

Market Research Report

China Book Market

ITALIA 
Italian Trade Commission - Ufficio di Pechino

July 2009

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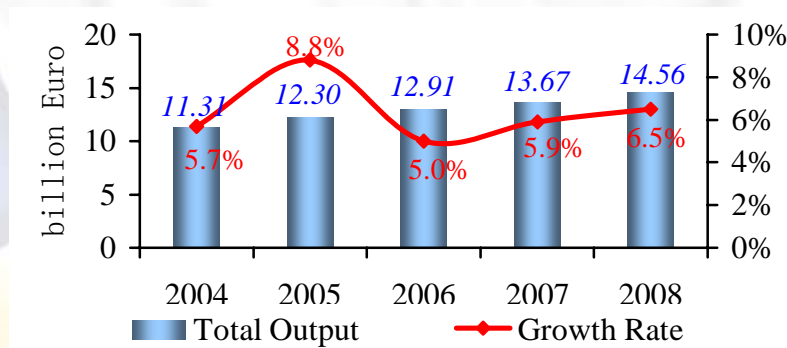
Section A: China Publishing Industry

1. General Overview

Status Quo

- The Chinese publishing industry had in the past been monopolized by the Chinese government, beginning from Y1949, the founding year of the People's Republic of China. The industry has steadily grown since China began its market oriented political and economic reforms of the later Y1970's. Today, China's publishing industry ranks first in the world, with a total output value of Euro 14.56 billion in Y2008.

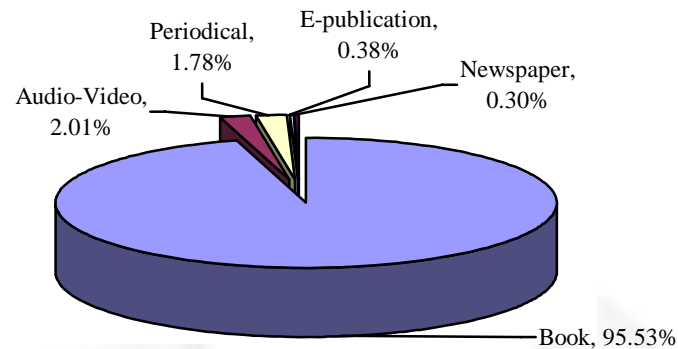
Figure: Total Output Value of Publishing Industry (Y2003-Y2008)



Source: GAPP

- *China's publishing industry grew at a steady average rate 6.38% during the Y2004-Y2008 period.*
- *According to the General Administration of Press and Publication (GAPP), in Y2008 China produced*
 - 15.869 billion copies of books
 - 305 million copies of periodicals
 - 164 million copies of newspapers
 - 265 million copies of audio-video products
 - 31 million copies of electronic publications

Figure: Breakdown of Publishing Industry by Output Value (Y2008)



Source: GAPP

- According to GAPP statistics, the breakdown of the publishing industry has remained static, with segmentation reflecting similar patterns over recent years. Of the total publishing industry output, book output reached EURO 13.91 billion in Y2008, contributing to 95.53% of the total industry.
- An important developing subsector is found in the digital publishing sector, with thousands of new publications and service companies established around the country.

- Despite a steady growth of the industry since China began its market oriented reform and opening towards the outside world, the overall strength and competitiveness of China's publishing industry is still weak.
 - The average quantity of publications taken up by Chinese individuals is actually quite small: per capita volume of buyers has hovered around 5 books per person per year, daily consumption of newspapers is around one paper per ten people, and journals per person per year is only 2.
 - China's publishing exports account for only a small share of the total world publishing export market.
- The publishing industry is one of the last remaining industries for China to open to

the rest of the world, and China is gradually reforming the industry and accelerating the restructuring of the country's publishing system. This growing market-orientation and industry consolidation call for more effective and efficient operation of publishing groups. Since Y2002, many publishing groups have initiated a series of reform programs to improve their competitiveness:

- *Most groups began with business strategy changes including business scope refining, distribution management system adjustment, and human resource and financial reform.*
- *Some groups have tried to separate business operation and management from government administration.*
- *Some groups started to denationalize the property ownership of these publishing groups through the introduction of private and foreign capital into their ranks.*

- Through these business reforms, gross revenue and profit of these domestic publishing groups has continued to grow at more than 10% annually. It is believed that the ongoing restructuring currently occurring in the publishing industry will drive this highly government-controlled industry towards a more market-oriented, liberalized and open sector environment.
- In this way, China is now cautiously opening one of its final, tightly controlled “forbidden zones”, and fulfilling its commitment to the WTO. The publishing industry has thereby become one of the most vibrant and promising industries in China, providing great market potential for overseas publishing interests.

Leading Publishing Groups

- By now the Chinese publishing industry is officially decentralized, composed of 579 publishing houses, including 34 affiliated publishing houses, scattered across most major cities in the country. Among them, 220 are central-level (including 14 affiliated publishing houses) and 359 are local (including 20 affiliated publishing house).
- According to the China Publishers' Association (CPA), there are about 1,000 privately-owned smaller sized publishing companies in the country, which are controlled by or affiliated to these 579 “officially recognized” publishing houses.
- It should be noted that despite the official decentralization of the publishing industry, the largest and most widespread publishing houses and groups are still mostly state-owned.

Top 10 Leading Publishing Groups

Y2008 Rank	Name of Publishing Group	Share by Fixed Price
1	China Publishing Group	6.66%
2	Jilin Publishing Group	3.44%
3	Beijing Publishing House Publishing Group	2.86%
4	China International Publishing Group	2.45%

5	Shanghai Century Publishing House	2.41%
6	Phoenix Publishing & Media Group Co., Ltd	2.18%
7	Zhejiang Publishing Group	1.61%
8	Hubei Changjiang Press Group	1.59%
9	Hunan Publishing Investment Holding Group	1.37%
10	Shanghai Literature and Art Publishing House	1.35%
Total of the Top 10 Publishing groups		25.92%

- *In Y2008, the total market share by fixed price of the top ten publishing groups was 25.92%, a slight increase over that in Y2007. The active titles of those top ten groups reached 177,400, occupying 18.59% of the entire market by titles.*

Case Study: China Publishing Group

- China Publishing Group is the largest publishing group in China, as well as a national large-scale publishing institution, officially established on April 9, Y2004 with the approval of the Central Committee of the Communist Party of China and the State Council, with the view of adapting to the requirement of reform and development of the publishing industry.
- On March 25, Y2004, the State Council authorized the establishment of China Publishing Group Corporation, which is singled out in corresponding national plans, exercising the rights of contributors over its member units and assuming the responsibilities for the maintenance and enhancement of the value of this state-owned asset.

- With China Publishing Group Corporation as its parent corporation, China Publishing Group consists of 12 subsidiaries, namely
 - *the People's Literature Publishing House,*
 - *the Commercial Press, Zhonghua Book Company,*
 - *Encyclopedia of China Publishing House,*
 - *China Fine Arts Publishing Group,*
 - *People's Music Publishing House,*
 - *SDX Joint Publishing Company,*
 - *China Translation and Publishing Corporation,*
 - *Oriental Publishing Center,*
 - *Xinhua Bookstore Head Office,*
 - *China National Publishing Industry Trading Corporation*
 - *China national Publications Import & Export (Group) Corporation,*
 - *Xinhua Publication Group Corporation*

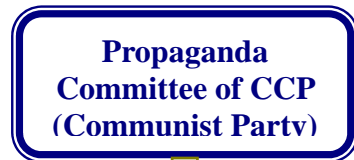
- In addition, the Group includes holding companies, mutual shareholding companies and affiliated companies, such as:
 - *Modern Education Press, China Book Business Report Press,*
 - *Zhongxinlian Corporation,*
 - *Zhongbanlian Corporation,*
 - *Zhongbantong Corporation,*
 - *Zhongbanxin Corporation*

- The annual sales revenues in Y2008 of China Publishing Group amounted to RMB 3.8 billion, representing an increase of 8.6% over Y2007; the total

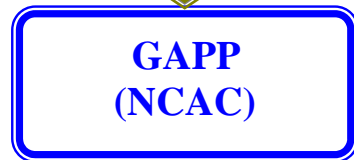
profits are expected to reach RMB 225 million with an increase of 38%; the overall assets and net assets reached RMB 6.34 billion and RMB 2.12 billion respectively.

Institutional Factors

Administrative Bodies



- Directs the development of the publishing industry
- Provides development guidelines, policy and law



- Administrative unit of the State Council
- Regulates and manages the publishing industry



- Implements the regulations by GAPP at local level

- **General Administration of Press and Publication of the People's Republic of China (GAPP)** is the institution directly in charge of the press, publishing and copyright management sectors under the China State Council. Subordinate local

administrative bodies are responsible for regulation, administration and operation of the industry according to GAPP's guidelines.

➤ *National Copyright Administration of the People's Republic of China (NCAC) is a main administrative unit under GAPP, the corresponding administrative body of the industry, and so is subordinately responsible for the regulation, administration and operation of the industry.*

■ GAPP was founded in Y1949, where its scope of work includes:

- *overall planning and implementation of circulation of books, newspapers, audio and video products, electronic publications, printing and publications;*
- *approval of the establishment, business scope and changes to publishing houses, newspaper offices, organizations of printing and circulation, etc;*
- *monitoring and supervision of the press and publishing market;*
- *drafting laws and regulations of publishing and copyright;*
- *participating in the drafting of laws and regulations on copyright protection;*
- *supervising the implementation of copyright laws and regulations and commitments made when China joined the Universal Copyright Convention;*
- *undertaking international exchange and cooperation in relation to the press, publication and copyright.*

■ In recent years, the role of GAPP has changed significantly. The government functions of GAPP have been shifting from business management to industrial regulation and administration. Publishing companies formerly owned by GAPP have been separated from the administration to form the China Publishing Group. The separation principle also applies to local administrative bureaus of press and

publishing at the provincial, municipal, and national level.

- GAPP has promulgated a series of new rules and regulations to support reforms in the publishing industry in China. These policies constitute a fundamental legal framework for China's publishing industry.

Basic Regulatory Framework

Publishing

- Foreign Investment **not allowed**
- PRC Regulations on Management of Publications



Distribution

- WOFE and JV **allowed**
- Measures for the Administration of Foreign-Funded Distributors of Books, Newspapers, and Journals



Printing

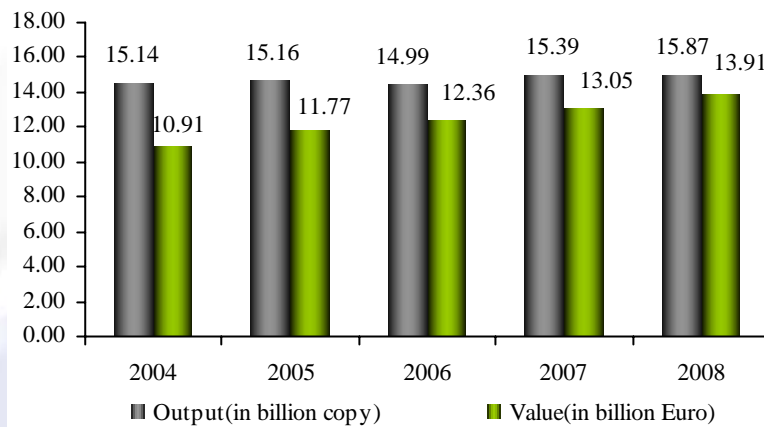
- WOFE and JV **allowed**
- Provisional Regulations on the Establishment of Foreign Invested Printing Enterprises

2. Book Industry Overview

Status Quo

- China's book industry contributes to nearly 96% of the total revenue of the entire publishing industry. The industry has experienced rapid growth since China began its structural reform, and recent years have seen steady and stable development.

