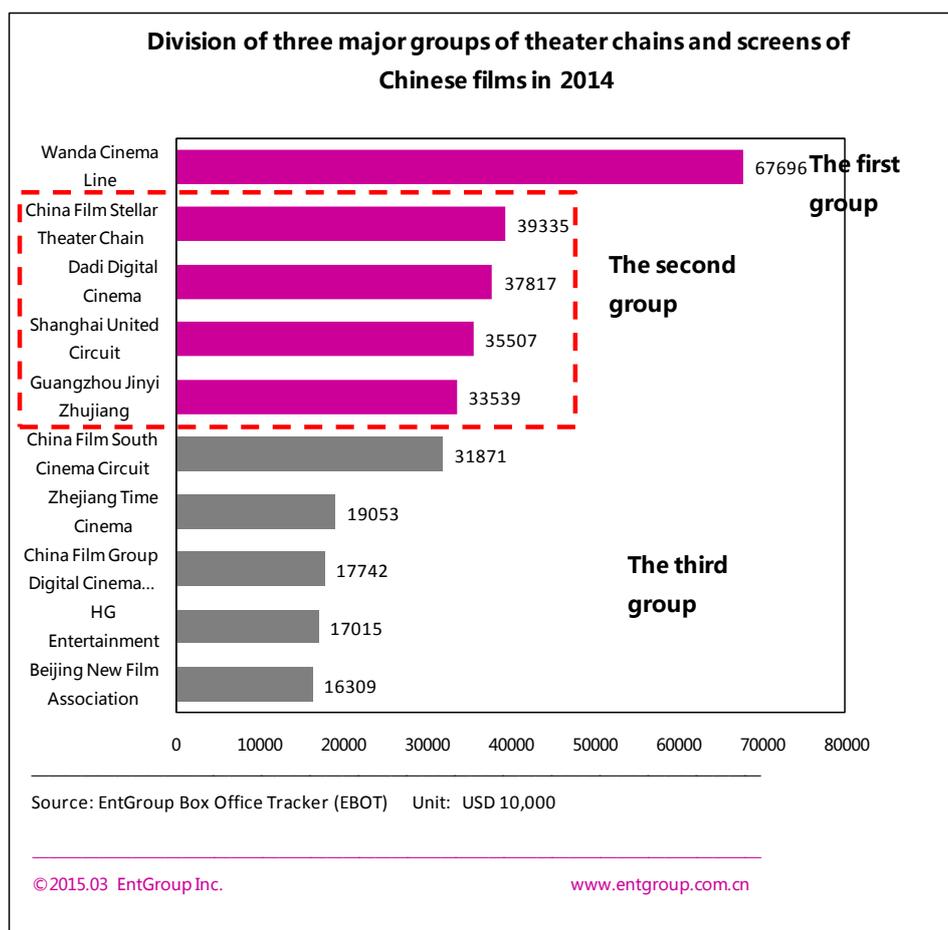


Figure 4- 3: Division of three major groups of theater chains and screens of Chinese films in 2014

In 2014, Wanda Cinema Line achieved outstanding performance and YoY increase of box office by USD 161 million, maintained its superpower position since 2009, and enlarged its gap with other theater chains. In 2010, the gap in box office

between Wanda Cinema Line and China Film Stella was USD 29 million, but it enlarged to USD 283 million in 2014. Comparatively, there was no significant gap among the second group of theater chains. The largest gap in box office was USD 74 million in 2014, which was much less than the gap between China Film Stella and Wanda Cinema Line.

### **4.3 Development trend analysis of China's theater chains**

#### **4.3.1 With listing of the first stock of theater chain was listed, chain concentration is further accelerated**

Relying on high box office revenue for five consecutive years and good performance in single screen box office, main business profit margin, audience man-time, and contribution rate of member box office, Wanda Cinema Line was successfully listed. The positive significance of the listing lies in that it will further stimulate capital concentration and market congregation of the theater chain market, and promote the shift of market competition from full competition to scale and brand competition. Wanda Cinema Line, Jinyi Cinema Line and Shanghai United Circuit will accelerate their IPO; the projection link of the film industry chain will continue to exert its terminal advantages and drive the growth of China's film box office market through increase of theater screens; Wanda Cinema Line will focus on theater chain Internetization and brand operation in the future; the business union and collaboration between Wanda Cinema Line and Wanda Media, Wuzhou Distribution and Wanda Plazas will bring about capital gain and brand upgrade of the theater chain.

## 5 Study of theaters of China's film projection industry in 2014

### 5.1 Overview of China's film theater development in 2014

#### 5.1.1 Development of theaters and screens in China in 2014

In 2014, China's theaters continued to increase, with 1,230 newly opened theaters nationwide and 5,813 theaters in total. 5,919 new projection screens were added with an average daily increase of 16.2 projection screens, and the total screens reached 24,317. Theater growth rate reached 26.8%, an increase of 2.3% than that of 2013, while the projection screen growth rate dropped by 8.1% YoY to 32.2%.

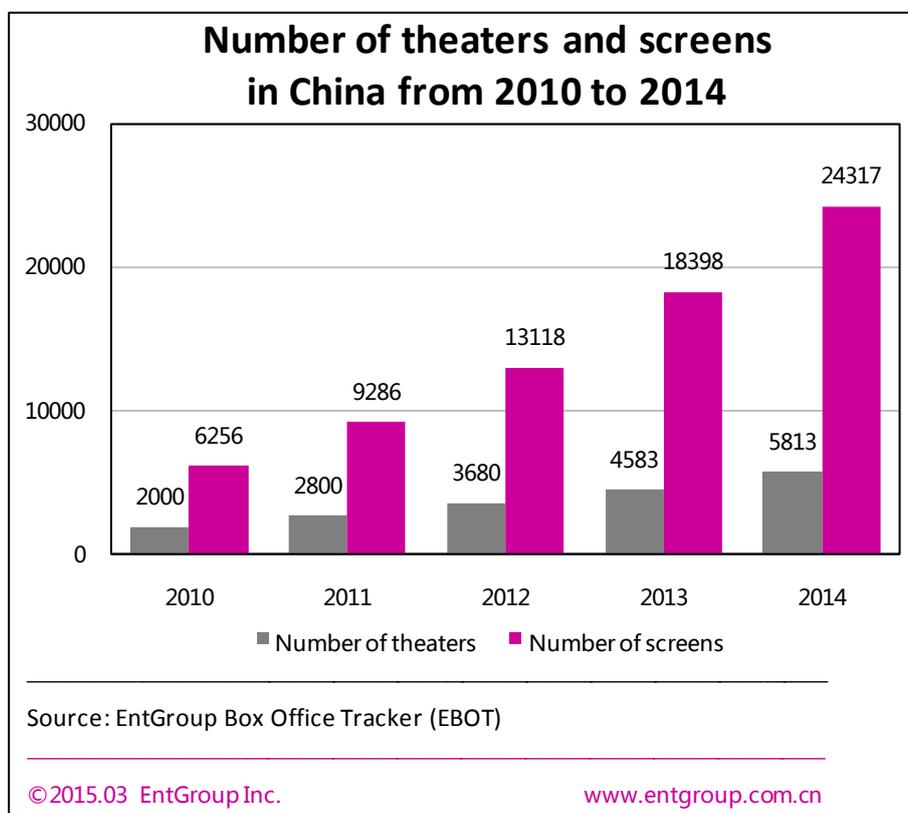


Figure 5- 1: Number of theaters and screens in China from 2010 to 2014

## 5.2 Overview of China's theater market in 2014

### 5.2.1 Box office distribution of different grades of theaters in China in 2014

EBOT's box office data show that there were 4,904 urban theaters with the box office statistics in China, which can be divided into 5 grades by annual box revenue, namely those of above USD 8.043 million, those of USD 1.609 million to USD 8.043 million, those of USD 0.804 million to USD 1.609 million, those of USD 0.161 million to USD 0.804 million and those of below USD 0.161 million. Jackie Chan Cinema Beijing Yaolai achieved the annual box office of USD 16.2248 million, becoming the first single theater whose annual box office exceeded USD 16 million. There were 37 theaters with the annual box office of above USD 8.043 million, accounting for only 0.8% of the total, and these theaters achieved the box office of USD 368 million, accounting for 8% of the total box office. There were 926 theaters with the annual box office between USD 1.609 million and USD 8.043 million, accounting for 19% in quantity, and these theaters achieved the box office of USD 2.897 billion, accounting for 61% of the total box office. There were 1,918 theaters with the annual box office below USD 0.161 million, accounting for 39% of the total, and these theaters achieved the box office of USD 93 million, accounting for 2% of the total box office. The core forces of China's theater market in 2014 were still theaters with the box office between USD 1.609 million and USD 8.043 million. It is expected that the number of theaters with the box office above USD 16 million will increase accordingly in 2015.

