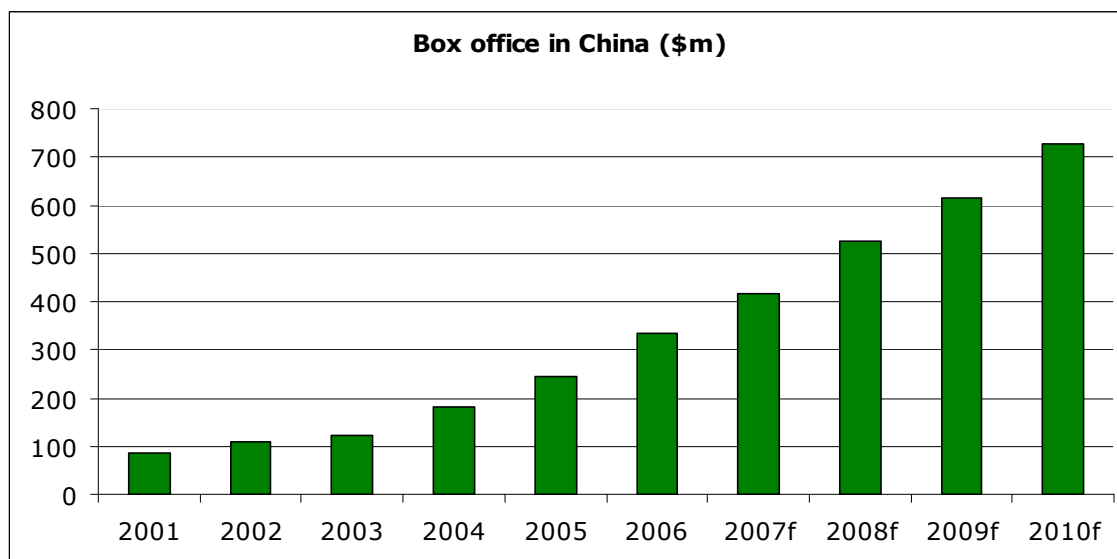




Cinema in China: opportunities and obstacles ***Box office to double in China by 2010***

London February 1st 2007: The latest research from media analyst Screen Digest's Cinema Division, conducted with leading entertainment research firm Nielsen NRG, concentrates on China. As a market with over 1.3 billion people and one of the world's fastest growing economies, China has the potential to become the world's largest cinema and home entertainment market but, as identified in the report, currently has a number of obstacles to realising this potential.

The Chinese film industry has experienced a period of rapid growth since the government began relaxing its regulations in 2001, with box office revenues tripling to \$336m in 2006 as more and more people go to the cinema. Screen Digest forecast that by 2010 these revenues will exceed \$720m. The number of modern, or silver, screens will increase in line with the revenue growth – almost doubling from 2,940 in 2005 to 5000 in 2010.



Source: Screen Digest (f=forecast)

The first major obstacle mentioned in the report is that the Chinese government has only partially liberalised the market to allow foreign investment; a full relaxation of restrictions is going to be a crucial part of realising the potential of the market. Warner Bros International Cinemas invested heavily in China when it entered in 2003 only to pull out three years later having conceded the battle against the challenges of government control and investment regulations. However, on the flip side, the relaxation of restrictions has allowed the Chinese film production industry to

experience a boom, and China is now the third-largest film producer in the world, after India and the USA.

Piracy at 95%

The second key obstacle for film producers and distributors in China is piracy. Estimates put Chinese video piracy rates at 95% at the end of 2005, a major challenge for any company trying to make a profit from film. Major Western film releases are often available to the home movie fan a month before they've been released, at far less than the relatively high cost of going to the cinema. Pirated copies of *Memoirs of a Geisha* were available in China in December 2005, over one month before the film was supposed to be released although in the event the government did not allow the film in.

China's "Cinema Class"

A third obstacle is that the majority of Chinese never visit a cinema, or even have access to one. The report has identified a "Cinema Class" of urban, middle class consumers who can afford the high ticket prices of 30 to 80 Yuan for a standard seat and 120 Yuan for a VIP seat (approx \$3.50-\$10 and \$15), some of whom go to see a film at one of China's new modern cinemas on average seven times a year. This group is currently estimated to represent only 19% of the population, yet the appetite for films across the entire Chinese population is potentially huge. If the average number of cinema visits per person in China was increased from 0.14 times a year where it currently stands, to one a year, China would be the third largest market for cinema in the world, after USA and Japan.

Screen Digest's Senior Cinema Analyst, David Hancock, who led the report, says "Rampant piracy means every new film release is available to buy on the street at a fraction of the cost before it reaches the cinema theatre. High ticket prices mean the thrill of experiencing one of the new multiplexes isn't enough to get the average worker to spend a significant proportion of their monthly salary at the box office. To reach anything like a mass market, China is going to need more cinemas across the country, not just in the major urban centres, and significantly lower ticket prices."