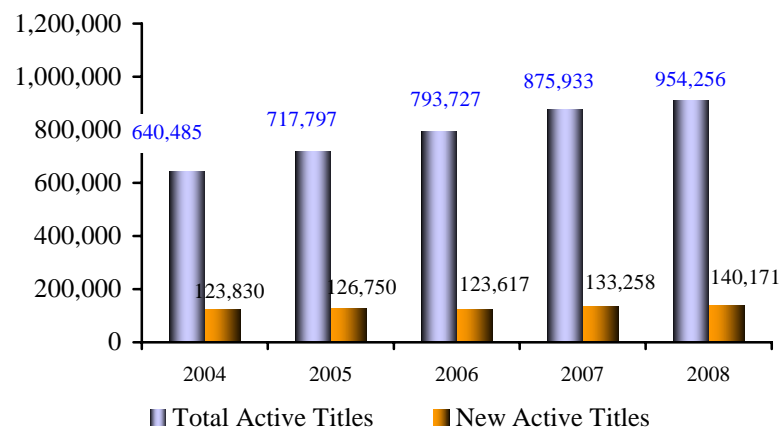
Figure: Total Output of China's Book Industry,
(Y2004-Y2008)



Source: GAPP

- While China's book output fluctuated at around 15 billion copies during Y2004-Y2008, the industry output value has seen steady increases at a growth rate of over 6% year on year.
- Over the past few years, the steady pace of development in China's book industry indicates the particular importance of this segment in the publishing industry, as well as ongoing industry maturity and consolidation.

Figure: Total Active Titles of China's Book Industry (Y2004-Y2008)



Source: OpenBook

- 954,256 titles were published in China in Y2008, an increase of 4.44% over the previous year. Among them, 140,171 were new titles.
- A slight increase of 5.2% in new titles was realized from Y2007-2008, which has turned the negative growth situation of new book titles in Y2006-2007, marking another aspect of China's industry maturation, and a growth in the continuous influx of new and foreign titles.

- A basic category breakdown and industrial-niche standing of the Y2008 China book industry includes:

Segment	By Fixed Price	By Active Title	By Print-run
Industry & Professional	34.38%	43.16%	23.07%
Textbook	20.17%	21.6%	32.3%
Life & Art	7.92%	5.7%	7.14%
Literature (Fiction & Non-fiction)	15.65%	15.87%	12.24%
Children	11.61%	7.33%	17.51%
Language	10.19%	6.34%	7.74%

- *Industry & Professional category changed its fast growth from previous years, mainly due to the obvious decline in Y2008 of the popular economic management and academic culture in Y2007. Conversely, Leisure Life (a subclass of Life & Art), Children, and Cultural segments (a subclass of Life & Art category) continued to grow steadily and act as the main driving force for the retail market in the course of the year.*
- *Overall, the most striking hotspot of the retail market was in the Public Health segment (a subclass of Life & Art category). The annual growth rate of this subclass was up to 26.8%, which was directly related to the best-sellers in the year.*
- *Social Sciences (a subclass of Industry & Professional), Teaching Guidebooks & Materials (a subclass of Textbook), Science & Technology (a subclass of Industry & Professional), and Children's books are still the largest sectors of market scale (with a price proportion of over 10% each), follow by the Language and Life & Art categories, etc.*
- *In Y2007, the price proportion of Science & Technology was 23.3% of the whole market---1% over Y2006. In the meantime, the market scale of Children, Language and Leisure Life categories has increased compared with Y2007.*

■ Breakdown of China's Y2008 new book industry by various market factors reveals:

Segment	Active Title	By Active Title	By Fixed Price	By Print-run
Industry & Professional	71,411	50.95%	41.56%	30.31%
Textbook	20,856	14.88%	10.74%	16.73%
Life & Art	7,558	5.39%	9.08%	8.57%
Literature (Fiction & Non-fiction)	20,706	14.77%	20.16%	17.22%
Children	10,978	7.83%	12.68%	21.99%
Language	8,562	6.11%	5.75%	5.16%
Others	100	0.07%	0.03%	0.01%
Total	140,171	100%	100%	100%

- *From the growth rate of the variety of new books in Y2008, the growth rate of Children's books was the highest, up 22%; language and life & art categories also grew fast with rates above 10%; Social Sciences, having shown the fastest growth rate in Y2007 slowed down in Y2008, dropping below the average market level.*
- *Generally, the growth rate of new book varieties in Y2008 was lower than that in Y2007, indicating why the whole market slowed down to a certain extent-- -upstream publishing organizations have compressed the publishing scale. For the China book market, which is a largely retail-oriented market strongly depending on new books and best-sellers, a heavy impact may be expected from the slowing down of new books.*

Leading Book Publishing Houses

Of the 579 publishing houses, nearly all are involved in book publishing. Market concentration is not high in the book publishing segment; the total shares of fixed price of the top 100 publishing houses occupies only 60% of the whole, indicating fierce, price-oriented market competition.

Y2008 Rank	Name of Publishing Group	Share by Fixed Price
1	China Machine Press	2.41%
2	Foreign Language Teaching and Research Press	2.25%
3	The Commercial Press	2.07%
4	Posts and Telecommunication Press	1.93%
5	Beijing Education Publishing House	1.38%
6	Tsinghua University Press	1.27%
7	Higher Education Press	1.23%

8	People's Literature Publishing House	1.18%
9	Chemical Industry Press	1.16%
10	Publishing House of the Electronics Industry	1.10%
Total of Top 10 Book Publishing Houses		15.98%

- *Total market occupation of the top ten book publishing houses amount to a mere 16% by fixed price.*

Top 10 Leading Children's Book Publishing Houses

Y2008 Rank	Name of Publishing Group	Share by Fixed Price	Share by Print-run	Active Title
1	Zhejiang Juvenile and Children's Publishing House	6.76%	7.1%	2,381
2	21st Century Publishing House	5.18%	5.5%	1,806
3	Shanghai People's Fine Arts Publishing House	4.11%	3.17%	1,323
4	Children's Fun Publishing Co., Ltd	4.02%	3.41%	1,286
5	Jilin Fine Arts Press	3.89%	5.7%	1,476
6	Beijing Juvenile and Children's Publishing House	3.86%	3.33%	1,501
7	Jiangsu Children's Publishing House	2.58%	2.92%	1,464
8	Jieli Publishing House	2.54%	2.5%	902
9	People's Literature Publishing House	2.52%	0.91%	517
10	Anhui Children's Publishing House	2.43%	3.6%	1,542
Total of Top Ten Children's Book Publishing Houses		37.89	38.14	14,198

- *Zhejiang Juvenile and Children's Publishing House ranked first in percentage of total fixed-price, volume and total number of active titles of Children's books. Market concentration in this segment was slightly higher than in the total book publishing space.*

Section B: China Book Market Analysis

1. Domestic Market Overview

Status Quo

- The total sales of books including wholesale, retail and export in Y2008 amounted to a total of EURO 5.40 billion, representing an increase of 11% over Y2004.

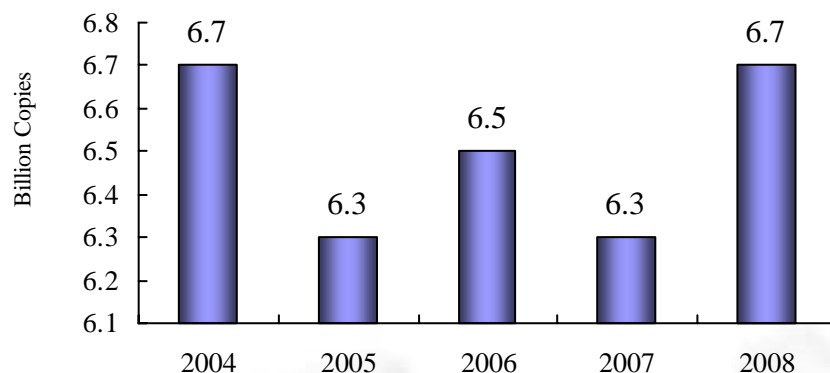
Figure: Total Chinese Book Sales Value
(Y2004-2008, billion Euro)



Source: GAPP

- *The total value of Chinese overall book sales has seen steady and continuous development over the past five years.*
- *Growth rates in sales value have fluctuated, averaging around 3.18% over the Y2004-Y2008 time period, and with a relatively sharp increase in Y2008.*

Figure: Total Chinese Book Sales Volume (Y2004-Y2008)



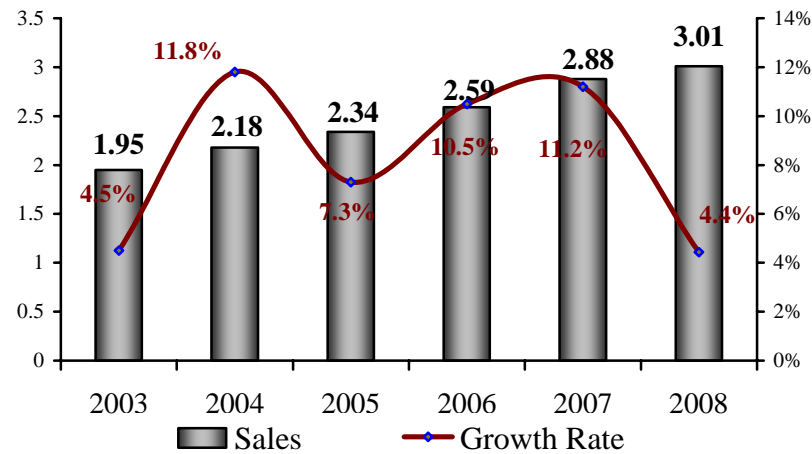
Source: GAPP

- *Conversely, the volume of Chinese book sales has followed a more unsteady trend, showing an even pattern of troughs and crests from Y2004-Y2008.*
- *Market factors ranging from increasing prices in comparison to decreasing book volumes, and greater market factors such as the current global financial climate all have heavy influence on the volume and value of book sales.*

■ **China's retail book market**, which accounts for 55.7% of total book sales or Euro 3.01 billion in value, grew by a mere 4.4% in Y2008, compared to 11.2% in Y2007 (adjusted for inflation).