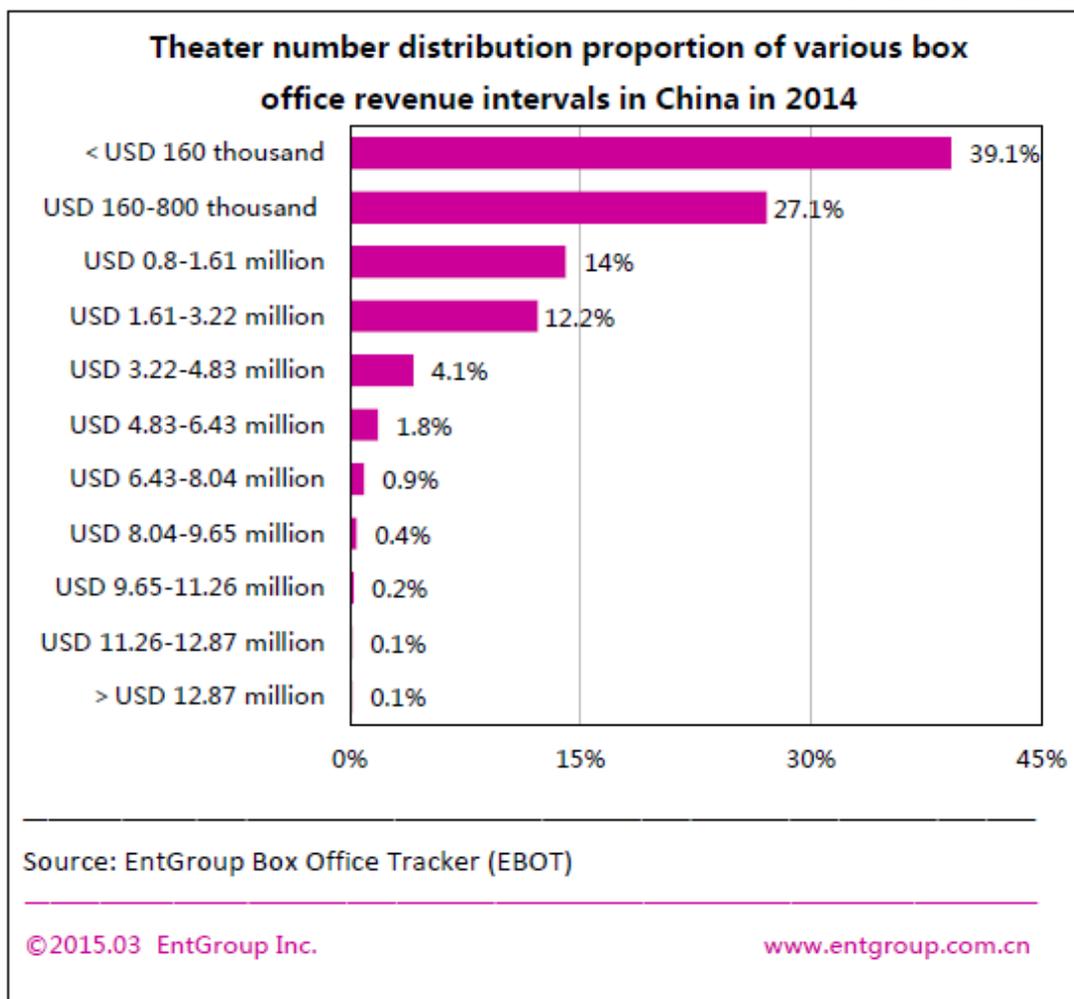


Figure 5- 2: Distribution of theaters of various box office revenue intervals in China in 2014

## 5.3 Study of e-commerce development of China's theaters in 2014

### 5.3.1 Analysis of e-commerce development of China's theaters

According to the 35<sup>th</sup> Statistical Report on the Internet Development in China published by CNNIC, China, by December 2014, had 694 million netizens with the Internet penetration rate of 47.9%, and netizens below 30 years old accounted for 56% of the total. EntGroup's data indicate that the number of loyal film fans below 30 years old accounted for almost 80%, and film audiences and Internet users overlap considerably, which has driven new changes in film consumers. Besides, local service e-commerce market developed rapidly. Due to high frequency and strong consumer stickness of entertainment group purchase, online ticket group purchase has become an important channel of O2O closed loop.

Currently, market subjects of domestic theater e-commerce market consist of five parts: first, third party online ticket services, such as Gewara, Wangpiao; secondly, group purchase sites, such as Nuomi, Meituan, Dianpin, etc.; thirdly, BAT apps, such as Mobile Baidu, Wechat Film, Taobao Film, etc.; fourthly, sites run by theater chains, such as Shanghai Film Group CGV, Hipiao, Wanda Film, etc.; fifthly, film communities, such as Mtime, Douban, etc.

### Type of subjects in China's theater e-commerce market

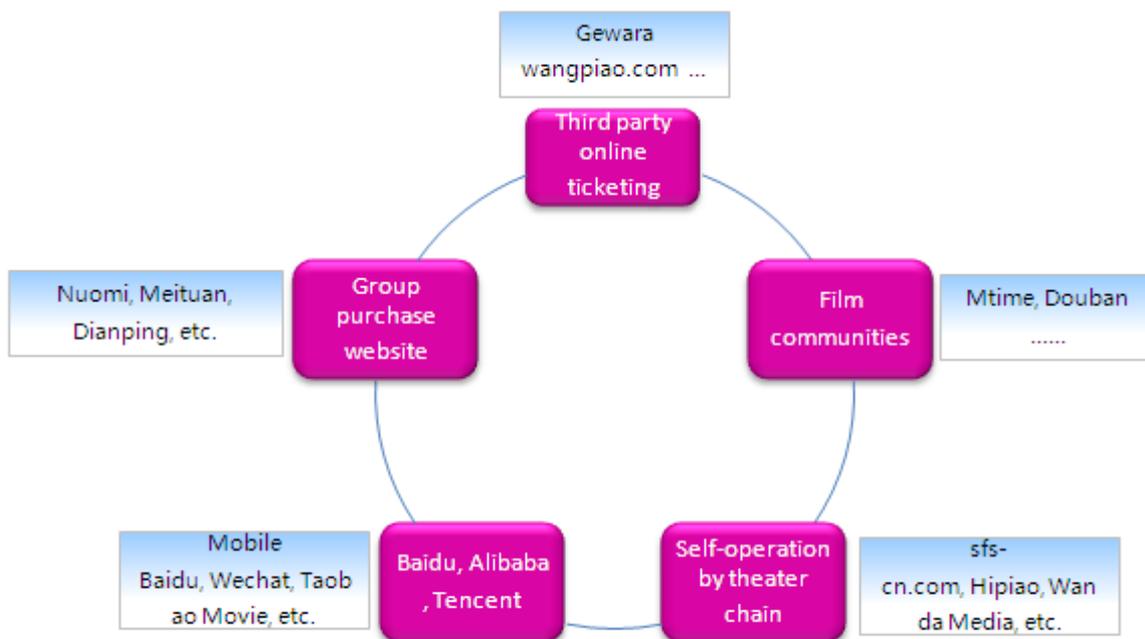


Figure 5- 3: Type of subjects in China's theater e-commerce market

Comprehensive coverage of network and popularization of smart mobile gadgets also promote the iteration of O2O consumption models as mobile devices are gradually replacing PCs. Currently, there are tens of mainstream ticket selling APPs, which have become an important channel for audiences to buy tickets. Such Apps generally have core functions such as film information inquiry, ticket price information inquiry, online seat booking and theater navigation, and some even offer trailer preview, rating and review, communication and interaction functions to make consumers obtain more reference information before buying tickets. Among the Apps, Maoyan Film has the broadest theater distribution in China (3,500 theaters). On the other hand, data of O2O service can be obtained, analyzed and reviewed to increase box office and provide guidance opinions for film scheduling, flow dredging and operation management.

## 5.4 Analysis of development status of China's theaters

### 5.4.1 Theater construction level declines, driving non-first-tier film watching growth potential

In recent 2 years, the construction of theaters in key tier-1 cities was saturated. Theater investment gradually moved to tier-2 and tier-3 cities, and the level of urban theater distribution began to decline. There were 1,234 new theaters in 2014, among which 803 were constructed in tier-2 and tier-3 cities (except the tier-1 cities of Beijing, Shanghai, Guangzhou and Shenzhen), accounting for 65% of the total, while those in tier-1 cities only accounted for 10%. This indicates tier-2 and tier-3 cities have officially become the main places of theater chain competition due to intense homogeneous competition in tier-1 cities as well

as construction and economic development of tier-2 and tier-3 cities which have millions of population and improving entertainment consumption power and purchase power. With the decline of film-watching market, the proportion of film-watching man-time growth in tier-2 and tier-3 cities increased to 33% in recent years. The huge market potential and rational cost investment attracted theater investment companies' attention to tier-2 and tier-3 cities. Large theater chains with more arrangements in tier-2 and tier-3 cities, such as Data Cinema Chain, will take the initiative in future theater competition.

## 6 Thematic research: Study on BAT's entry into the film & TV industry

### 6.1 OVERVIEW OF BAT'S EXPANSION AND CHARACTERISTICS

#### 6.1.1 Environment for the expansion

In 2014, Internet companies represented by BAT sped up their entry into the film & TV industry, bringing about new changes to the film and TV industry structure by rebuilding the film and TV industry chain with technology, platform and user thinking and seeking profit margin while overturning the film & TV industry chain. BAT gradually extended from video platforms and channels to upstream links and terminal users, and got involved in content production and mass marketing via promotion and distribution, IP hatching, crowdfunding investment, big data analysis, online ticketing service and online VOD. As a result, the film & TV industry chain links became more diversified, marketization of profit brought new models and new business opportunities, and the film & TV contents and Internet modes became more closely related to urban economy and entertainment consumption of residents.