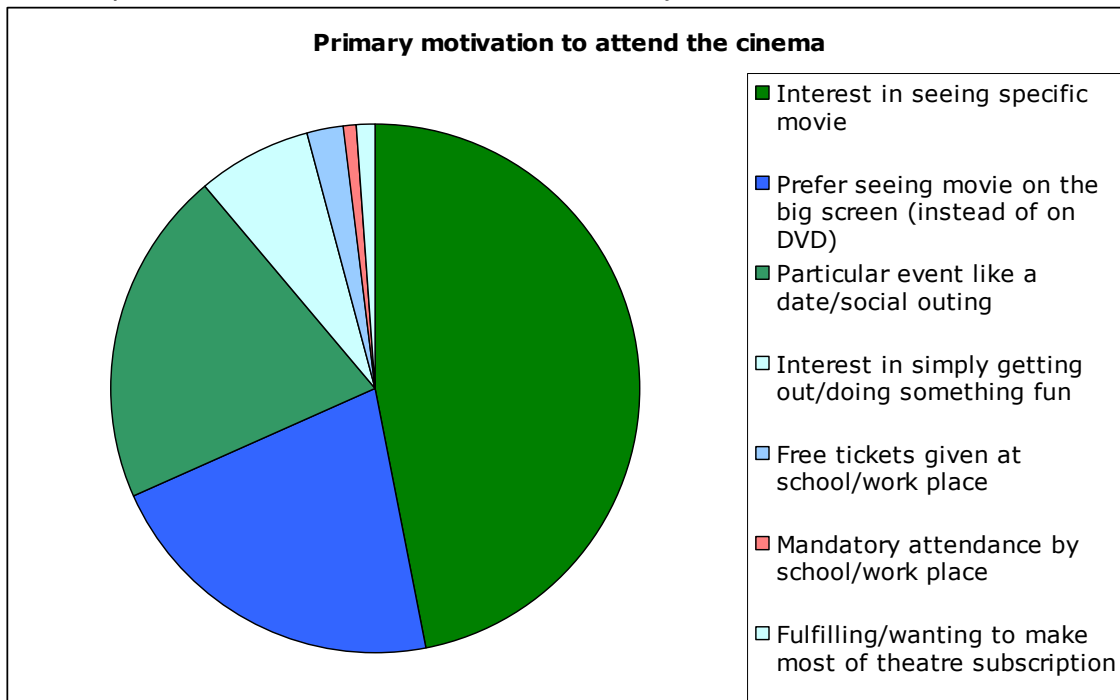
The opportunities

Screen Digest points to the efforts that are being made to increase cinema visits in China. Firstly, with the increasing introduction of digital cinemas, costs will drop, taking ticket prices down with them. This will encourage more people to choose to visit the movies. Secondly, in the light of the boom in Chinese film production, the government is supporting a strategy to bring cinema to both the rural Chinese and also even more urban areas to help the industry expand. Thirdly, original consumer research carried out by research firm Nielsen NRG underlines how today's Chinese cinema-goer consumes film, and highlights some positive signs for the industry overall. As Henry Piney, Managing Director, International, Nielsen NRG says "This is the most extensive piece of research into the Chinese cinema-goer that we have carried out. It not only suggests that there is a demand for a variety of films, but highlights the opportunities presented by having the new multiplexes expand across the country".

Understanding the Chinese movie consumer

Screen Digest worked with Nielsen NRG who carried out primary research with urban Chinese cinema-goers for this report. The results showed some interesting differences from Western audiences.

- Half of the survey respondents spend at least 36 Yuan (\$4.60) a month at the cinema in a country where the average hourly rate of pay is \$2.40
- Unlike in the West, where seeing a film is often a last-minute decision, 42% of Chinese plan their trip a week in advance. Younger people, aged 16-20 were the most spontaneous in their decision making and were more influenced by in-cinema marketing
- It is the desire to see a specific film that motivates almost half (46%) of all cinema visits, followed by 21% who want to experience the big Western-style multiplex screens. Very few film fans see visiting the cinema as a social event, with only 20% going with friends or on a date
- Comedy is the most popular genre, especially romantic and action comedies
- The majority of respondents (42%) had no preference for either a Western or Chinese film
- 30% said they preferred Western films because they have better production values, better special effects and are more creative
- 18% said they preferred Chinese films. This was mainly young men who base their preference on their local humour and storylines.



Source: Nielsen NRG/ACNielsen

Hancock concludes “This report is the first time that Screen Digest and Nielsen NRG have collaborated to bring a unique insight into both the market conditions, regulatory advances and consumer behaviour of what could be one of the major global media markets over the next decade. The consumer research underlines the potential of China, however, investment in this market needs to be seen as a long term strategy given the possible pitfalls along the way”.

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About this report

The data and analysis from this press release is taken from the new Screen Digest report, *Cinema and Home Entertainment in China* by David Hancock and David Scott at Screen Digest and Steve Corbett and Henry Piney at Nielsen NRG. The Nielsen NRG/ACNielsen China consumer survey was carried out with targeted respondents who were regular cinema-goers (i.e had been at least once in the last six months) aged 16-34. Research was conducted online in major cities of Shanghai, Beijing and Guangzhou. These people are part of the "Cinema Class" as identified in the report.

About Screen Digest - Global media intelligence

Screen Digest is the pre-eminent firm of industry analysts covering the global media markets. We employ a team of 30 specialist analysts covering television, broadband, mobile, home entertainment, cinema and gaming. With our unrivalled network of contacts within the media industry we have the information and provide the analysis that hundreds of media companies base their decisions upon.

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About Nielsen NRG

Nielsen NRG is the film industry's leading research agency, incorporating over 25 years of experience in informing production, marketing and distribution strategies for both studios and independents. As a VNU company, and as part of Nielsen Entertainment, NRG brings to bear both international reach and understanding across media, including specialised units focusing on television, interactive entertainment and new distribution outlets such as video-on-demand.

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