- *In the gradually marketized book industry of China, best-sellers have become an important driver with great influence over the development of the retail market. The latest data shows that among the 950,000 active titles in the retail market in Y2008, those of top 5% in annual sales account for 58.18% of total price. While sizeable, this is compared to 58.13% in Y2007, where a lack of new, hot titles and a prevalence of old topics are indicated as being the main reasons for this sluggish growth in the retail market area.*

Figure: Total Sales of Retail Book Market
(Y2003-2008, billion Euro)



Source: OpenBook

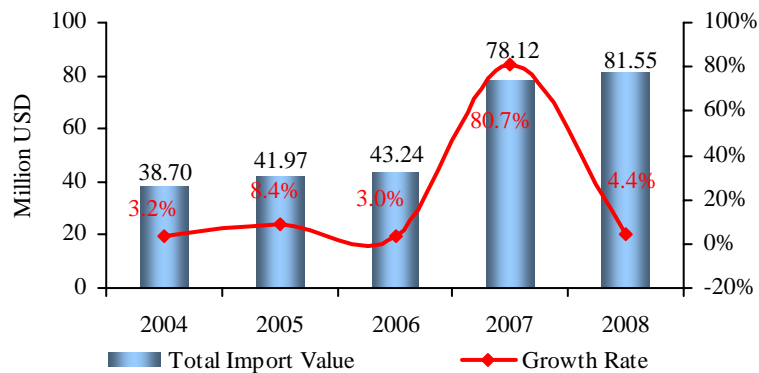
- *In Y2008, the total retail book market sales reached EURO 3.01 billion, showing a slight increase of 4.4% over Y2007.*
- *The slowdown of book retail growth in Y2008 can be regarded as normal after a high-growth in Y2006 and Y2007 due to lack of innovation and falloff in super best-sellers sale which are important motivators of market growth.*

2. Import Market

Import Market

Balanced between factors including the development of local industry and production, the general maturation of China's domestic book market, and fluctuating overall socio-economic trends, Chinese book imports have segmented, although relatively unstopped growth over recent years..

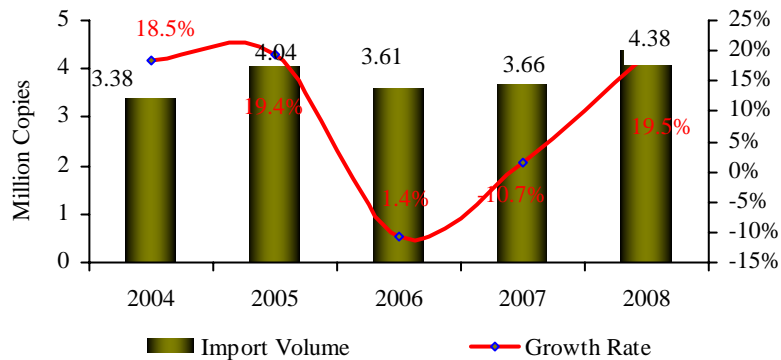
Figure: China Book Imports by Value
(Y2004-Y2008)



Source: GAPP

- Imports as measured by value have seen continued increase over the past few years, reaching a high of 81.55 million USD in Y2008.
- Growth rates have fluctuated at an unsteady general decline since Y2004, despite an unexpected spike in Y2007, reaching 80.7% year on year growth. Growth dropped down to more a more precedented rate of 4.4% in Y2008.

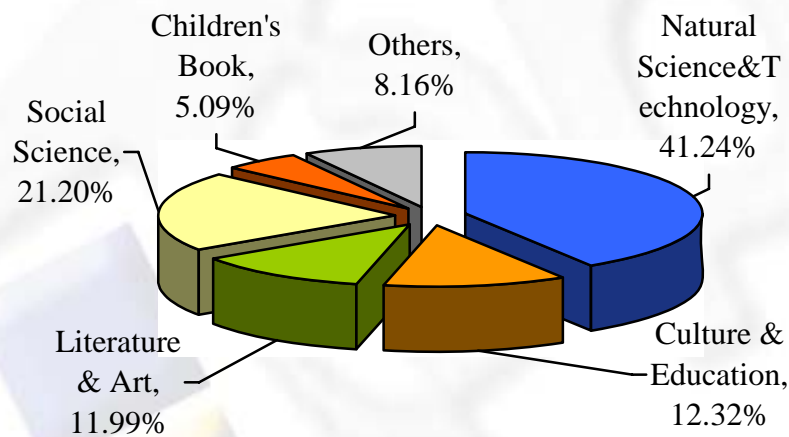
Figure: China Book Imports by Volume (Y2004-Y2008)



Source: GAPP

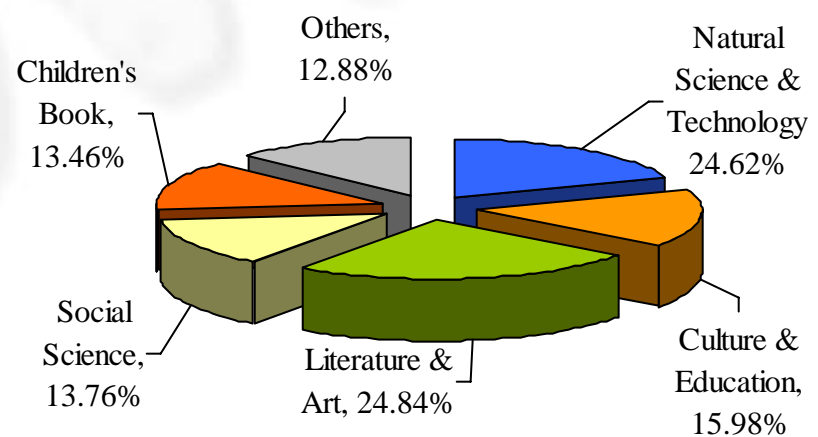
- *Book imports as measured by volume show somewhat opposite results, with relatively stable growth rates since Y2004, and an isolated sharp decline in Y2006.*
- *Low levels of import volume versus higher value levels indicate the profitability of the import model and rising book prices.*

Figure: Breakdown of China Book Imports by Value (Y2008)



Source: GAPP

Figure: Breakdown of China Book Imports by Volume (Y2008)



Source: GAPP

- Lacking the textbook category, as the Chinese textbook segment is heavily government controlled and limited essentially to domestic production, Chinese book imports follow roughly the same pattern of breakdown as the general book sales market. Natural science and technology books dominate in terms of value, although in volume were overtaken by literature books. Culture and education, as well as social sciences occupy additional important market shares.

3. Copyright Trade

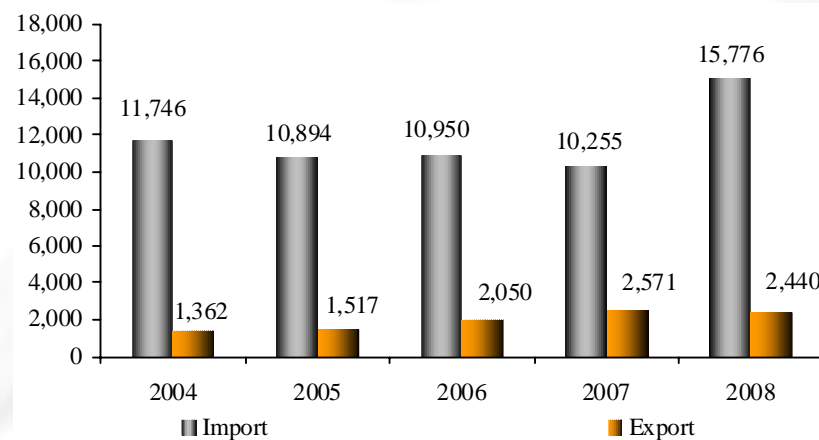
Copyright Import and Export

- China's reform and opening initiated the beginning of its national copyright trade. In Y1980, China signed an agreement with the U.S to publish the Encyclopedia Britannica in Chinese, marking the first time that China cooperated with foreign countries in the publishing field.
- Book copyright importing has grown significantly since Y1990, where less than 1,000 copyrights were imported to China. The year Y2002 was the first year in which China's book copyright imports surpassed 10,000 titles. In Y2008, the copyright import reached a sudden peak at a total annual volume of 15,776 titles, marking a drastic increase of 53.84% over Y2007. The import/export ratio in Y2008 was around 6.5 to 1, extending the gap between import and export from the

3.9 to 1 ratio of Y2007, and marking a watershed year for imported copyrights.

- As far as regions, the top 5 provinces and municipalities of copyright import are Beijing, Shanghai, Jiangsu, Guangdong and Guangxi; the top 5 provinces and municipalities of copyright export are Beijing, Shanghai, Jiangsu, Anhui and Liaoning. Beijing has consistently been the center of the copyright trade.

Figure: China's Book Copyright Imports and Exports (Y2004-Y2008)



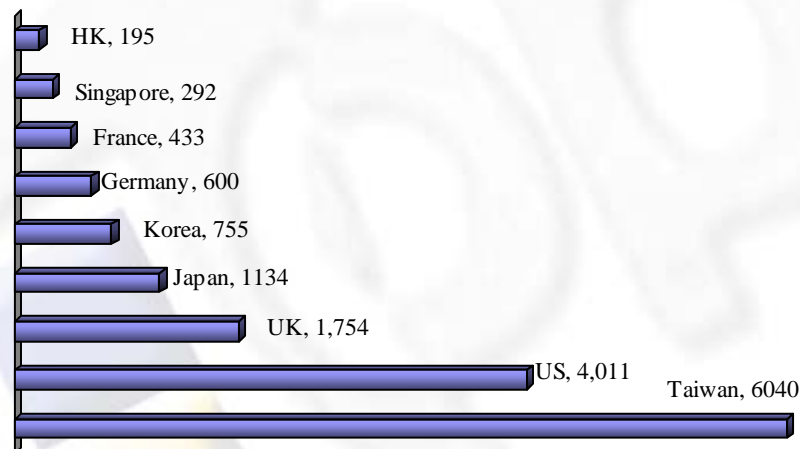
Source: GAPP

- *China's book copyright import hit a relative record high of 12,516 in Y2003, and fluctuated at around 11,000 until a watershed in Y2008, reaching 15,776 titles.*
- *China's book copyright export on the other hand, had been steadily increasing until dropping down to 2,440 titles in Y2008.*
- *Both the dramatic increase in imported copyrights and the slight decrease in exports represent distinct changes from previous development trends.*

Major Exporting Countries

- In Y2008, China's total book copyright import greatly increased from 10,255 in Y2007 to 15,776. While imported copyrights from US and UK accounted for 36.54% of the total compared to 53.76% in Y2007, import from other countries increased from 4,742 to 8,529, with the most noteworthy contributor being Taiwan.
- Imported copyrights are mainly from Taiwan, the UK, US, Japan, Germany and South Korea, etc., which accounted for more than 90% of the total imports of copyrights in Y2008.

Figure: Major Copyright Exporters to China (Y2008)



Source: GAPP

- *Contrary to previous English language oriented trends favoring the US and UK, Taiwan took a massive leap in Y2008, rising more than 5000 titles to take the lead above the US in copyright exports to China.*
- *The main European exporters of copyrights to China are UK, Germany, and France. Italy's importance in the Chinese import market is minor. At present, Chinese authorities do not hold official data displaying Italy's copyright trade with China.*

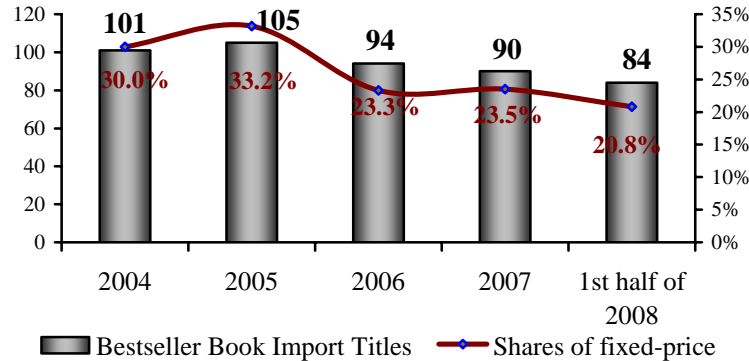
- The unprecedented leap in copyright exports from Taiwan comes about largely as a result of centrally orchestrated measures instituted to celebrate 20 years of publication communications between Taiwan and mainland China. A series of activities, publicity events, and policy mechanisms have thus been instituted to accelerate copyright trade across the Taiwan Strait.
- Statistical references show that the global export trade of Italian book copyrights has been steadily developing in recent years, mainly in terms of novels, children's books, art books, essays, illustrated stories, etc. However, these references also indicate that the vast majority of Italian book copyright export (~77%) is to European countries such as Germany and France. Emerging trading partners include Poland, Hungary, Russia and Asian countries, where Asian countries account for only 11.5% of Italy's copyright export.