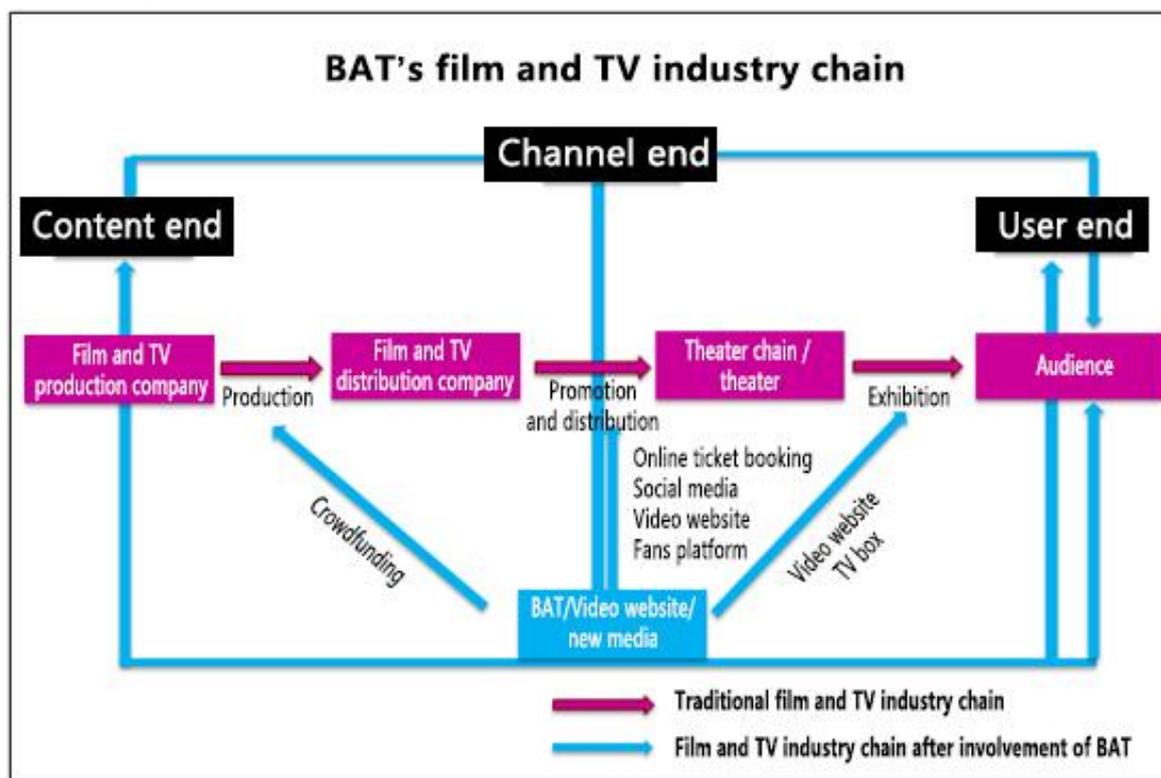


Figure 6- 1: BAT's film & TV industry chain

## 6.1.2 Overview of the expansion

BAT's film business development is closely related to its business model and ecologic layout. Based on advantages of existing Internet mode, it formed the characteristics of business integration and cooperation between departments. Different from Iqiyi video and Baidu search technology support and Tencent's business department operation, Alibaba is comprehensively involved in the film industry by acquiring HK Listed Company Culture China, establishing an operation team led by former senior manager Zhang Qiang of China Film Group, reserving director cooperation and IP planning, grafting film & TV crowdfunding product Entertainment Investment Fund as well as online ticketing and social products in which Alibaba invested strategically to achieve the synergy effect of film & TV production and Internet mode: Iqiyi Film and Tencent Film+ more emphasized Internet gene and sought traffic conversion from video and social portals.

Overview of BAT's film and TV development					
Overview		Baidu	Alibaba	Tencent	
Original business		Online search – middle page business	IM - social contact with acquaintances– Game business	E-commerce platform – payment business	
Development status	Development subject	Iqiyi Film / Baidu Film (internally established)	Alifilm (acquisition) / Heyi Film (participates of Youku Tudou)	Tencent Film + (business division)	
	Content production	Huace Iqiyi	Culture China / cooperation agreement with Zhou Xingchi / Internet big film	Tencent copyright development	
	Propaganda and distribution resources	Baifa Youxi, Nuomi	Entertainment Investment Fund, Taobao Film, Maoyan Film, Sina Microblog	Wechat Film, QQ Film, Dianping, Wechat	
	New media channels	Iqiyi/PPS	Youku Tudou	Tencent Video	
Development purpose		Big data traffic conversion + video content demand	E-commerce mode derivatives + collaborative culture and entertainment investment arrangement	User conversion + improvement of the interactive entertainment sector + video platform requirements	
Development characteristics		Technology – rely on Internet search and video technology	Business – Copy B2C, C2C, O2O models	Entertainment – with social user as core	

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Table 6- 1: Overview of BAT's film & TV development

## 6.2 ANALYSIS OF BAT'S FILM UNITS

### 6.2.1 Analysis of Baidu's entry into the film & TV industry

#### ➤ Competition strategy

Baidu's search technology, competitive ranking advertising business are challenged by other Internet business models, mobilization and user migration, and most existing products originate from technical development and lack of user dimensions. As a key product of Baidu about video and vertical business, Iqiyi plays the role of traffic import and user accumulation. Film & TV entertainment is the superior content that contributes flow, so executing operation function of the

Internet becomes the starting point of Baidu's involvement in the film & TV industry.

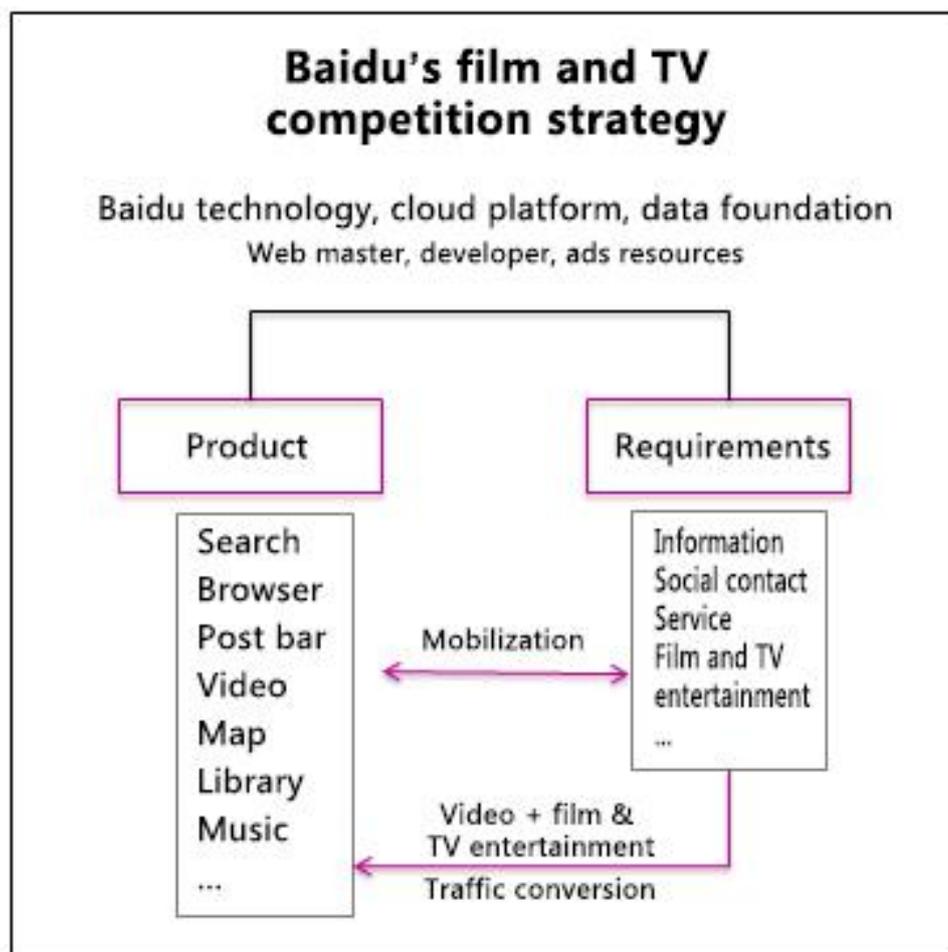


Figure 6- 2: Baidu's film & TV competition strategy

➤ Involvement way/link

Baidu's involvement in film & TV depends on the Iqiyi platform. It participates in upstream investment and production through specific channels, publicizes and markets through the acquired group purchase website and internally established Baidu Film. In the future, projects can be planned according to media library of PC and mobile ends.

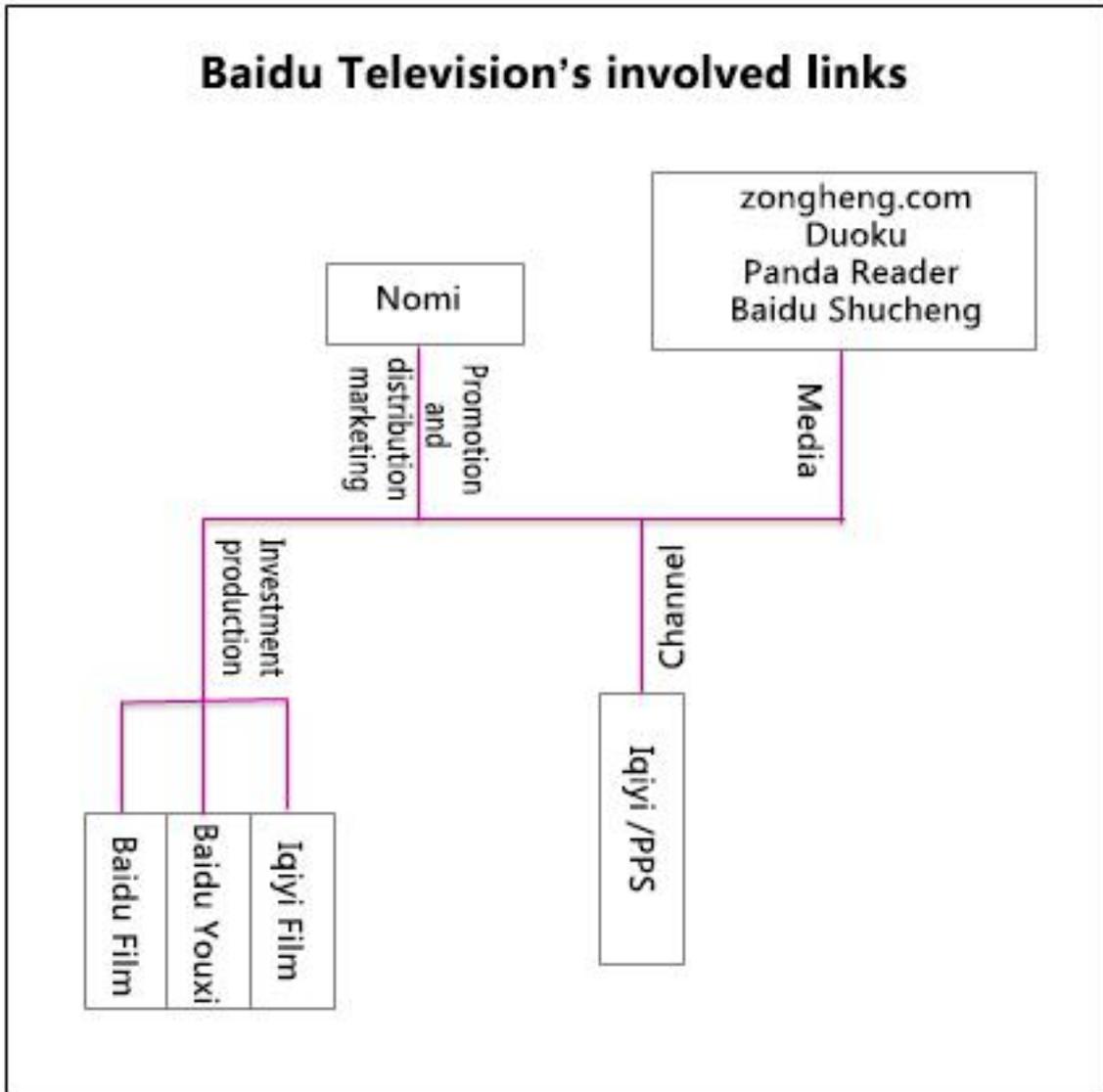


Figure 6- 3: Baidu Television's involved links

➤ Operation subjects

Analysis of Iqiyi Film			
Scope of business	Development mode	Competitive advantages	Development methods
Film promotions and distribution, investment, crowdfunding, and big film data mining	Cooperation with domestic and overseas film & TV companies, coproduction of films, copyright development; and online film promotions	Advantages: Baidu series products; technology and data advantages; online film operation cases Disadvantages: insufficient manpower, resource and experience, business model to be verified	Online theater chain VOD; online integrated marketing, online ticket selling; IP and game adaptation
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Analysis of Baidu Film			
Scope of business	Development mode	Competitive advantages	Development methods
Online ticket selling; joint film & TV investment	Integrate PC and mobile search technologies, Baidu Map and Nuomi group purchase business, and develop business of O2O film production and consumption	Advantages: existing mature Baidu products; user advantage Disadvantages: positioning and competition with Iqiyi Film; business integration and reorganization; model to be developed	Film review and personalized search; social interaction products; big data development
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Table 6- 2: Analysis of Iqiyi Film and Baidu Film

