



**PRC Telecoms, Media & Technology Law Newsflash
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**STATE ADMINISTRATION FOR RADIO, FILM AND TELEVISION RESPONDS
TO BOX OFFICE INFLATION**

Introduction

The State Administration of Radio, Film and Television (**SARFT**) has indicated its intention to monitor and regulate more closely the reporting of box office receipts from films shown in China. This move was announced last week during an interview with Sina.com by the official in charge of the Market Administration Office of the SARFT's Film Bureau. It comes after a number of film producers and distributors were discovered to be boasting about the box office success of their films for promotional purposes – while at the same time, actual box office takings are often under-reported by cinemas.

It is important that box office revenue is accurately measured. Not only is the accuracy of such amount crucial for the return of investment to film producers and investor, it also affects the basis used to calculate the business tax and film fund contributions payable by Chinese cinemas. (The latter being mandatory contributions required by law, used by the government to fund various initiatives ranging from the production of domestic films to the improvement of film-related infrastructure.)

This newsletter examines the reasons behind the under-reporting or over-reporting of box office receipts, and proposes some ways in which the SARFT could address both issues.

Reporting of Box Office Receipts

Cinema Payment Obligations

1. Under Chinese law, cinemas must pay film fund contributions and business tax at a rate of 5% and 3% of box office revenue, respectively. The amount of funds or tax that a given cinema must pay is calculated using official statistics gathered by the SARFT. Where no such statistics are available, the amount of box office receipts reported by cinemas forms the calculation basis.

Film producers and distributors, on the other hand, generally have no obligation to pay business tax based on box office receipts from cinemas, or to contribute to the film fund. They can therefore boast about their box office success at no additional cost.

Problems with Official Statistical Data

2. The exaggeration of box office receipts by producers and distributors is possible due to 2 key problems with box office statistics in China: delayed reporting and incomplete data.
 - (a) The China Film Newspaper, managed by the SARFT, publishes official weekly box office statistics for films shown in leading cinemas around the country. However, this data is only available on the afternoon or evening of the Monday after the week during which a film is screened. This provides a window of time for distributors and producers to publicise their own statistics in an effort to promote the film and boost the crucial weekend box office.
 - (b) The SARFT's official statistics on box office receipts are compiled using its computer network, which is connected to cinemas' ticketing systems. However, these statistics are incomplete for a variety of reasons:
 - Some cinemas, mainly small or old ones, either have no computerised ticketing system or seldom report their box office receipts data through such SARFT system.
 - Auditoria and clubs in local communities, schools and factories tend to screen rented films rather than entering into revenue-sharing agreements with film producers or distributors. These venues similarly have no computerised ticketing systems and seldom report accurate box office receipts to the SARFT's local bureaus.
 - Films that are screened throughout China's vast countryside are also beyond the reach of the SARFT's network. In some cases, the screening of these films is also freely sponsored by the government.
 - As above mentioned, when official statistics are not available, it is the box office data reported by cinemas or other film screening entities that is used as the basis for calculating film fund and business tax obligations. Such reported data is also used to determine each party's entitlement in revenue sharing arrangements among cinemas, film producers and distributors. Therefore, the cinemas and other screening entities tend to underreport the actual amount of their box office receipts, in order to reduce costs.

Analysis

3. To benefit their respective interests, film producers and distributors tend to boast about box office receipts, whereas cinemas do precisely the opposite. Nevertheless, timely, truthful and complete box office statistics are beneficial for the whole film industry - including film producers and distributors, who will thereby obtain a better understanding of the film market, and a more accurate means of analysing their future investments.
4. To benefit their own interests, a few film producers and distributors also randomly monitor in person the box office receipts from their films in local cinemas to counter the cinemas' under-reporting of the same. However, such exercises are not intended to convince the public of the accuracy of the resulting statistics; nor are they sufficient to correct the under-reporting by cinemas on the whole.
5. The SARFT is therefore deliberating how to publicize statistics of box office in a timely and accurate way in the near future. In the meantime, we believe that the under- or over-reporting of box office receipts could be minimized as follows:
 - (a) The SARFT could legislate to ensure that more, if not all, cinemas nationwide install a computerised ticketing system connected to the SARFT's monitor network as soon as possible.
 - (b) The SARFT's own network should be updated, in order to enable the instant reporting of box office statistics. This should preclude film producers and distributors from taking advantage of the time-lag to boast about unofficial box office revenues.
 - (c) Where a computerised ticketing system is unrealistic or disproportionately costly to install (such as in secondary venues and the countryside), the SARFT could introduce more detailed requirements for the timely and truthful reporting of box office revenue. However, the enforcement of these new rules would be critical to their success.
 - (d) The China Film Distribution and Screening Association reportedly is considering the introduction of industry standards for box office reporting. These would include the "Standards and Principles for the Self-Regulation of the Chinese Film Distribution and Screening Industry". The Association is the most influential one in the domestic film industry, and its members include all the key players. Therefore, any standards it introduces will have a significant impact. If the SARFT endorses them, it could greatly facilitate the accurate reporting of statistics.
 - (e) As specialised entities and experts in gathering information, professional

data collectors could also monitor box office receipts in a more timely manner than the SARFT - as they do in the U.S. film industry, for example. This could work well in China, if the companies in question are officially sanctioned by the SARFT and therefore gain credence. Such professional collectors could also help to reduce the costs to film producers and distributors of verifying the box office receipts from their films in local cinemas.

Conclusion

At present, the SARFT publishes the only box office statistics available; and these statistics are untimely and incomplete. Although the SARFT has announced its intention to address this issue, we believe that it is probably unrealistic to rely on legislation alone to provide a solution.

Introducing independent, third party data collection services would be more effective and help to build a healthy film industry in China. The SARFT's endorsement and support of such services, as well as the related industry standards, and the improvement of its own data collection capabilities, would be indispensable in setting up a sustainable system in this regard.

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