4. Bestseller Perspective

- China's book market follows the Pareto Principle, i.e. 20% of books contribute to 80% of profits generated. Best selling books dominate both the traditional consumer book market (including fiction and non-fiction books) as well as other segments of the book market such as children's books. This tendency indicates that the book market in China has entered an era of trend consumption and bestsellers.
- As a key market indicator, copyright book imports have been a major contributor to

China's bestseller lists in recent years.

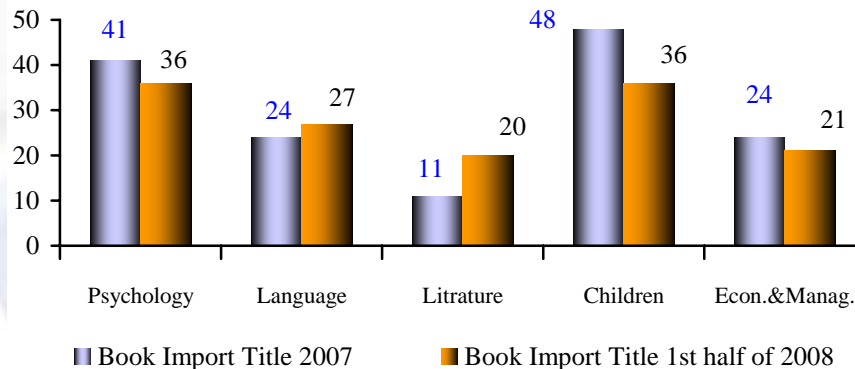
Figure: Copyright Book Imports on Top 500 Bestsellers List (Y2004-Y2008)



Source: Openbook

- Industry figures show that the contributions of copyright book imports to Chinese bestseller lists is significant, with an average of 95 of the top 500 bestseller titles being imported books over the past 5 years.
- Bestselling book imports' market occupation by fixed price fell to 20.8%, from a relative high of 33.2% in Y2005.

Figure: Book Import Titles in Top 100 Bestsellers List of each Book Category (Y2007-Y2008)



Source: Openbook

- For the Top 100 bestsellers of each popular book category, the proportion of book imports on each list has generally declined, occupying between 20-36% of each book category's bestsellers in Y2008.
- While copyright imports of children's books and psychology books took up the highest proportions of their respective 100 bestsellers, the only distinct growth in proportion of imports in the top 100 was seen in literature and language.

- The bestseller list has shown many bright spots since the beginning of Y2008 and shows distinctive trends in certain respects. What follows is a review of the Y2008 bestseller list, with the market classified into the general categories of fiction, non-fiction and children's books.

Top 10 Fiction Bestsellers

Table: Top 10 Fiction Bestsellers in China by Volume (Y2008)

Y2008 Rank	Name of Book	Publishing House	Fixed Price (RMB)
1	Tiny Times Season One	Changjiang Literature & Art Press	29.8
2	Wolf Totem	Changjiang Literature & Art Press	32
3	DU Lala's Promotion Story	Shanxi Normal University Press	26
4	Kite Runner	Shanghai People's Publishing House	25
5	Floating	Shanxi Normal University Press	32
6	Hourglass (III)	The Contemporary World Press	25
7	Director of Beijing Office (I)	The Writer's Publishing House	22
8	Water for Elephant	Shanghai People's Publishing House	25
9	Mayor's Secretary	The Writer's Publishing House	23
10	Director of Beijing Office (III)	The Writer's Publishing House	29

- *“Tiny Times Season One”, a youth literature work from a local writer Guo Jingming, has regained the top position after “The DaVinci Code” topped the fiction bestseller list for 2 consecutive years.*

- Among the annual top 10 fiction books, 8 are considered local books, showing some advantage enjoyed by local writers. “The Kite Runner” and “Water for Elephant” are the only two imported titles on the top 10 list, from authors Khaled Hosseini and Sara Gruen.
- One the one hand, the best-selling books in Y2008 continually focus on previous year’s youth literature and fantasy suspense themes; on the other hand, there have appeared a number of best-selling career stories, such as: “DU Lala’s Promotion Story”, “Floating”, and so on. Meanwhile, a number of award-winning works announced in the Seventh Maodun Literary Award performed well in the retail market.

Top 10 Non-Fiction Bestsellers

Table: Top 10 Non-Fiction Bestsellers by Volume (Y2008)

Y2008 Rank	Name of Book	Publishing House	Fixed Price (RMB)
1	Traditional Chinese Medicine Health Series (I)- Seeking Better Treatment	China Traditional Chinese Medicine Publishing House	29
2	Currency War	China CITIC Press	38
3	Traditional Chinese Medicine Health Series (V)- Seeking Better Treatment	China Traditional Chinese Medicine Publishing House	29
4	Traditional Chinese Medicine Health Series (VI)- Seeking Better Treatment	China Traditional Chinese Medicine Publishing House	29
5	What Yudan has Learnt <<The Analects>> - Experience	Zhonghua Book Company	20
6	Meditations	Central Compilation & Translation Press	20
7	What Yudan has Learnt <<The Analects>> - Sentiment	Zhonghua Book Company	22
8	Health Talking - from Head to Toe	Changjiang Literature & Art Press	29

9	Traditional Chinese Medicine Health Series (II)- Human Body Meridian User Guideline	The Eastern Publishing	29
10	Legends in Ming Dynasty (Zhu Yuanzhang)	China Friendship Press	24.8

- *In Y2008, the best-selling books concentrated in public health, with notably series publication trends. The continued best-selling Traditional Chinese Medicine Health Series books is one of largest hot spots in the local market, and has directly contributed to growth rate improvement in the public health market.*
- *In Y2007, the best-selling theme of economic and management books was in personal finance. In Y2008 however, personal financial management books fell due to poor performance in the securities market. Economic theory or management-related book sales performed better, where “Currency War” was at the top in economic and management book sales, and “China’s Obscure Economy, Three Decades of Agitation” won readers based on interpretations of the current economic situation. Based on the mass media appeal of figures such as Ma Yun, founder of Alibaba.com, and the use of CCTV platforms, “To Win in China” also had a strong sales performance.*
- *Compared with the previous year, academic and cultural books performed relatively flat in Y2008. The top item on the best-selling list was still “Yu Dan<<The Analects>> - Experience”, but judging from annual sales in the same period, there has been a clear decline. New products of “Legends in the Ming Dynasty” series lead the whole series to become best-selling works in Y2008. In addition, Collection told by Ma Weidu, derived from academic and cultural themes also become best-selling book.*

Top 10 Children’s Book Bestsellers

Table: Top 10 Children’s Book Bestsellers by Volume (Y2008)

Y2008	Name of Book	Publishing House	Fixed Price
--------------	---------------------	-------------------------	--------------------

Rank			(RMB)
1	Xiao Dou Dou by the Window	Nanhai Publishing Company	20
2	Harry Potter and the Deathly Hallows	People's Literature Publishing House	66
3	Nauty Mao Xiaotiao – Detective Group in Action	Jieli Publishing House	13.8
4	Laughing Cat Diary – Blue Rabbit Ear Grass	Tomorrow Publishing House	
5	Laughing Cat Diary – The Secret of Pussycat Birth	Tomorrow Publishing House	15
6	Adventure Tiger Team - The Skull with Shed Tears	Zhejiang Children's Publishing House	12.8
7	100 Princess's Stories – for Girls	Posts and Telecommunications Press	58
8	Cao Wenxuan Novel Series – Grass House	Jiangsu Juveniles and Children's Publishing House	15
9	Charlotte's Web	Shanghai Translation Publishing House	16
10	Adventure Tiger Team – The Cursed Castle Harbor	Zhejiang Children's Publishing House	12.8

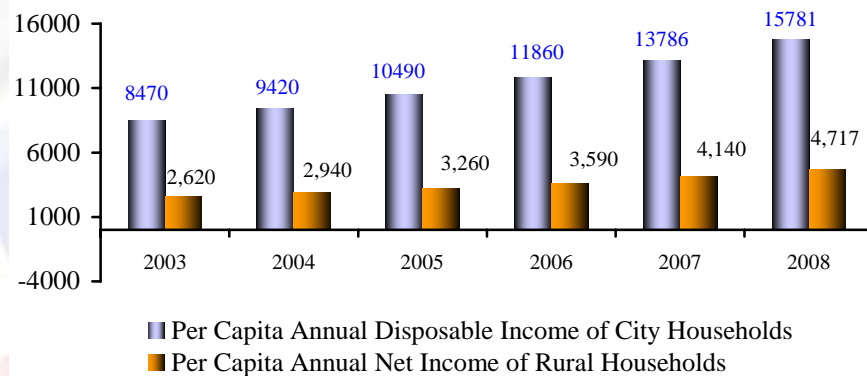
- *Series books have become a dominant characteristic of imported children's books on the bestsellers list in recent years. Large-scale importing, with a high emphasis on value-added marketing, has become an important strategy for publishing institutions to develop best selling children's books items.*
- *In the first half of Y2008, the proportion of children's science books' price has increased from 6.09% in Y2007 to 12.16%, benefitting from the best selling of children's comics and science book series imported from Korea. The rise of Korean children's books is the result of both the children's demand and the changing of parents' education concepts. Scientific comic styles make studying more interesting and attractive for children, and parents are paying more attention to quality education with the promotion of this education reform. Publishing*

institutions have grasped a hold of this market development tendency and imported appropriate works successfully.

5. Market Drivers and Development Trends

- The rapid increase in Chinese living standards and development in terms of society, culture and economy, are providing fertile grounds for a richer, revitalized reading culture and book market environment, in addition to the creation of a consumer culture that is very fashion sensitive and fluctuates easily with current fads.
- Among other things, the overall increase in income levels, and particularly the increase in disposable income of urban households, represents a major motivating factor in the book market.