## 6.3 Future influence of BAT on the film industry

### 6.3.1 Innovation in industry chain links

The Internet development drives the innovation in film & TV industry chain by new mode, new business and new method. Based on big data, film & TV products are designed and promoted from the perspective of users' thinking, IPs are developed by fan audiences, and specific films are produced according to data of the mainstream audience. In terms of investment, BAT strengthens the joint investment of participants in various aspects, seeks the optimal capital cooperation and resource integration, and adds the new Internet mode to cut intermediate cost of online promotion and offline production volume. In terms of channels, it imports traffic entrance of social contact, video and ticket service, integrates brand marketing and builds the O2O matrix for promotion and distribution.

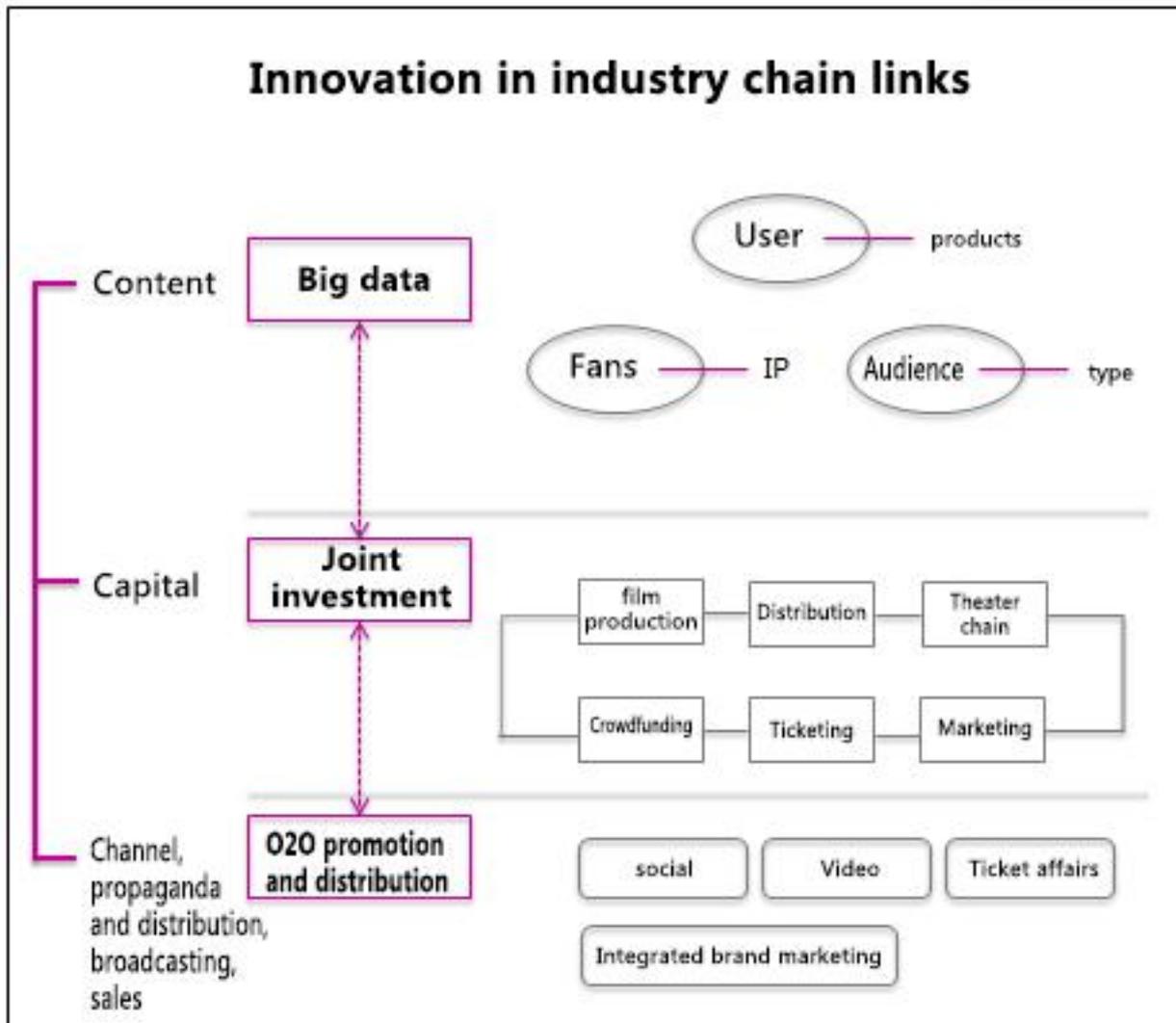


Figure 6- 4: Innovation in industry chain links

## 7 Study of China's film schedule in 2014

### 7.1 Analysis of monthly film market in 2014

#### 7.1.1 Monthly box office champion in 2014

According to EBOT's box office data, the monthly box office champion of Chinese film achieved the box office of USD 1.287 billion, accounting for 27% market share. Imported films, monopolized by Hollywood blockbusters, had obvious advantages by 9 films. Transformers 4 won the annual box office champion with USD 318 million and created the highest box office record in China so far. The 9 Hollywood blockbusters covered the genres of science fiction, action, cartoon, etc. In particular, science fiction films filled in the black of Chinese film market, also showed the business potential and value of such films, and to some extent promoted the development of domestic science fiction films in the future.

The domestic film champions in monthly box office in 2014 were The Monkey King, Breakup Buddies and Fleet of Time, which were distributed in Spring Festival period, National Holiday period and New Year period respectively. These films, such as Breakup Buddies and Fleet of Time, were diversified in genre but all characterized by small cost. Compared with Hollywood blockbusters, these films enjoyed high ROI

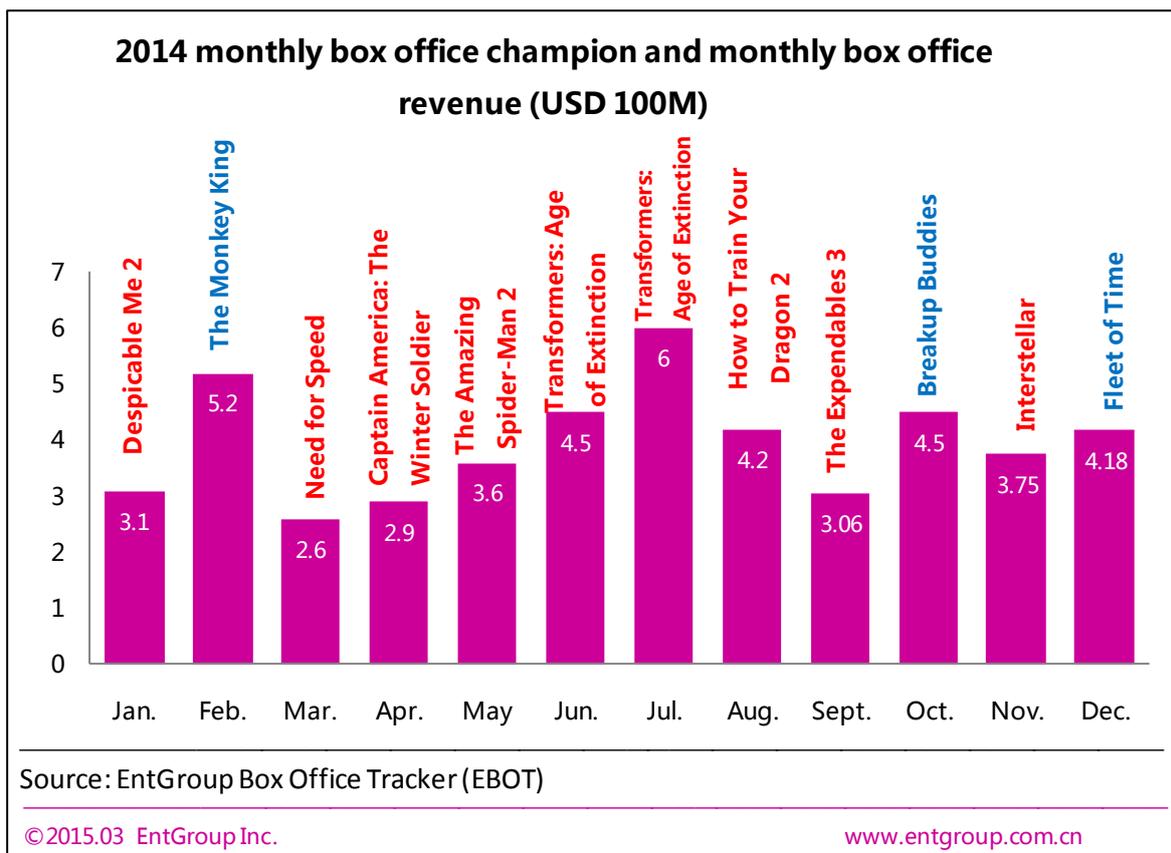


Figure 7- 1: Monthly box office champions and monthly box office revenues (USD 100M) in 2014

## 7.1.2 Monthly box office trend of Chinese Mainland in 2014

According to EBOT's box office data, the monthly box office of Chinese films in recent three years increased significantly. The monthly average box office was only USD 222 million in 2012, but rose to USD 286 million in 2013 and even doubled in 2014 with USD 396 million. An obvious difference in 2014 was the large gap between peak and valley values. It was USD 257 million in March, but was USD 595 million, indicating a difference as high as USD 338 million. Besides, it can be seen that Spring Festival period, Summer Vocation period and New Year period have become stable peak periods of box office revenue after years of efforts. Now schedule planning has been rather mature.

