



DVD in China: Spend will exceed \$500m by 2010 – but still fall short of market potential

London 5th March 2007: The latest research released by media analyst Screen Digest concentrates on the market for home entertainment in China. Taken from the recently published report “Cinema and Home Entertainment in China” the report analyses the opportunities and obstacles in a country of more than 1.3 billion people and with one of the world’s fastest growing economies.

According to the report, Hollywood studios and other distributors sold almost 70 million DVDs to Chinese consumers in 2006, and they spent \$115m buying them. Screen Digest forecast that by 2010 the Chinese will be spending in excess of \$500m on DVDs. This substantial growth will partly be at the expense of China’s video CD (VCD) sector, the value of which has halved to around \$50m since 2002 and is expected to continue to decline over the forecast period.

Piracy is a major hurdle

Estimates put Chinese video piracy rates at 95%, a major challenge for any company trying to make a profit from film. While the combined legitimate market for home entertainment was 126 million units in 2006, Screen Digest research suggests that as many as 2 billion counterfeit discs were in circulation at the same time. Major western titles are often available to the Chinese home movie fan a month before their official release, at far less than the relatively high cost of purchasing a legitimate DVD. Pirated copies of the latest James Bond film *Casino Royale* were available over a month before the film’s scheduled release date.

Restrictions are stunting growth

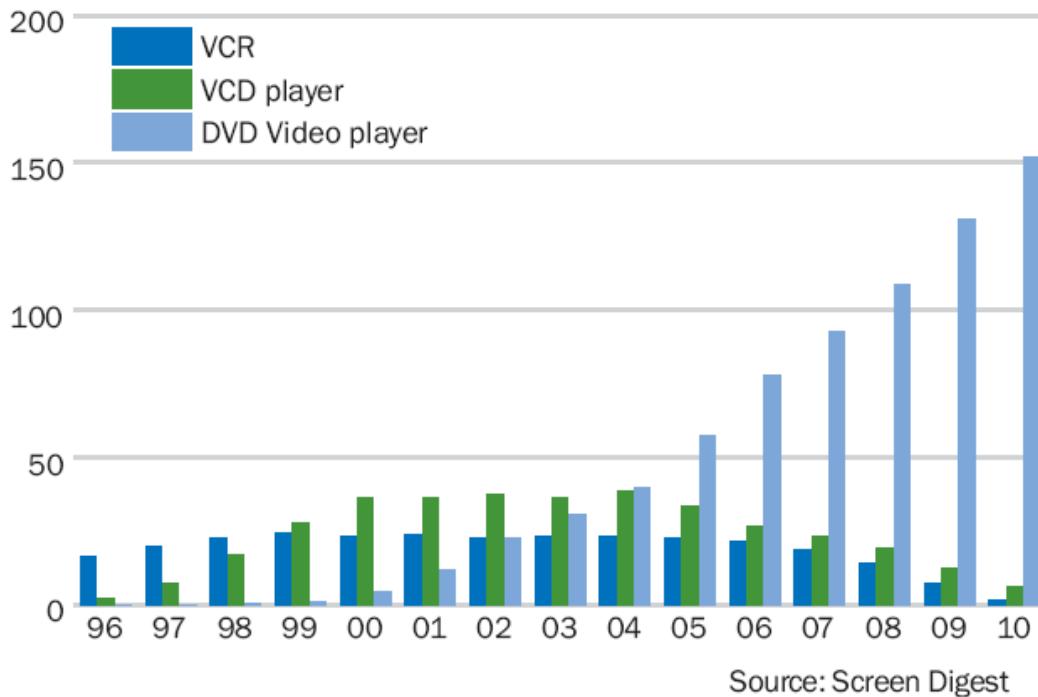
The Chinese government has only partially liberalised the market to allow for foreign investment yet the report highlights how a full relaxation of restrictions is a necessity if the true potential of the market is to be realised. Screen Digest’s Asia-Pacific analyst, David Scott, says “Whilst the government is understandably keen to protect the cultural identity of China, market liberalisation will in turn push China’s video industry to a more prominent position in the world. This would give China the opportunity to make full use of the foreign distribution channels set up by multi-nationals to introduce its products abroad and gradually gain a larger share of the international entertainment business.”

China’s “Urban Class”

Screen Digest has identified an “Urban Class” of relatively affluent and technologically advanced consumers who live in China’s major cities and can afford the relatively high DVD player prices of between 200 – 300 Yuan (\$25-\$38). Over half this group (55 per cent) owned a DVD Video player by the end of 2006,

compared with about 20 per cent across the country as a whole. Yet the potential for the take-up of DVD hardware in China is huge; Screen Digest estimate that the number of urban households equipped with a DVD Video player in China will continue rising to 143 million by 2010, at which point the country will represent over a quarter of the world's DVD homes. However, a major obstacle to growth countrywide is that a vast majority of people living outside China's major urban areas still do not own and cannot afford to buy DVD players.

China: Video hardware installed base by format (m)



The opportunities

Screen Digest points to the efforts that are being made by the government to increase cinema and home entertainment sales in China. First, Chinese authorities are taking meaningful steps to address the country's severe shortcomings in intellectual property enforcement. This will help eradicate counterfeit copies and encourage more people to choose legitimate alternatives to pirated discs.

Second, in the light of the boom in Chinese film production, the government is supporting a strategy to bring cinema to both rural Chinese and also even more urban areas to help the industry expand.

Scott concludes "With China's vast population, a stable economic environment and government commitment to economic liberalisation, the country has the potential to become the world's largest video market. But the government will need to also address the issues of piracy and disputes over DVD royalty payments that dissuade foreign investment. A key obstacle to substantial DVD growth, but one that is going to be much harder to overcome, is that of making DVD hardware more accessible to rural Chinese."

Ends

For more information please contact:

Screen Digest company contact:
Fay Hamilton
PR Manager
Tel: +44 (0) 20 7424 2847
Fay.hamilton@screendigest.com

Media enquiries:
Lucy Green
GutjahrGreen Communications
Tel: +44 (0) 7817 698366
lgreen@gutjahrgreen.com

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.

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. Our online services and reports provide the information and analysis that hundreds of media companies worldwide base their decisions on.

To find out more, please contact Screen Digest sales/sales@screendigest.com
Tel: +44 (0) 20 7424 2820. www.screendigest.com