Figure: Chinese Household Income (Y2003-Y2008, in RMB)



Source: NBS

- *In Y2008, the average per capita disposable income of urban households reached almost RMB 16,000 per year, much higher than the net income of rural households at around RMB 4,717.*
- *This has direct bearing on the consumer demographic, and the marketing implications for book interests in China.*

- Literacy rates are relatively high in China at approximately 91%. With a population of over 1.3 billion, this provides a vast potential market pool.
 - *The average level of education in China, however, is significantly lower than those of OECD countries. This indicates that the population size of serious readers in China may actually be much smaller than strictly population-to-literacy estimates suggest.*
- According to sample surveys on the retail book market in Y2008, the annual growth rate of flagship bookstores, bookstores in medium-sized cities and private bookstores are 3.21%, 5.28% and 1.50% respectively. Compared with previous years, the growth of bookstores in medium-sized cities and private bookstores slowed, in correlation with general economic and industry recession. Experts predict however, that future growth in Chinese book retailing will concentrate in medium-sized and county-level cities (i.e. toward the second and third tiers), following the growing urbanization of China's population.
- The unique economic environment during the global economic crisis has played a key role in shaping the Chinese book and publishing market. Despite the generally negative implications of the crisis, the global economic turbulence of late Y2008 may be regarded as a catalyst for further industrial transformation.
 - *A complex interplay of economic and socio-political factors at work in China have made it so that, while having increased pressure on domestic industry, local consumer markets remain*

relatively robust and demand for books has actually increased. In times of economic strife, reading remains a stable and relatively cheap form of entertainment and escape, in addition to acting as a means for potential value-added 'self-improvement'.

- In terms of children's books, key development factors have emerged along similar lines. On the supply side, fierce competition has arisen to grab hold of this key consumer segment, with China's 370 million minors and heavy emphasis on childhood education creating high incentive for market capitalization. Of the 579 publishers in China, statistics show that 521 of them are involved in children's book publishing. On the consumer side, positive feedback to this supply incentive has given rise to robust enthusiasm for reading among children, to the point where higher-grade, internationalized reading has become a fashion trend.
 - *Playing between these supply and demand factors, innovation has taken place in the formation of brand images and alliances among publishers, authors, and distribution networks. Exploration of new market communication channels through the integration of digital media as both print mediums and sales channels, and in such partnerships as Twenty-First Century Press, Jieli Publishing House and Tomorrow Publishing House with Dangdang, a highly successful online sales venue, have emerged. In just the first half of 2008, Twenty-First Century Press sold 8.7 million RMB worth of books through Dangdang.*

Section C: China Consumer Analysis

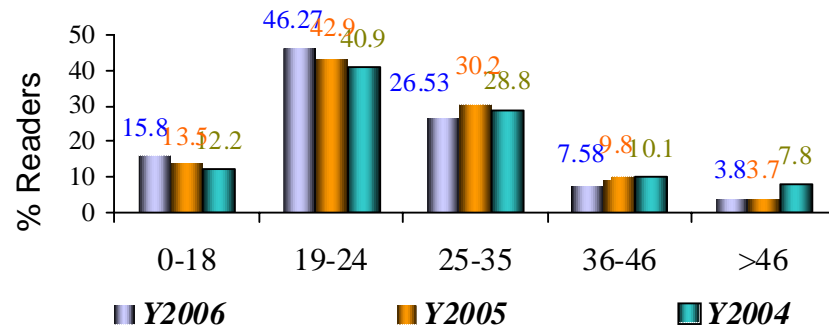
1. Reader's Profile

Reader's Age

Following from the most recent data sets generated by OpenBook (circa Y2007), in terms of book consuming patterns, the total reading population can be roughly classified into the following five age groups and percentages of total sales:

- *0-18: majority of children and juvenile books, accounts for 15.8%;*
- *19-24: the largest reading group, nearly 50% of the total reading population, a slight increase over the previous year; textbooks, youth literature, social science books and others fuel demand;*
- *25-35: the second largest demographic of book demand;*
- *36-46: continually decreasing market shares over the past two years;*
- *46 and above: lowest demand for reading materials, making up only 3.8% of the total reading population.*

Figure: Change of Reader's Age (Y2004-2006)

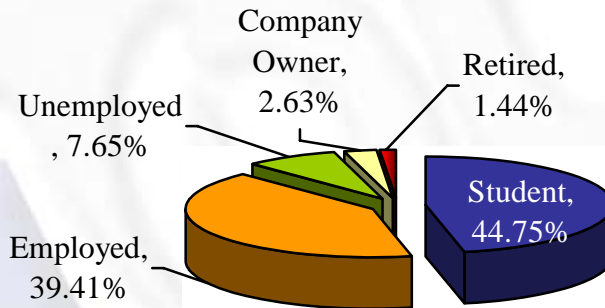


Source: OpenBook

- *The largest bulk reading group, ages 19-35, accounted for 73% of the total reading population, displaying the connection between education and professionalism with readership.*

Reader's Employment and Income

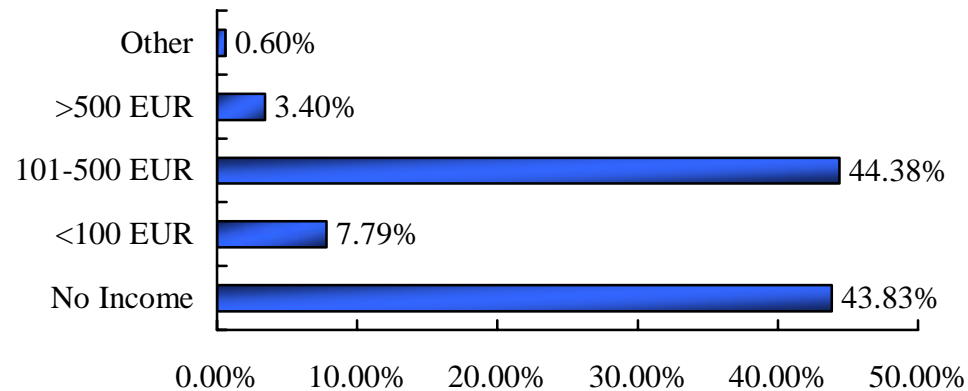
Figure: Reader's Employment (Y2006)



Source: OpenBook

- *As indicated in the reader demographic, the majority of the reading population is focused on youth and young adults, and thus upon students and employees, who account for up to 84.2% of all readers.*

Figure: Reader's Monthly Income (Y2006)



Source: OpenBook

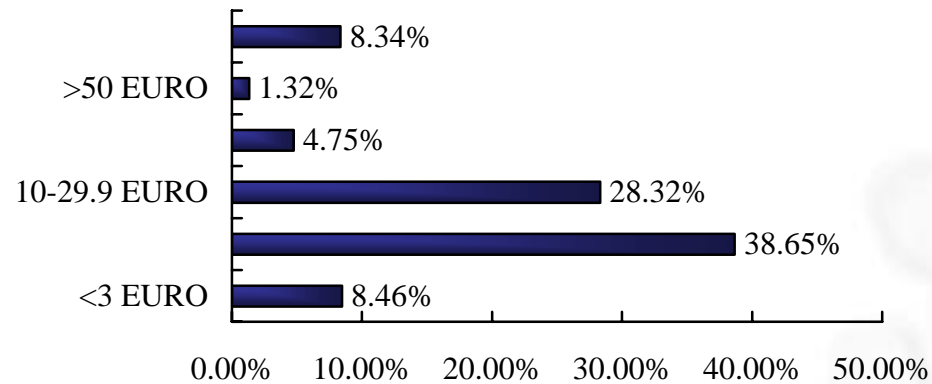
➤ *Students fall into the “no income” group, and thus represent the majority, or 43.8% share of readership; employees with monthly incomes between EUR 101-500 represent the next most populous class, occupying 40.4% of all readers.*

2. Buying Behavior

Book Pricing and Expenditure

- The most recent OpenBook surveys (Y2007) of average monthly expenditure by readers in Y2006 bear the following results:

Figure: Reader's Monthly Spending on Books (Y2006)

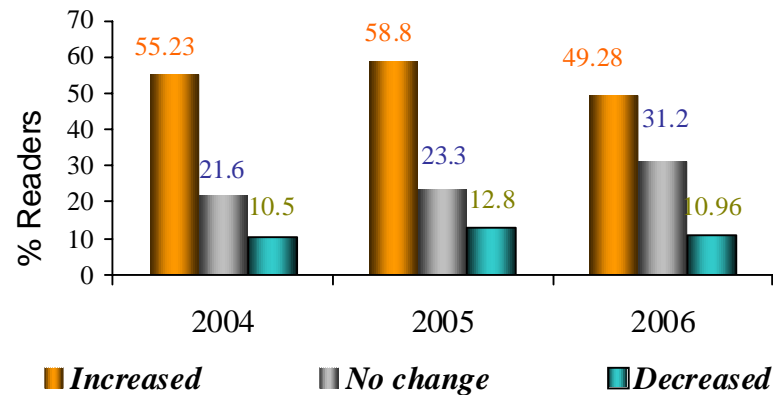


➤ *The most frequent average monthly expenditure on books by readers is from Euro 3-9.9, a portion accounting for 38.65% of the total, followed by readers spending between Euro 10-29.9, who occupied 28.32% of all readers.*

Source: OpenBook

- In terms of individual pricing, useful precedents are set by the fiction, non-fiction, and children's books bestsellers lists, where average prices for bestsellers in China ranged from:
 - *Fiction: Euro 1.3-3.2, average Euro 2.34 per copy*
 - *Non-fiction: Euro 2.0-2.9, average Euro 2.45 per copy*
 - *Children's: Euro 1.3-5.8, average Euro 1.82*
- In terms of changes in expenditure, further findings on comparisons of book cost showed:

Figure: Comparison of Changes in Readers' Book Costs
(Y2006)



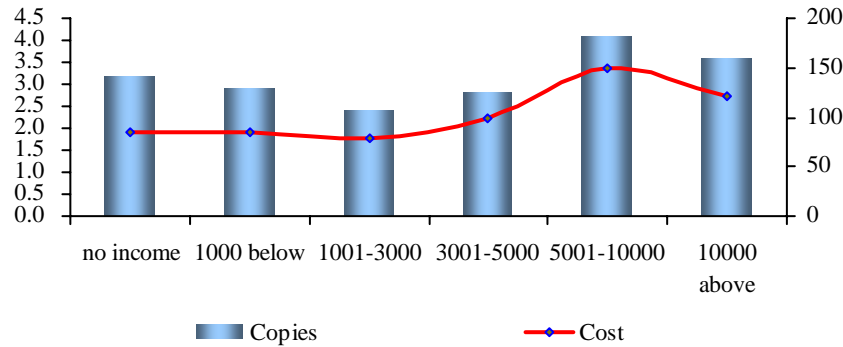
Source: OpenBook

- In Y2006, 49.3% of readers thought that they spent more money on books, a slight drop compared to the previous year, and 31.2% of readers believed that they spent as much as last year. Only 11% of readers believed that they spent less..

Reading Time & Expenditure

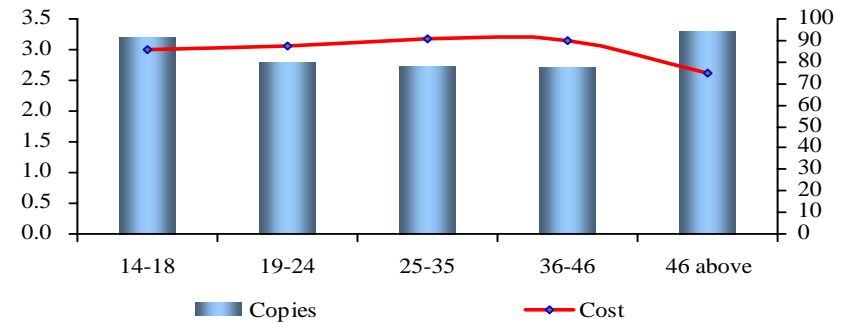
- More recent surveys (Y2008) reveal that the differing levels of income among readers also indicate the amount of expenditure and copies of books.