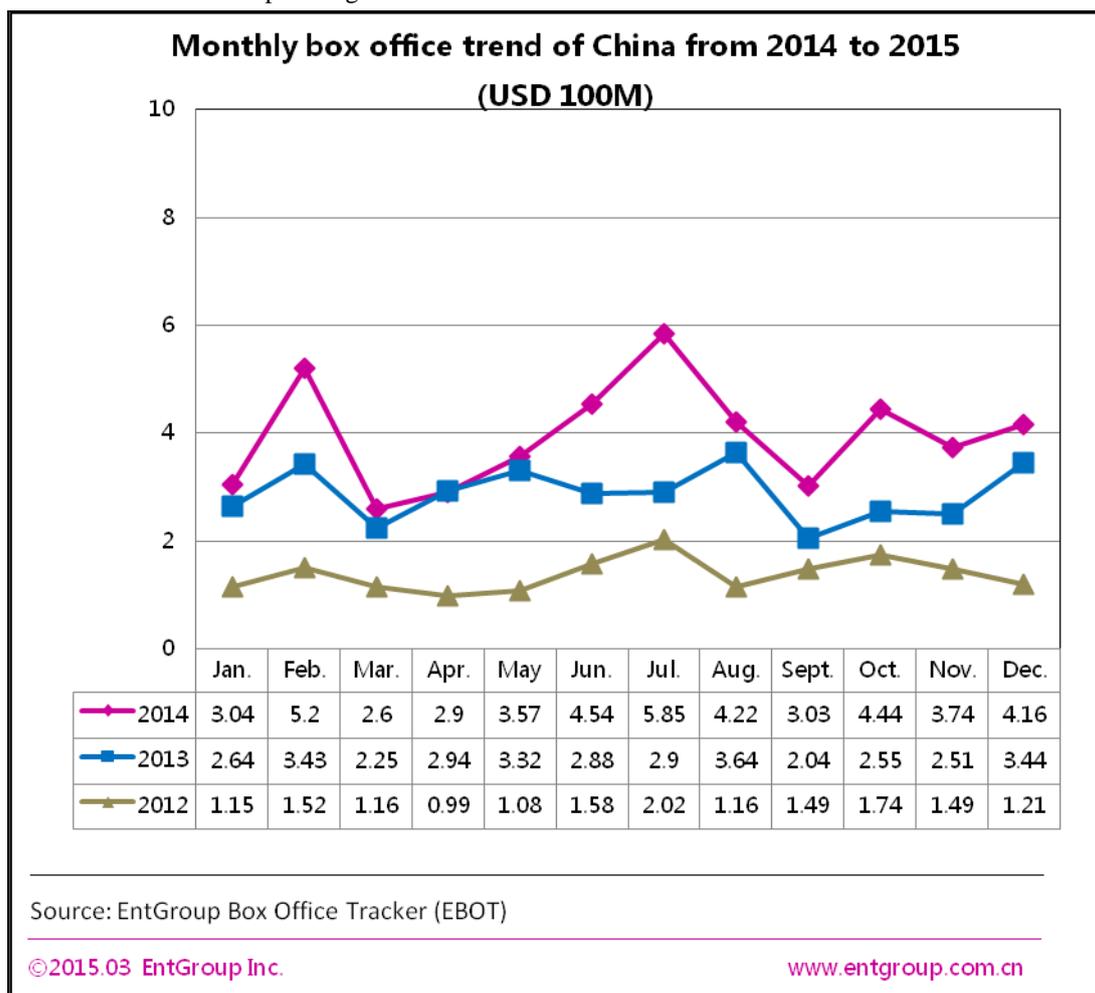


Figure 7- 2: Monthly box office trend of China from 2014 to 2015 (USD 100M)

In 2014, the highest weekly box office was USD 187 million, with the minimum of USD 49 million, and the average of USD 91 million. In 33 of 52 weeks, weekly box office was lower than the average, while it was higher than the average in other 19 weeks, which indicates it was lower than the average in most weeks. The three weeks with the box office of over USD 161 million, were mainly distributed in Spring Festival period and Summer Vocation period, and premiere of Breakup Buddies made the National Holiday become a hot box office schedule.

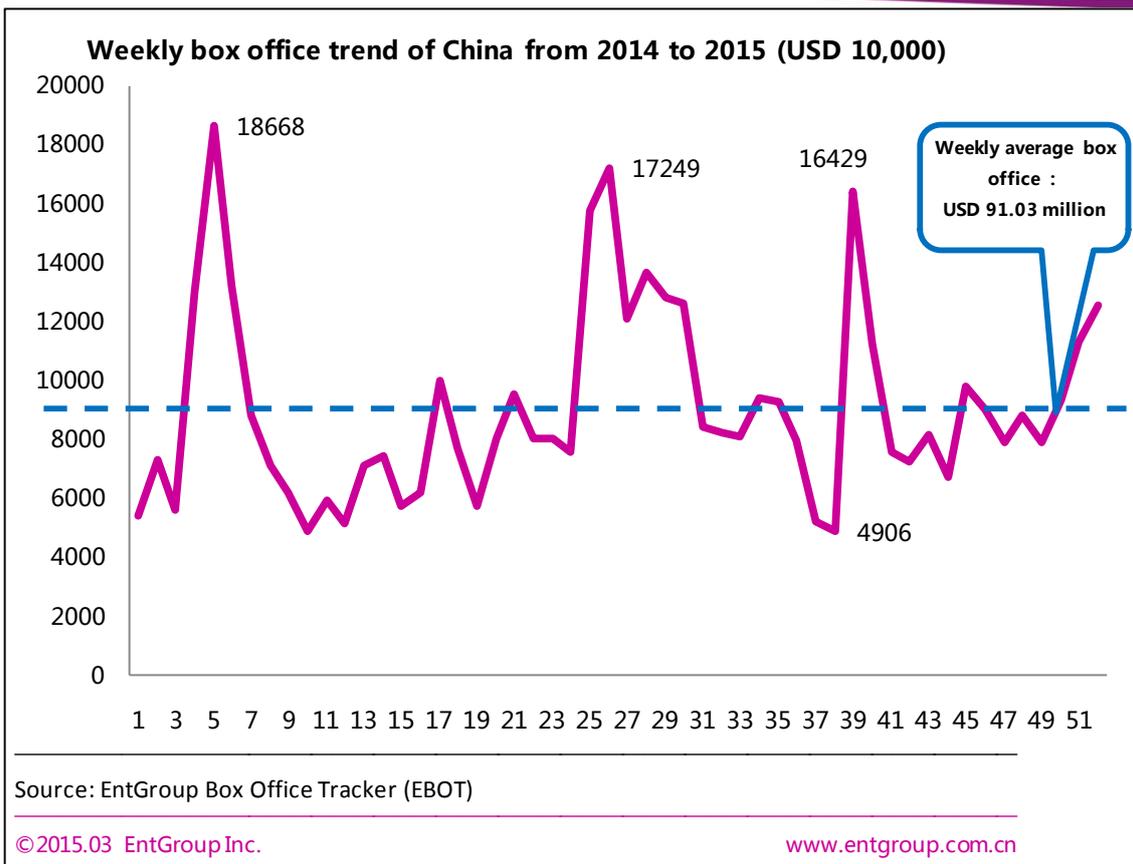


Figure 7- 3: Weekly box office trend of Chinese films from 2014 to 2015 (USD 10,000)

### 7.1.3 Analysis of schedule characteristics in 2014

EntGroup currently adopts the standard of 13 schedules, in which a total box office of USD 2.799 billion was achieved, accounting for 59% market share. Except Spring Festival period, Summer Vacation period and New Year period, other schedules are of festival or holiday generally lasting for 1-3 days.

In the summer period lasting for 3 months, the box office of USD 1.448 billion was gained, and the box office champion Transformers 4 occupied 22% market share in box office, which was lower than the box office proportion of champions in other schedules. In the other two major schedules, Spring Festival period and New Year period, the box office of USD 225 million and USD 547 million were achieved respectively, so the three big schedules contributed the total box office of USD 2.236 billion, accounting for 47% market share, while the rest 10 schedules contributed 12% box office. Currently, the schedules in China show a polarization trend, and Spring Festival period, Summer Vacation period and New Year period have relatively high maturity and market concentration ratio. The National Holiday period of 2014 contributed the box office of USD 174 million, but Breakup Buddies alone occupied 60% market share in box office. Such characteristic to some extent indicates the National Holiday period has not formed specific characteristics.

Results of film distribution by schedule in 2014 show that domestic films defeated imported films slightly by the ratio of 7 to 6. Imported films were mainly distributed in March to September as Spring Festival period and New Year period have distinctive Chinese characteristics. In consideration of consumption mentality of Chinese audiences, imported films were distributed in

such schedules to avoid intense competition.