Figure: Book Copies and Book Cost vs. Reader Income (Y2008)



Source: OpenBook

Figure: Book Copies and Book Cost vs. Reader Ages (Y2008)

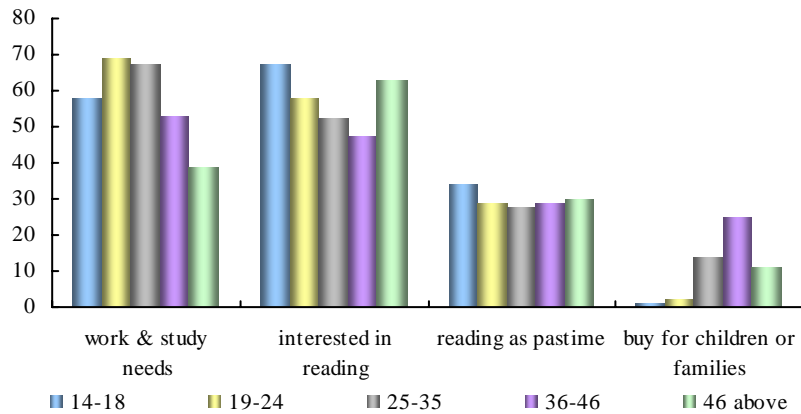


Source: OpenBook

Reasons for Purchasing

- According to a survey in Y2008, readers commonly agreed that increasing “essential needs for studying and working”, and being “very interested in reading” were top reasons for purchasing books. This makes sense as the majority of the reading population falls into the categories of students and young employees, where employment and educational competition fuels high demand for textbooks and industry & professional books.
- Public health books is one of the hottest points in the book market in the recent years, which in Y2008 ranked at the top of non-fictional bestseller lists. With increasing ages, more and more readers purchase public health, life and leisure, biography and other categories of books.

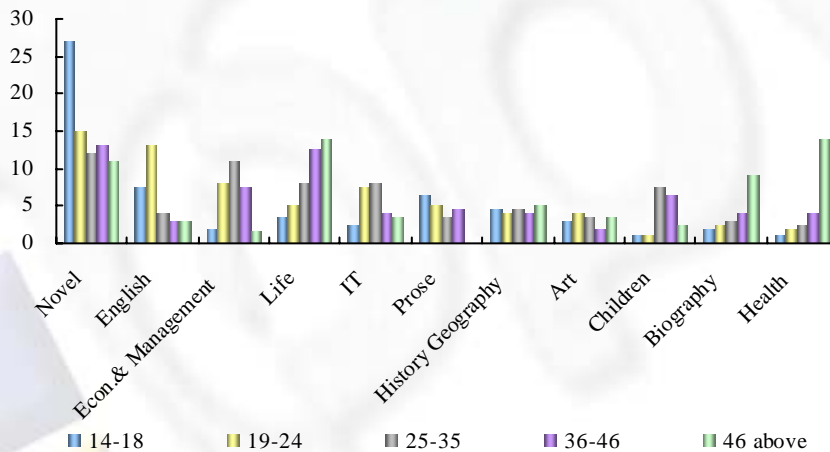
Figure: Reason for Purchasing Books (Y2008)



Source: OpenBook

➤ Thus, readers buy books not only for enjoyment, but in support of academic and professional responsibilities; the majority of readers purchase books for reasons falling in these categories.

Figure: Book Category vs. Purchasing Ages (Y2008)

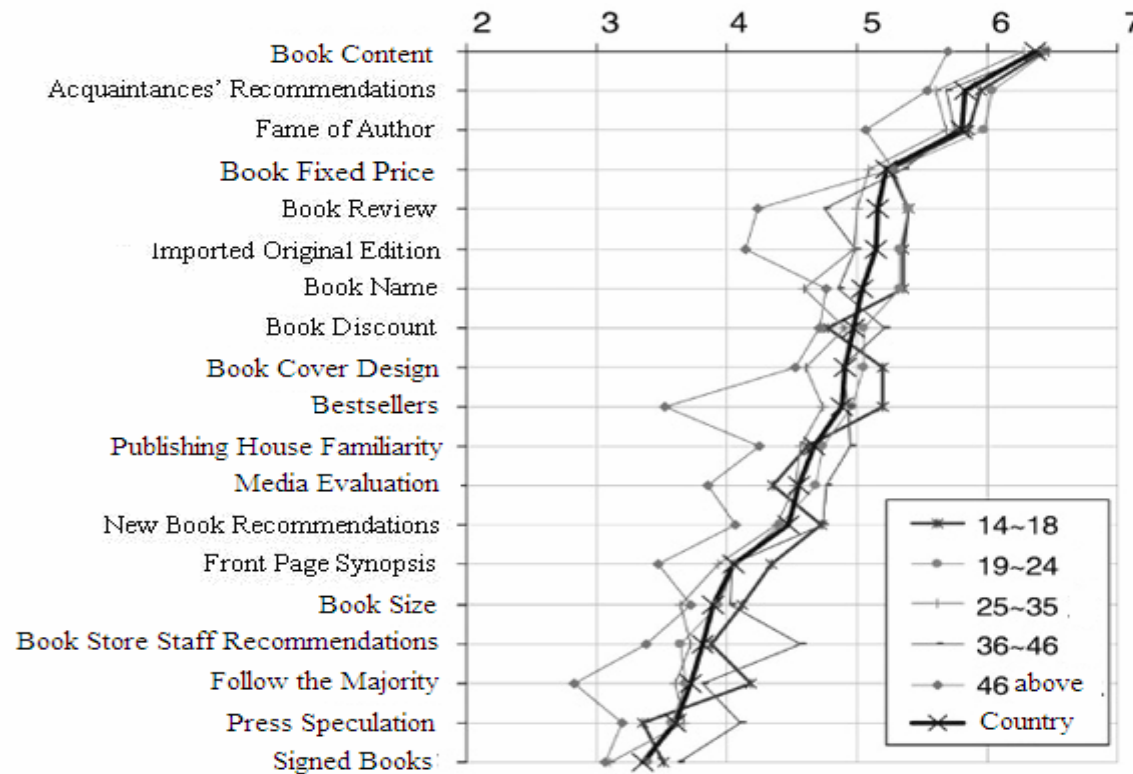


Source: OpenBook

➤ Readers under 24 years, mainly young students, purchased English books most, while readers aged from 25 to 35 purchased Economic Management. Novels remained the most pervasive across all age demographics, save for 46 and above, whose focus was more on life and health.

- Generally speaking, the most influential factors over the readers are “book content”, “acquaintances’ recommendation” and “fame of authors”, with an average of about 6 scores for each. Younger readers are more influenced by “book content” and “acquaintances’ recommendation”, while older ones focused on “fame of authors”. Overall, middle aged and senior readers above 46 years old often show more caution on buying books and are less influenced by these factors.

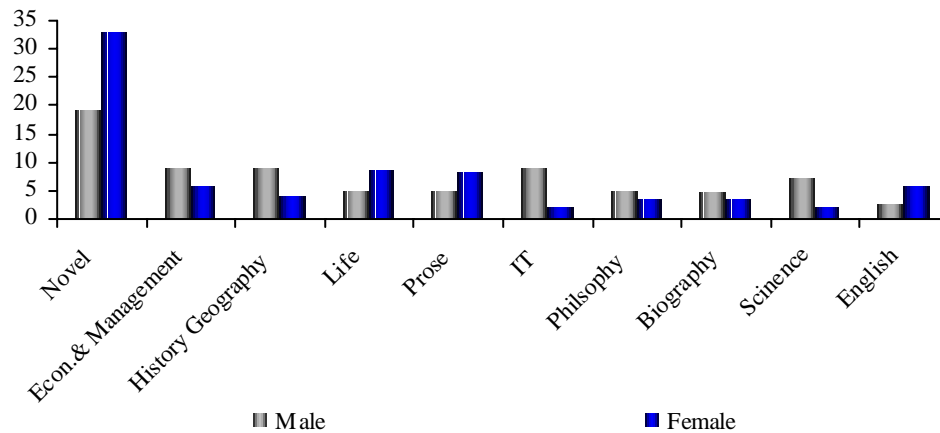
Figure: Factors Influencing Purchases (Y2008)



Source: OpenBook

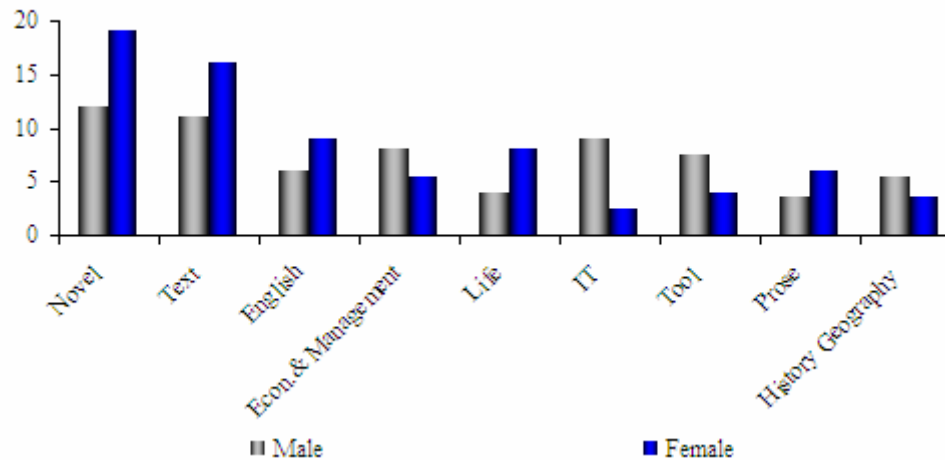
Reading and Purchasing Preferences

Figure: Reading Preference vs. Genders (Y2008)



Source: OpenBook

Figure: Buying Preference vs. Gender (Y2008)



Source: OpenBook

➤ In Y2008, over 25% of readers preferred Novels in terms of types of book, indicating that leisure reading is still the main purpose of reading. Beside Novels, there are 6%-8% readers whose favorite book type is Economics and Management, History and Geography, Leisure Living and Essays respectively, the total proportion of whose readers nearly equals that of novel readers.

➤ Gender differences in readership and procurement are distinct. Generally speaking, female readers prefer Novels, Leisure Living, Essays and English books while male readers cite Economic and Management, History, Geography, Computer, Science & Technology, etc.

- Although over 25% readers enjoyed novels, novel buyers account for only 16%. Teaching guidebooks and English books, which are lower on the scope of readers' favorite categories, were bought by 13.1% and 7.5% of readers respectively.

Purchases Online

- With the popularization of the internet, more and more readers have begun buying books online. According to reader surveys by open-book bookstores, 12.7% of readers bought books over internet in Y2003, close to 25% in Y2005 and up to 33.3% in Y2008. With higher integration of internet in daily life, readers with experience of procuring books over internet are bound to increase.
 - *Age: Less than 20% of readers above 36 years old have ever bought books online, while over 30% of readers from 14 to 35 years old have, in which those aged 25-35 is highest accounting for 39.06%.*
 - *Professional status and income: Readers working in the professional world is the highest, accounting for 37.41% of the readers that have bought books online, while retirees were the lowest, with only 10.34%. Readers with income level of 3,000 RMB monthly is much higher than that of those with level of below 3,000 RMB monthly.*
 - *Educational background: Readers with a primary education or less account for only 19.51%, and those with masters or higher degrees are up to 68.75%.*

Section D: China Book Market Access

1. Book Distribution System

■ During China's centrally planned economic system, lasting until the late 1970's, publication, distribution and the press were fully monopolized by the government, and private capital was not allowed to tap into these industries. According to national regulations, the distribution of publication was originally divided into two channels: books were distributed by the state-owned Xinhua Bookstore, and newspapers and periodicals by the national post office.

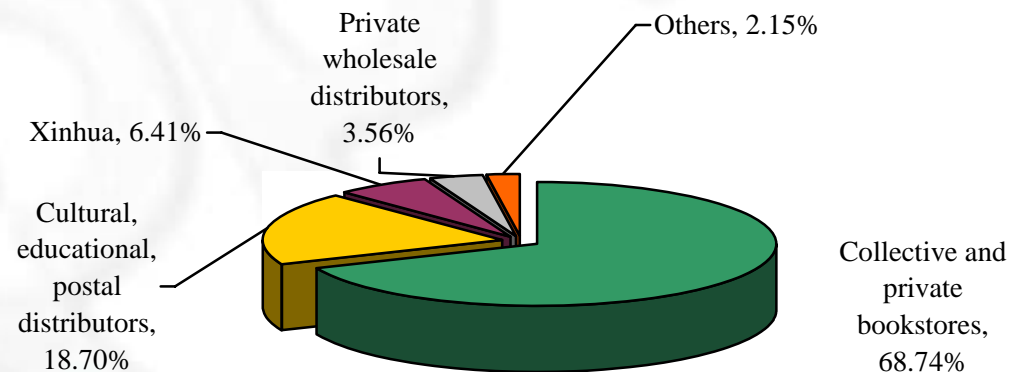
➤ *China began to heavily reform the publication and press distribution system along with China's entry into the WTO. The Chinese government issued "Regulations on Foreign Investment in Distributors of Books, Newspapers and Periodicals" and committed to opening publication and press distribution to foreign capital in order to thoroughly break down the monopoly of state-owned distributors. The regulation was enacted for the establishment of foreign-funded wholesale or retail enterprises of books, newspapers and periodicals, as well as cooperation with domestically funded enterprises or solely foreign funded distribution enterprise.*

■ In general, the book distribution industry in China today is still marked by heavy presence of the state-owned Xinhua Bookstore System, but is much more

diversified with a sizeable presence of private bookstores. Under China's current system, Xinhua Bookstore is termed the class one wholesaler of books, while its provincial branches are class two wholesalers. Xinhua's distribution network is called the primary channel of book distribution in China, while secondary channels refer to private distribution companies, and tertiary channels to foreign companies

- *The Xinhua Bookstore System controls 2,700 cooperation units, 14,000 distribution units and nearly 150,000 employees or nearly 20.8% of the total workforce in the publication industry.*
- *According to statistics released by GAPP, gross publishing sales of the Xinhua System in Y2008 reached EURO 8.45 billion, accounting for 58.03% of total domestic sales.*

Figure: Breakdown of Book Distribution Units (Y2007)



- In Y2005, facing intensified competition from private and foreign capital in the publication distribution industry, several leading domestic book groups took a variety of measures such as introducing foreign investment and altering their management models to increase their competitiveness. Xinhua has thus changed its former management style from central management to chain management with centralized distribution, and on April 24, Y2005, General Xinhua Bookstore restructured into Xinhua Publications Circulation Co. Limited, co-established by 11 shareholders including Xinhua Bookstore Store (40% of shares), Britain Pacpoly Investment Corporation (27% of shares), two private investment companies and seven state-owned publishing houses.
 - *Xinhua's main point of market dominance comes from its veritable monopoly on the distribution of textbooks. As textbooks are a sector that still features heavy government control, it makes sense the state-owned Xinhua network would occupy this niche, and thereby dominate such a large portion of the sales market.*

2. Book Distribution Channels

After the opening of China's press market, a pattern of coexistence of different forms of ownership, varied distribution-channels and purchase-and-sale forms has taken shape

Self-Distribution by Publisher

- Most publishing houses in China have their own distribution departments. Some publishers even have their own distribution subsidiary companies. The operation of self-distribution includes mainly the analysis of the publication market, the building-up of a structured supply chain (normally with limited quantities), the acquisition of subscriptions, and so on. Some publishers mainly depend on their own distribution companies, while others distribute their own titles as well as other publications on a commission basis.

Distribution Companies with Foreign Capital

- In Y2003, the government started to process foreign and domestic capital applications for the establishment of distribution companies in China. For example, the domestic, privately owned Wende Guangyun Distribution Group has been licensed to undertake general distribution of newspapers and periodicals. Along with the development of the market, distributors of this kind will gradually obtain a leading position in the market based on their cross-regional operations, advanced management, low costs and rapid market feedback.

E-book Distribution

- Currently, the e-book market in China is composed mainly of library books and academic works. Although consumer books make up only a tiny market share, they have developed rapidly in recent years.
- Penguin Group is the first international publishing company to sign a distribution agreement in Y2009 to make its front and backlist English titles available in e-book form to readers in China. Penguin's full range of e-book titles from the UK and Dorling Kindersley, which today stands at more than 2,000 titles, will be made available in Apabi's proprietary CEB format. At present, Founder Apabi holds about 80% of the Chinese e-book market. Its database contains more than 500,000 e-book titles from some 500 Chinese publishers. According to estimates, by Y2008 the total value of the Chinese e-book market had grown to RMB 200 million.

The Publishing Retail Network

Individual Selling Points

- In cities, individual selling points are focused at kiosks located at subway stations, large supermarkets, civil airports, coach stations and civil ports. Most of them are in small size, with stock largely limited to newspapers and periodicals.

Large Bookstores

- Large bookstores normally possess a wide range of book titles, large book stocks and provide a high-quality environment as well as shopping guides.
- The Northern Book Store is the first state-owned joint-stock book retail enterprise, which is held by provincial Xinhua Bookstores. It has maintained good relations and cooperates with 500 domestic and foreign publishing houses and has had nearly 1,000 distributors in the past 10 years. The book store provides a first-class environment and qualified services to consumers under a brand new management style. The wholesale adoption of unified stocks, unified logistics, unified standards and brands, and unified marketing promotions has been carried out in order to expand market share, reduce the cost of management, and increase the adjustment of the title structure, thereby improving the operating efficiency of the chains' management.

Book Chains

- Book chain stores have developed from individual bookstores with successful financing and franchising approaches. Among them, Xishu bookstores has developed into the largest private chain store in China within 10 years time; 21st Century Jinxu has established cooperation with Bertelsmann; Liaoning Hanwen book outlet, Dongguan Yongzheng book shopping center and Kunming Xinzhi

bookstores are emerging in the market and have taken a large amount of the market share.

- Xinhua Bookstores converted its management style to chain management, which is changing the world's largest book store into one of China's largest book chains.

Reader's Club

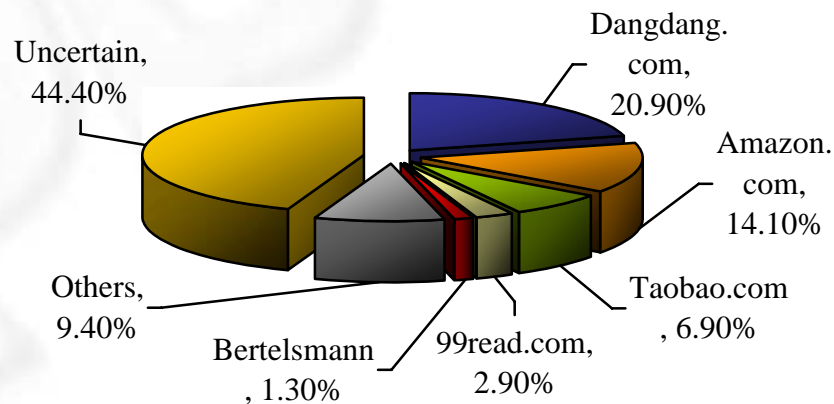
- The history of readers' clubs in Western countries stretches back more than 100 years, and their market share in some countries is above 10%. Currently, the market share of reader's clubs in China is less than 1%, with a declining proportion of total sales. Yet in Y2006, the readers' clubs redoubled their efforts to aid in their development.

➤ ***Bertelsmann Book Club*** was the largest book club in China. Established in Y1997, it boasted more than 1.5 million members, selling more than 7 million products, possessing over 50 member chain stores in 13 cities and rapidly expanded across China. **However, as of Y2008, Bertelsmann Book Club has closed its book and publishing business in China.**

➤ ***China Reader's Club***, established in Y2000, obtained the best publishing prize from the reformed China Publishing Group and via China Post's logistics and mail order system to develop and become the second largest reader's club in China with 300,000 members. It launched the "China Reader's Club Strongly Recommends" label which has been gradually recognized by the industry and readers as a respectable brand in book marketing planning.

Internet Bookstores

- Internet bookstores represent the most competitive trend of the global book market in 21st century. With more than 100 million internet users in China, internet bookstores are growing rapidly. The three leading internet bookstores are dangdang.com, joya.com and bol.com. The first two bookstores were established with venture capital funds from Japanese and American venture capital firms. Bol.com is an online bookstore launched by Bertelsmann in China.
- As the population of internet users in China has grown exponentially, and internet bookstores supplement traditional sales of publications, provincial and municipal branches of Xinhua Bookstores are also actively building their own internet bookstores. There are some popular internet bookstores in China.



- Dangdang and Joyo Amazon are the most popular online bookstores. 20.9% of readers choose Dangdang, which slightly declined from the research result in Y2006; 14.1% of readers like Joyo Amazon, 5.7% higher than that in Y2006. Bertelsmann was liked by over 5% of readers in Y2006 and after it declined to 1.3% in Y2008, this online bookstore was closed in second half of that year. As a new C2C business model, Taobao has been accepted by more and more readers. The proportion of readers visiting this website is 6.9%, increased by 2.5% in Y2006. Readers' selection of online bookstores, to some extent, has proved the strategy of the several main domestic bookstores recent years to attract readers.

3. Market Entry Considerations

Relevant Legislation and Policies

- On August 4, Y2005, six ministries including the Ministry of Culture jointly announced the, “Certain Opinions Regarding the Introduction of Foreign Investment into the Cultural Domain”, which makes detailed regulations on the entry of foreign investment into the publishing industry. According to the regulation, foreign companies are allowed to build up wholly foreign-owned or joint-venture book distribution enterprises, but are forbidden to engage in book publishing, overall distribution and import business, marking a distinct opening of

the cultural fields of China, although still far from a fully open situation.

- “Measures on the Administration of the Subscription of Imported Publications” was put into force on February 1st, Y2005. The regulation reiterates that imported newspapers and periodicals are to be operated by publication import units authorized by the General Administration of Press and Publication of PRC, confirms the business scope of importers, and ensures that the distribution and sales of imported publications are in control of state-owned publication operation units, preventing other companies at home and abroad from carrying out this business.
- In Y2008, GAPP announced changes in the way it issues book numbers, which are required for a book to be legally published in China. The new system issues book numbers on a per-title basis, eliminating the surplus ISBNs that could be sold off to unlicensed cultural companies.