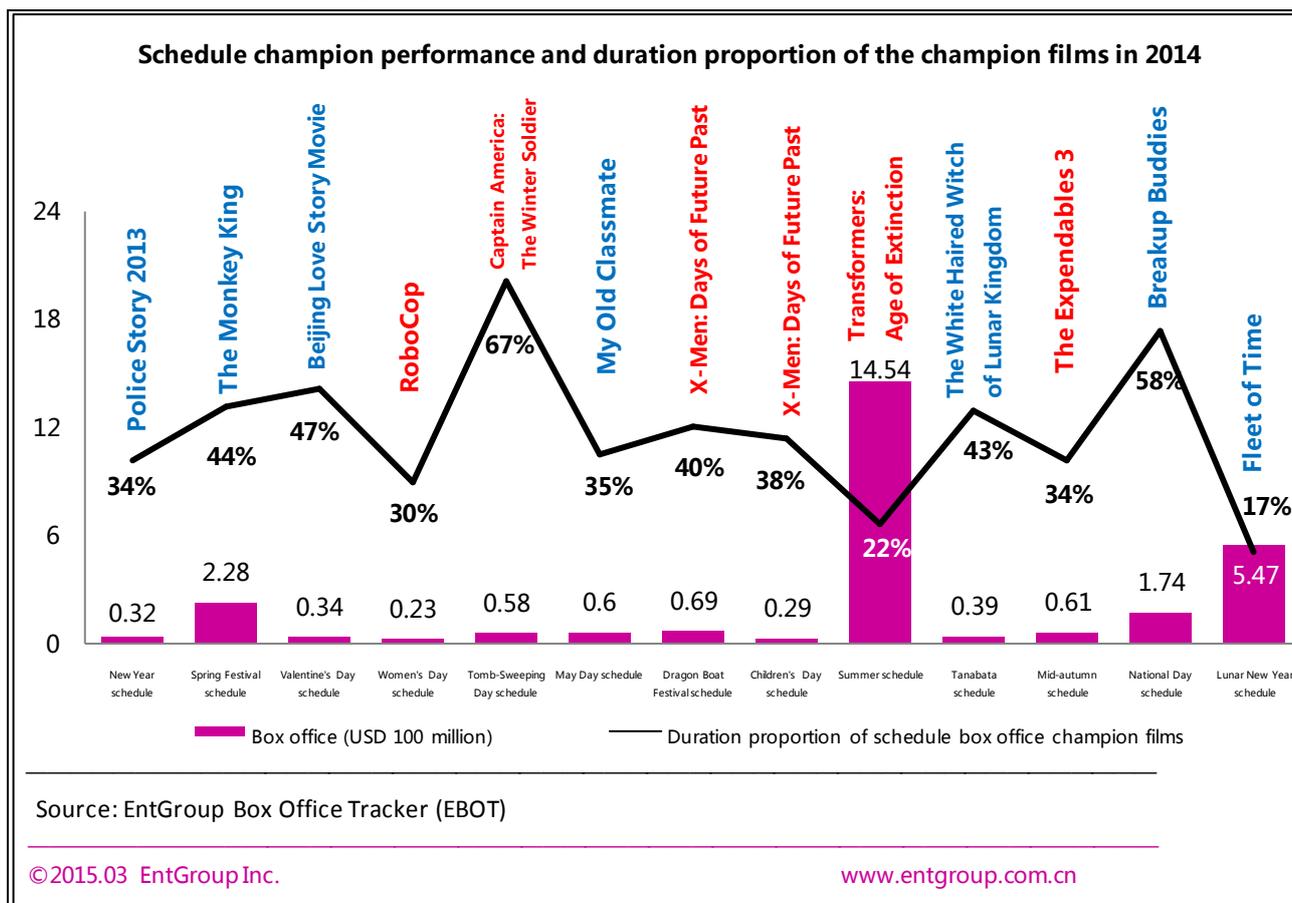


Figure 7- 4: Schedule champion performance and duration proportion of the champion films in 2014

## 8 Import and export of overseas copyright

### 8.1 Import of overseas copyright of China's film market in 2014

#### 8.1.1 Summary of box office of imported films in 2014

Imported films can be divided into revenue sharing films and buyout films according to the introduction pattern, and the specific categories include revenue sharing films, buyout films, Hong Kong films and Taiwan films. Currently, revenue sharing films are introduced and distributed by China Film Group and Huaxia Film. New policies on imported films were first implemented in 2012, and the upper limit of revenue sharing films increased from 20 to 34. At present, buyout films can be imported by other companies, but the quota should be applied from China Film Group and Huaxia Film.

In 2014, China distributed a total of 74 imported films (including 34 revenue sharing films reaching the upper limit, 34 buyout films, and 3 Hong Kong films and Taiwan films), a slight increase than 69 in 2013, mainly because of the increase of buyout films by 8 or 30.8%.

The box office of buyout films through the year accounted for 12.12% of the total box office revenue of imported films, and the box office revenue of revenue sharing films accounted for 86.46% of the total. It can be seen that the box office revenue of

revenue sharing films is far larger than that of buyout films, mainly because that revenue sharing films are superior to buyout films in both content quality and promotion and distribution. There were a total of 6 Hong Kong films and Taiwan films, but the total box office revenue was only USD 9 million. Category diversity and cultural exchange role are more considered for importing such films, and more attention should be paid to the commercial value.

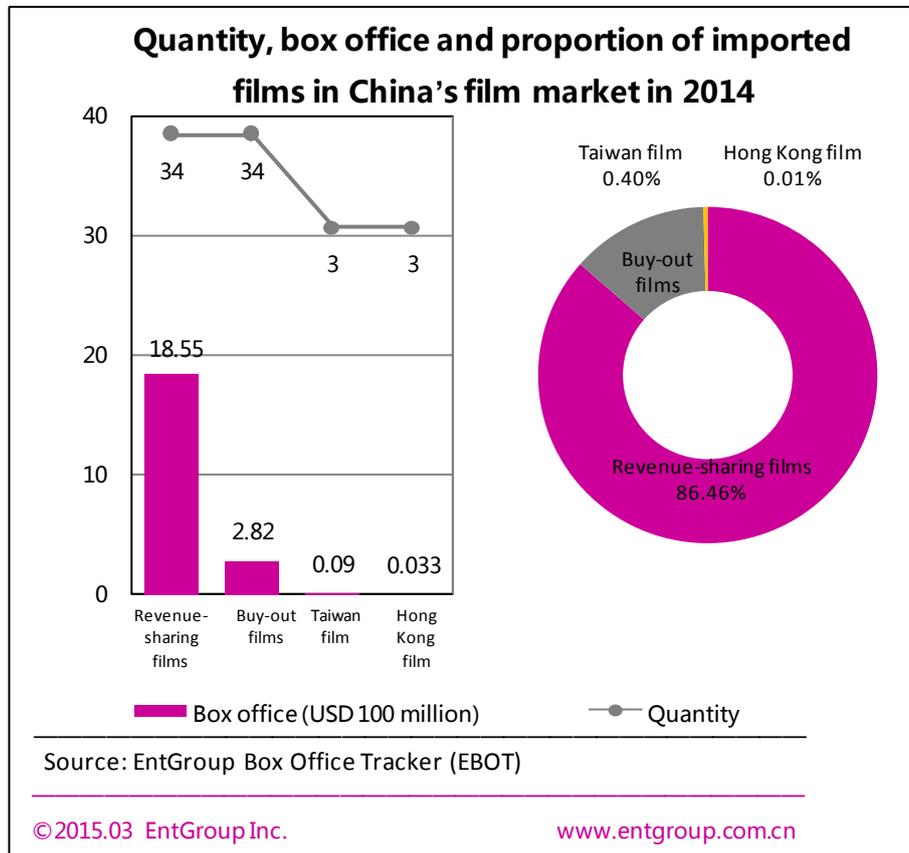


Figure 8- 1: Quantity, box office and proportion of films imported by China in 2014

## 9 International film market

### 9.1 Overview of global film industry in 2014

#### 9.1.1 Analysis of global box office revenue in 2014

In 2014, global film box office revenue decreased by 3% year on year, mainly because of the center shift of global film market growth and the ongoing transition of staged deceleration. In the next few years, the global film box office will increase by 5% on average, and a high growth rate may appear.

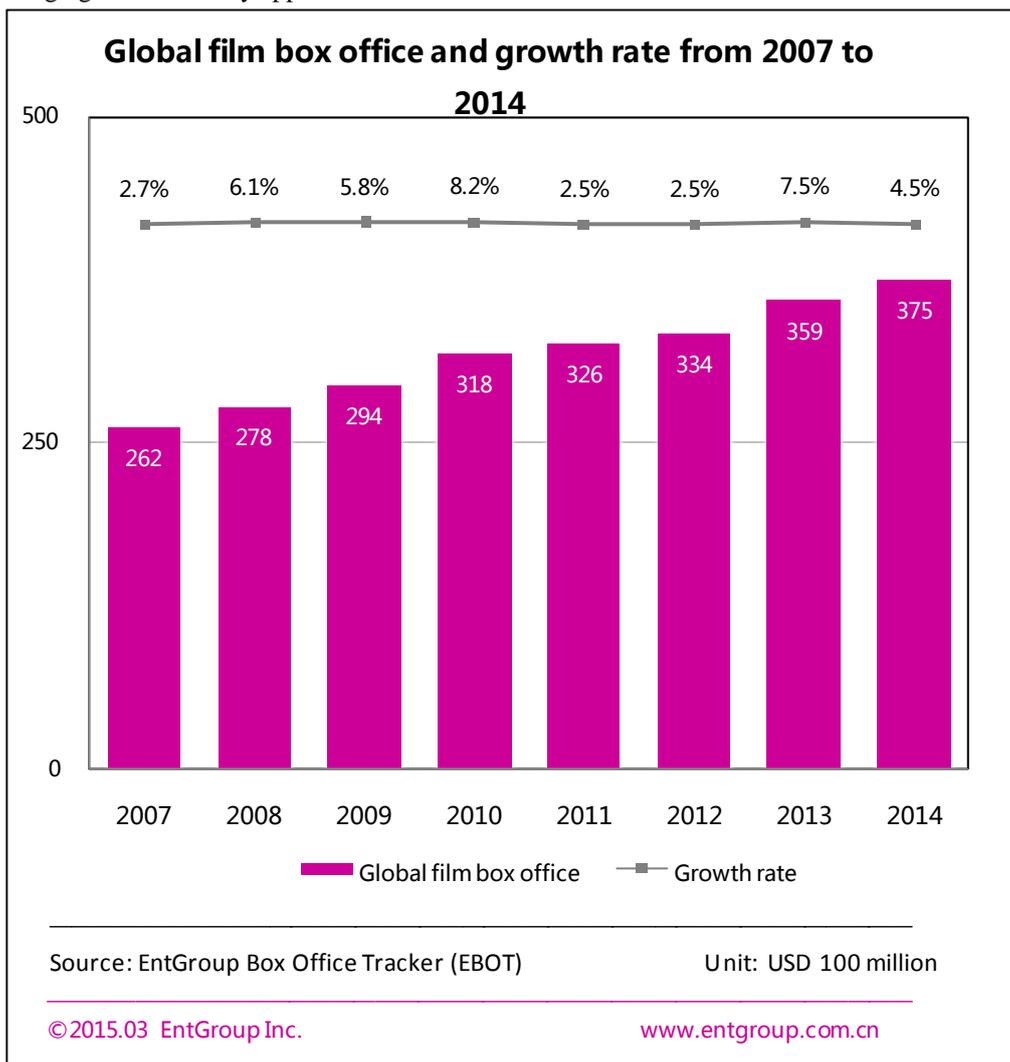


Figure 9- 1: Global film box office and growth rate from 2007 to 2014

In 2014, Asia, Western Europe and North America were still the important box office markets in the world. China's box office accounted for more than 10% of the global, an increase of 2.5% over 2013; correspondingly, the market share of North America decreased by 2.7% from 30.4% in 2013, indicating its market share was further diluted; the gap of box office between China and North America narrowed from 20.4% in 2013 to 15.2% in 2014, but the box office of China was still less than half that of North America.