Censorship

- China’s cultural and political environments are still highly controlled and monitored by the central government. To some extent, liberty of speech is not allowed in China, so that the content of books is strictly audited before it is published. Common points of censorship include:
 - *Endangering national unity, government sovereignty and territorial integrity, e.g.*

Tibetan, Xinjiang and Taiwan issues

- *Certain political and policy related issues are still sensitive and forbidden, especially anti-governmental opinions or slander towards the Chinese Communist Party, e.g. coverage of the Tiananmen Square Incident, etc.;*
- *Publicizing cults, superstitions and anti-governmental ideas such as in the case of the Falungong cult;*
- *Disseminating pornographic materials (i.e. nudity and sexual content without reasonable artistic intent), or materials endorsing illegal activity;*
- *Inciting ethnic hatred, ethnic discrimination and undermining national unity, or harm to national customs and habits.*

Intellectual Property Rights (IPR)

- Piracy is still a major problem in China, although strong measures have been instituted to curb its effects. In Y2008, a total of 45.65 million pirated products were seized by local copyright administrations in China. Among those products were 8.98 million copies of books, 1.81 million copies of periodicals, 30.54 million copies of videos, 1.111 million copies electronic publications, 1.59 million copies of software, and 1.62 million other pirated products. The total amount of pirated books seized in Y2008 decreased by 30.04 million items from Y2007. Viewing the progress from Y2006-Y2007, and then Y2007-Y2008, relatively optimistic figures show that China has been strengthening its copyright protection enforcement to comply with international standards.

■ A well-developed, comprehensive IPR strategy should be a major part of the business plan of any company looking to do business in or with China. A company must identify its IPR, control it and protect it. At a minimum, such a strategy should include the following:

➤ **Prevention** - The best weapon is prevention. Be clear of your rights before the product ever crosses the border into China. Every legal means available should be used to mitigate the risks from the start, including:

- *Incorporating copyright protections into contracts and marketing strategies*
- *Entering into written and enforceable contracts that require agents, suppliers, distributors and employees to protect the copyright*
- *Refusing to register software copyright unless and until you have clearly determined that registration is necessary*
- *Refusing to assign or license your copyright unless and until you fully understand the consequences*
- *Making certain that your rights in the copyright remain upon termination of the assignment, license, transaction or investment*

➤ **Protection** – If you discover that your copyright has been violated, do something immediately to protect and enforce your rights. Investigations, raids, seizures as well as civil litigation, administrative proceedings and criminal prosecutions are some of the tools available. Before deciding which tool(s) to use, however, you should ask the following preliminary questions:

- *Is the copyright registered or otherwise protectable in China?*

- *Is the harm being caused in China or overseas?*
- *What is the source of the harm? Competitors? Employees, agents or contractors?*

➤ ***Professional Advice*** – Engage the assistance of legal professionals with both China and IPR expertise early in the process, particularly if the product is digital, and involve them in the development of the overall China business strategy. Membership in anti-counterfeit organizations can also help.

Market Entry and Partnership Approaches

- With the gradual opening of the publication industry in China, foreign publishers are eager to get a share of the largest book market in the world. In the past, foreign publishers and distributors have had several options at their disposal when deciding on entering the Chinese market:
 - Purely business partnership relationship
 - Set up Joint venture (JV)
 - Set up a WOFE or local representative office;

Business Partnership

- Given the unique nature of the publishing industry in China, partnering with Chinese publishers is a shortcut to accessing the Chinese market. Compared to foreign publishers, large publishers in China usually have a deep

understanding of local policy and etiquette, publishing and distribution channels, as well as high brand recognition. Building these qualifications can be costly and time-consuming to foreign publishers, not to mention the government regulations and restrictions on foreign publishers.

- For both book and copyright trade, a reliable Chinese partner will help significantly reduce market risks and make an early entry more feasible; a trustworthy, time-honored relationship with Chinese partners may further protect IPR concerns. People's Literature Press's successful promotion of Harry Potter in China indicates the power of a qualified local partnership.

Joint Venture

- As the highest level of partnership, setting up a joint venture - a locally incorporated equity or cooperative joint venture with one or more Chinese partners – may be an optimal step in developing markets for a company's product. In addition to all the benefits of a purely business partnership, joint venture in-country publishing and printing avoids import restrictions and provides foreign firms with greater control over both intellectual property and marketing.
- In the field of book distribution, China started to open its domestic book distribution business to foreign capital as of May 2003. Some international

publishing groups such as Bertelsmann have already established joint-ventures with Chinese local partners.

Wholly-owned Foreign Enterprise or Representative Office

- Setting up a Wholly-Owned Foreign Enterprise (WOFE) is the most definitive step a foreign interest may make in terms of entering the Chinese market. Although enjoying the benefit of full control over decision making, strategy, profitability, etc., WOFEs bear many risks, in addition to the many obstacles in place within China's complex book industry.
- Setting up a local representative office is a common and effective approach to entering the China market. It is also the easiest type of office for foreign firms to set up in China. However, these representative offices are limited by Chinese law to performing "liaison" activities. As such, they cannot sign sales contracts, directly bill customers or supply products and after-sales service for a fee, although as a matter of fact most representative offices perform these activities in the name of their parent companies.
- Establishing a WOFE or a representative office allows a foreign publisher to react to the Chinese book market more quickly and accurately. However, high cost and risk factors stand in the way of the efficiency of such an endeavor. These options should be taken into consideration within a

publisher's own financial means and network resources. A few leading publishing groups such as Red-Elsevier and Pearson Educational have already set up their own representative offices in Beijing.

Copyright Import Approach

Authorization and cooperation publishing are two major methods of book copyright trade; popular books usually adopt authorization publishing, and teaching materials often operate under co-publishing. Copyright agents represent a third option support mechanism for bringing foreign copyrights into the domestic market.

Authorized Publishing:

- Under authorized publishing, copyright royalties are paid based on sales. Domestic publishers take less risk as they can 'ride the image' of the book they are publishing, while copyright holders bear more risks due to lack of sales control and intellectual property threats. There is only one contract for authorized publishing, consisting of many provisions. The local publisher in this model does not need to paste origin labels on its book covers.
- In the first phase contract, the partners must determine the tax rate, advanced payment, pricing, and printing volume. The volume of first stage printing can differ depending on contract terms, and may change based on

estimated market capacity. In following printing phases (normally every six months to one year), the local authorized publisher must submit a copyright royalty report to the foreign copyright owner to deliver sales information. If the sales volume is higher than the contract volume, the royalty payment must be supplemented to meet the proper amount. If the sales do not reach the contract volume, the advanced payment can be used to pay the respective royalty amounts. When the first printing volume, contract volume, and sales volume match, advanced payment can be used to pay the royalties for next phase printing.

- Different books have different types of royalties. Generally, based on a fixed volume of 5000-20000 copies, the royalties are 7%-9% of total value (with some reaching more than 10%). Royalties of economic and administration books tend to be higher higher, while humanities and children's books lower.

Co-publishing

- In order to circumvent rules prohibiting foreign institutions directly accessing publishing areas, co-publishing (i.e. joint cooperation, by way of copyright investment from the foreign party, and translation and printing services by the domestic party), is a means by which foreign interests may get involved in China's publishing industry.

- Multiple agreements and supplementary documents need to be designed and signed, taking into consideration services rendered (translation, printing, etc.), as well as royalty trade and distribution methods to secure the ways of actual cooperation. Royalty payments tend to be 1-2% higher than authorization publishing, and copyright holders often demand one-time payment after 4 months publishing based on printing volume. In order to prevent domestic publishers breaching contract, copyright holders request that all covers apply an original copyright owner icon, printing volume and anti-counterfeit labels.
- A common model for co-publishing is as follows: The foreign institution commissions a Chinese publishing house to translate and print its book for domestic sales, and paying its local partner approximately 60% of the estimated local retail value. They will then sell the product at 70% of its retail value to its domestic distribution/sales channels to allow for adequate mark-up space, thereby earning the 10% difference as profit.
- The co-publishing method was initiated in the early Y1990s; since that time, several foreign-domestic partnerships have been successfully established, making it difficult to proceed by alternative rules. Compared with authorized publishing, co-publishing procedures are more complicated with more contracts to sign, and negotiations and stipulations to agree upon.

Copyright Agents:

- The copyright agent method represents a third option, relying on an intermediary agency to secure publishing and distribution capacities for the foreign copyright holder, who provides the ISBN number.
- In China, there are 22 book copyright agents certified by the National Copyright Administration of the People's Republic of China, as well as some private studios and cultural companies involved in copyright trade. Chinese copyright agents are engaged in onefold copyright transactions, and the majority deal with the needs of Traditional Chinese Character works from Taiwan and Hong Kong entering China. The most active international copyright agent in China is one of the world's largest, the Andrew Nurnberg Association (ANA), and some Taiwanese agents such as Bardon have also established a niche for themselves.
- In theory, the copyright agent represents a 'one-stop' location for filling publishing and distribution needs. In practice, only private copyright agents are usually flexible enough to fulfill their partners' needs while adjusting to follow market trends. Here they often find themselves performing support services including translation, editing, design, publicity, and distributions communications. Generally speaking, there are only very few such private agencies that can adequately fulfill such varied needs.

Entry Strategy Factors

- ***Cultural Considerations:*** Although generally difficult to track without background knowledge and on-the-ground experience, the uniqueness of China as a cultural environment cannot be underestimated. The easiest part of this to measure is the language difference; successful market entry must recognize the need for Chinese language products, and should also capitalize in the growing trend of English as a second language.
- ***Economic Development:*** The most notable characteristic of China over the past two decades is the remarkable pace of its economic development. This has led to dramatically increased living standards and expectations, giving birth to a rich and rising entertainment culture, fueling growing consumption and leisure expenditure, spreading diffusive internationalization, increasing fashion awareness, and speeding vogue trend fluctuation.
- ***Competitive Social Environment:*** Integrally related to its economic development, China's massive population and stratified social mobility have led to a social environment that is teeming with school and job competition; self-improvement means, and career and skill enhancement are therefore objects of widespread focus, and are considered nearly unavoidable for optimal social-economic placement.
- ***One-Child Policy:*** China's one-child policy plays an insidiously important role in

gauging Chinese society and understanding China's various markets. This population control method augments an already present cultural tendency towards overtly favoring children, while simultaneously applying heavy pressure on them to succeed, and in combination with other factors (i.e. the highly competitive environment) makes for an excellent market climate for children's books and extracurricular learning material.

- ***Target Demographic:*** Bearing all of these factors in mind, a proper entry strategy must conscientiously choose its direction in terms of its target demographic, bearing in mind age, class, and geographical region. As measured in earlier portions, China's hottest market segments are to be found among young to young adult readers, in student and employee positions, generally in an urban setting.
- ***Market Tactics:*** Finally, as in any professional commercial campaign, the strategic tactics used to expand the China book market should follow proven trends in Chinese consumer demeanor. Major factors such as discriminative product concentration, timing of releases and specials, appropriate pricing and attractive sales, strategic selection of store outlets and distributors, and user-friendly service and delivery options, may all play determinant factors in the success or failure of entering the Chinese book market.

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