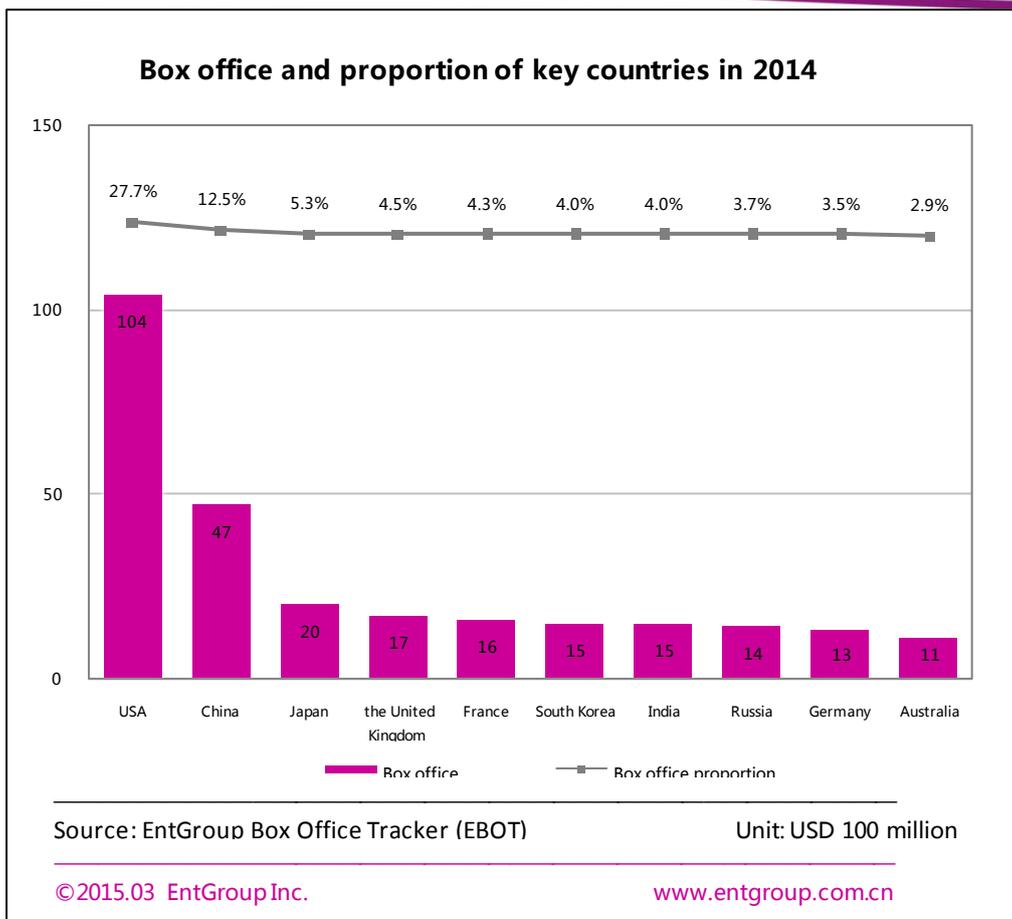


Figure 9- 2: Box office and proportion of key countries in 2014

## 9.2 Overview of the film industry in North America in 2014

### 9.2.1 Performance of North American film market in 2014

#### ➤ Box office

After a negative growth of box office in 2011, North America's film box office decreased by 5.5 percentage points in 2014, continuing the decline tendency after 2013, and making the expectation of USD 11 billion box office end in naught. Slow increase or decrease will become a characteristic of North America's box office market in the next years, mainly because of the sluggish growth of audiences, pressure of high ticket price, share by other distribution windows, bad performance of sequel and the global distribution problems, etc.

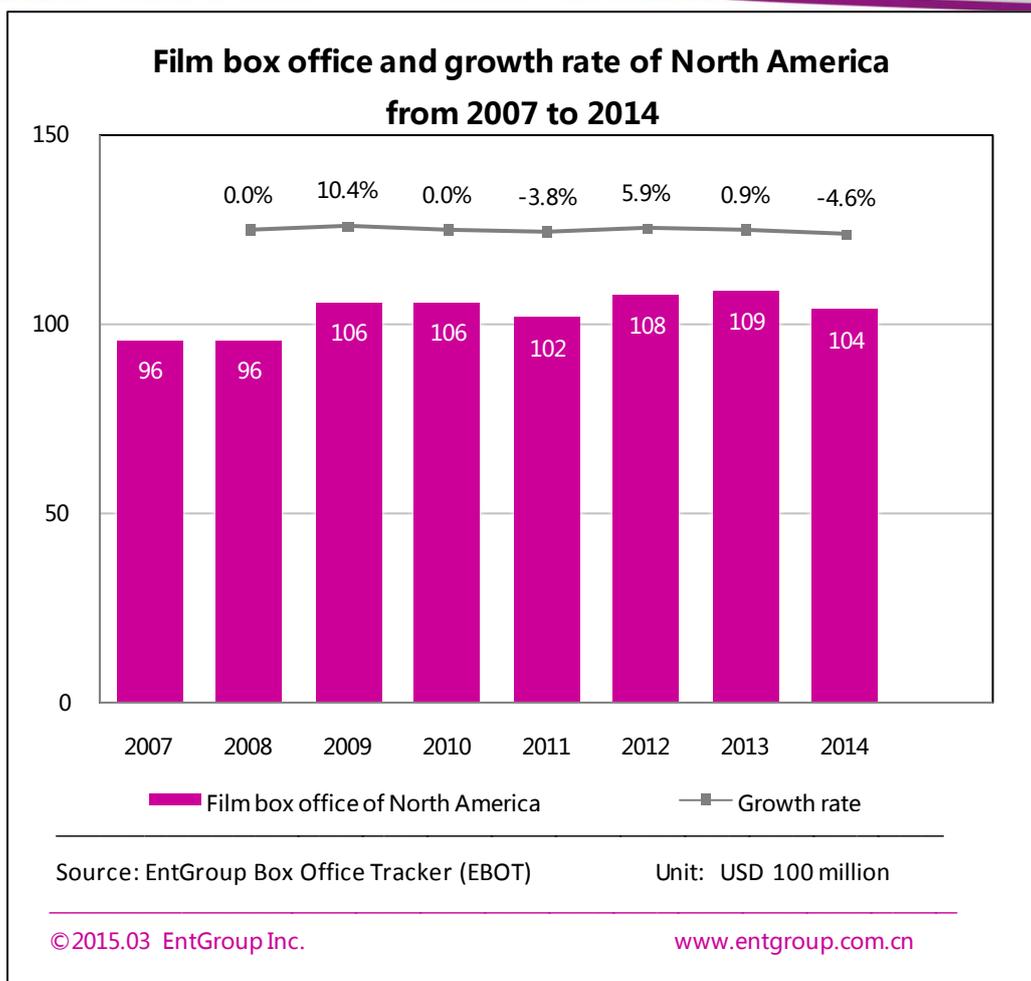


Figure 9- 3: Box office and growth rate of North American films from 2007 to 2014

➤ Man-times and average ticket price

From 2007 to 2014, the film-watching man-times of the North America decreased on the whole. The average man-times reduced from 3.84 in 2007 to 3.6 in 2014, a decrease of 6.7%. Conversely, the average ticket price during this period increased slowly, with a compound growth rate up to 2.4%. In 2014, the film-watching man-times in North America decreased by 90 million, and a total of USD 0.73 billion box office revenue was diluted based on the average ticket price in 2014. Besides, North America's film market declined also because of the shortened interval of online distribution and the increase of home theater revenue.

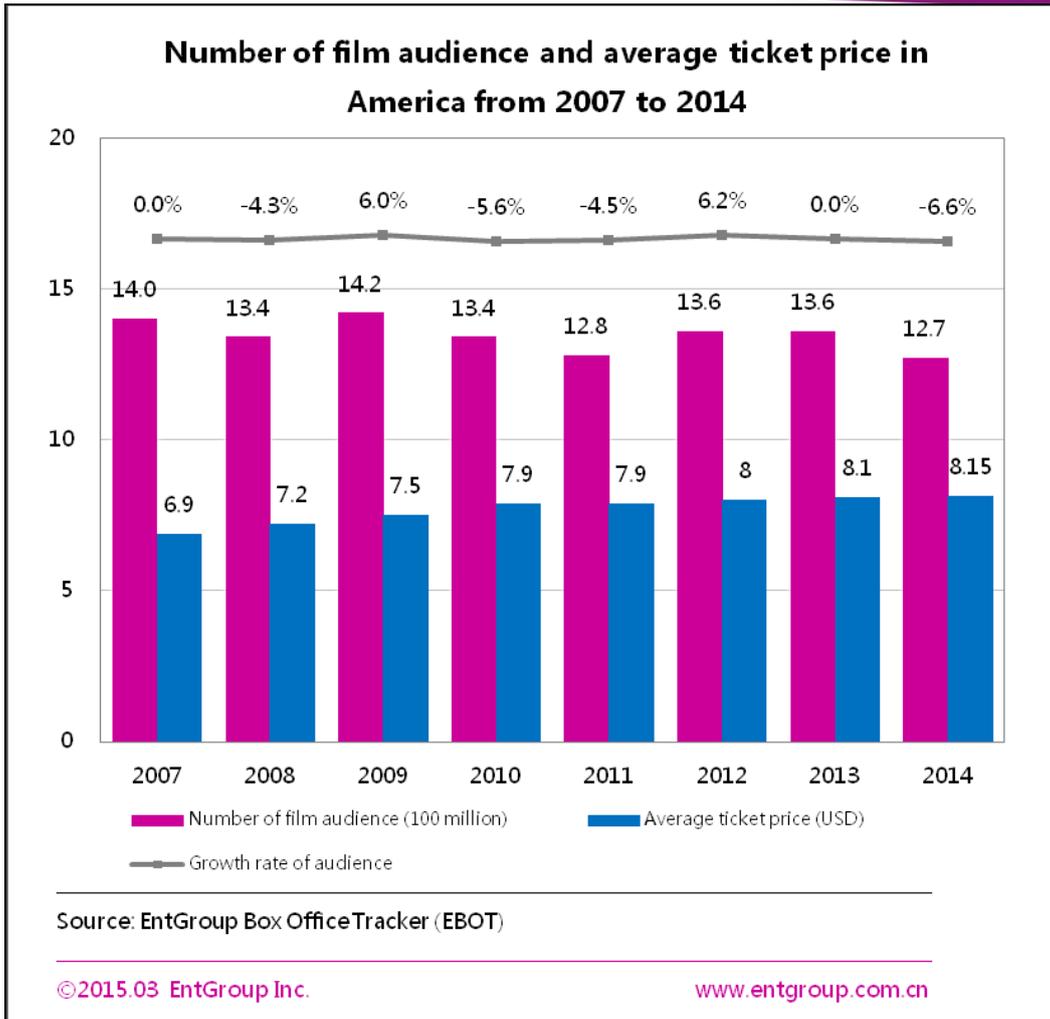


Figure 9- 4: Number of film audiences and average ticket price in America from 2007 to 2014

# Appendix

## Table of Contents

- I Research Background
- II Scope of Research
- III Methodology
- IV Definitions
- V Body of the Report
  - 1 Overall Situation Analysis of China's Film Industry in 2014
    - 1.1 Environment analysis of China's film industry
      - 1.1.1 Policy environment: Diversified policy support boosted leapfrog growth of the film & TV industry
      - 1.1.2 Economic environment: capital participation upgraded, Internet renovated the film & TV industry chains
      - 1.1.3 Social environment: audiences grew rapidly, youths born after 1990 became the major force
      - 1.1.4 Technical environment: overseas post-production teams entered China and sped up the development of domestic high concept films
    - 1.2 Analysis of China's film box office market
      - 1.2.1 Total box office revenue of Chinese films
      - 1.2.2 Comparison of domestic and imported films in box office income
      - 1.2.3 Copyright revenue of Chinese films
  - 2 Study of China's Film Production Industry in 2014
    - 2.1 Overview and analysis of China's film production in 2014
      - 2.1.1 Total production volume of Chinese films in 2014
      - 2.1.2 Analysis of China's film genres in 2014
      - 2.1.3 Analysis of domestic VS imported films for 2014
      - 2.1.4 Analysis of China's special films in 2014
      - 2.1.5 Market analysis of China's co-production films in 2014
    - 2.2 Analysis of China's film entities in 2014
      - 2.2.1 Market share of China's film entities in 2014
      - 2.2.2 Performance concentration ratio of China's film entities in 2014
      - 2.2.3 Competition status of China's film entities in 2014
    - 2.3 Development trend analysis of China's film production industry
      - 2.3.1 Film & TV companies created a wave of M&A with the intent of cross-over extension and internetization
      - 2.3.2 Involvement of Internet companies in the film & TV industry changed the film & TV industry chain

- 2.3.3 IP upgrade is expected to speed up serialization and branding of domestic films
- 3 Study of China's Film Distribution Industry in 2014
  - 3.1 Overview of China's film distribution market in 2014
    - 3.1.1 Distribution market share of China's film enterprises in 2014
    - 3.1.2 Concentration Ratio Analysis of China's film enterprises' Distribution performance in 2014
    - 3.1.3 Market subject analysis of China's film distribution industry in 2014
  - 3.2 Marketing and distribution of Chinese films in the Internet age
    - 3.2.1 Overview of online film marketing
    - 3.2.2 Analysis of typical online film marketing company
    - 3.2.3 Development stage and characteristic analysis of Chinese online film marketing
  - 3.3 Analysis of Chinese film distribution trend
    - 3.3.1 E-commerce of film tickets penetrates deeply into film promotion and distribution sector
    - 3.3.2 Online theater chain initiates online distribution of Chinese films
    - 3.3.3 Film marketing through mobile terminals intensified
    - 3.3.4 Ground network distribution competition accelerates integration of distribution companies
    - 3.3.5 Emergence of the Wuzhou distribution mode
  - 3.4 Marketing model and case analysis of Chinese films in 2014
    - 3.4.1 Breakup Buddies--- Internet marketing experiment with e-commerce playing a leading role
    - 3.4.2 Transformers: Age of Extinction --- strongly advocated cross-over marketing
    - 3.4.3 The House That Never Dies --- Radioactive spreading of subject marketing
    - 3.4.4 Gone with the Bullets --- hunger marketing, overdone is worse than undone
    - 3.4.5 Fleet of Time- emotional marketing hit the resonance point
    - 3.4.6 One Hundred Thousand Bad Jokes --- IP marketing plus fan economy
- 4 Study of theater chains of China's film projection industry in 2014
  - 4.1 Overview of China's film theater chains in 2014
    - 4.1.1 Market overview
    - 4.1.2 Dimensional analysis
    - 4.1.3 Concentration ratio analysis
  - 4.2 Analysis of theater chain market in 2014
    - 4.2.1 Market characteristics of China's theater chain
    - 4.2.2 Market performance of China's film theaters
  - 4.3 Analysis of typical theater chains
    - 4.3.1 Dadi Theater Circuit
    - 4.3.2 Wanda Cinema Line

- 4.3.3 Omnijoi
- 4.3.4 Sichuan Pacific
- 4.4 Development trend analysis of China's theater chains
  - 4.4.1 With listing of the first stock of theater chain was listed, chain concentration is further accelerated
  - 4.4.2 Online theater chains are coming into play, while film entities are expanding video broadcasting channels
  - 4.4.3 Theater chains participate in content production and bind relevant parties of the industry chain
- 5 Study of theaters of China's film projection industry in 2014
  - 5.1 Overview of China's film theater development in 2014
    - 5.1.1 Development of theaters and screens in China in 2014
    - 5.1.2 Development of digital projection screens in China in 2014
    - 5.1.3 Development of 3D screens in China in 2014
    - 5.1.4 Development of IMAX screens in China in 2014
    - 5.1.5 New technology development of China's theaters in 2014
  - 5.2 Overview of China's theater market in 2014
    - 5.2.1 Box office distribution of different grades of theaters in China in 2014
    - 5.2.2 Operation efficiency analysis of China's Top 100 theaters in 2014
    - 5.2.3 Analysis of top 100 box office theaters in China in 2014
  - 5.3 Study of e-commerce development of China's theaters in 2014
    - 5.3.1 Analysis of e-commerce development of China's theaters
    - 5.3.2 Scale of China's online ticket selling market in 2014
    - 5.3.3 E-commerce development trend of China's theaters
  - 5.4 Analysis of development status of China's theaters
    - 5.4.1 Theater construction level declines, driving non-first-tier film watching growth potential
    - 5.4.2 High commercial value of member data, and differentiated brand competition
    - 5.4.3 Internet penetration speeds up, and online and offline interactive film watching becomes a new trend
- 6 Thematic research: Study on BAT's entry into the film & TV industry
  - 6.1 OVERVIEW OF BAT'S EXPANSION AND CHARACTERISTICS
    - 6.1.1 Environment for the expansion
    - 6.1.2 Overview of the expansion
    - 6.1.3 New strategic expansion models
    - 6.1.4 Results of the expansion: BAT-involved box office performance
  - 6.2 ANALYSIS OF BAT'S FILM UNITS
    - 6.2.1 Analysis of Baidu's entry into the film & TV industry
    - 6.2.2 Analysis of Alibaba's entry into the film & TV industry

- 6.2.3 Analysis of Tencent's entry into the film & TV industry
- 6.3 Future influence of BAT on the film industry
  - 6.3.1 Innovation in industry chain links
  - 6.3.2 Release of pre-and post-industry value chain
  - 6.3.3 Accelerate internetization and industry integration of film & TV companies
- 7 Study of China's film schedule in 2014
  - 7.1 Analysis of monthly film market in 2014
    - 7.1.1 Monthly box office champion in 2014
    - 7.1.2 Monthly box office trend of Chinese Mainland in 2014
    - 7.1.3 Analysis of schedule characteristics in 2014
  - 7.2 Analysis of China's key schedules in 2014
    - 7.2.1 Analysis of summer schedule characteristics
    - 7.2.2 Analysis of characteristics of National Holiday period
    - 7.2.3 Analysis of characteristics of New Year period
  - 7.3 Analysis of other schedules of China's film market
- 8 Import and export of overseas copyright
  - 8.1 Import of overseas copyright of China's film market in 2014
    - 8.1.1 Summary of box office of imported films in 2014
    - 8.1.2 Characteristics of imported film market in 2014
- 9 International film market
  - 9.1 Overview of global film industry in 2014
    - 9.1.1 Analysis of global box office revenue in 2014
  - 9.2 Overview of the film industry in North America in 2014
    - 9.2.1 Performance of North American film market in 2014
    - 9.2.2 Analysis of rankings and distribution companies of films projected in North America
- List of Figures
- List of Tables

## Company profile of EntGroup

As a leading entertainment industry information consulting organization in China, EntGroup, based on its leading big data solutions, has been focusing on insights into industries and consumers, providing data, research consulting service, media conference and other products, and serving enterprises of film & TV, new media, entertainment marketing, etc.

## Business scope

EntGroup has developed substantial industry solutions based on mass operating data and researches on consumers, and has served hundreds of clients from the fields of film and TV entertainment, video, new media, cartoon game, advertising marketing, publishing media, financial investment, government association and so on, thus accumulating abundant customer service experience and cases. EntGroup also operates the entertainment industry economy portal (entgroup.cn), Annual Culture and Entertainment Meeting in China and other brand conferences.

Website of EntGroup: <http://www.EntGroup.cn/>

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