CHINA MEDIA DIGEST

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contents

WELCOME TO THE CHINA MEDIA DIGEST

We are launching this newsletter to provide a source of reliable information for people who are interested in the development of the Chinese media but who do not have the time or the linguistic ability to follow the constantly-shifting economic and legal situation for themselves.

In each issue we will carry articles detailing the latest changes to the situation facing journalists, both foreign and Chinese, the most recent developments in the regulatory framework and the business environment in which the media operate, and the situation facing foreign media operations in the People's Republic of China.

Our aim is to provide clear and authoritative accounts of the main current issues in the Chinese media. We do not intend to advocate any particular course of action, either for the Chinese government, for Chinese media corporations, or for foreign organisations interested in the Chinese market. We hope that our reports will provide valuable information that will be useful to western businesses, to governmental agencies, and to scholars researching Chinese media, but our intention is simply to provide a factual account of the most recent developments.

We want to be as comprehensive and as accurate as possible but we know that we will miss important developments and certainly we will make mistakes. China and the Chinese media are just so big and so complex, and the situation can change so fast, that no publication can hope to cover everything and get everything right first time. Of course we will try to do the best that we can, but we hope that you, our readers, will help us achieve our aims.

Please read what we have to say. We are confident that most of the time you will find it very useful, but if you find we have made any mistakes, or if you think we have missed a big story, please do email me at the address below. I look forward to hearing from you.

Dr Xin Xin Editor

China's media prepare for the Olympics

China's preparations to host the 2008 Olympics are gathering pace. The upcoming games have already had important effect both on the Chinese media and on the thousands of foreign journalists expected this year.

The main winner amongst the Chinese media looks like being Central China Television (CCTV), the sole national television broadcaster, which has complemented its ownership of the over-the-air broadcasting rights with new media rights. On 18 December 2007, CCTV's online subsidiary, CCTV.com won exclusive exhibition rights for the Games on the internet and mobile plaforms. The International Olympic Committee (IOC) selected the CCTV.com bid out of several made in response to a tender launched in March 2007. The reason given is CCTV.com's capacity to guarantee full exploitation of the rights over a variety of platforms, by working in close cooperation with CCTV's television broadcasting team. CCTV acquired the over-the-air rights in 1998. The IOC has already granted similar Internet and mobile rights to companies operating in other territories, for example i-Cable in Hong Kong.

Jacques Rogge, IOC President, said "The Beijing Olympic Games will be a

continued over page

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Contributions and correspondence in English or Chinese are very welcome

Olympics

continued from page 1

landmark moment in Olympic history, and it is obviously an event of huge national interest in China. When this is coupled with China's digital media potential, it means our agreement with CCTV.com represents a very exciting partnership for the Olympic Movement. We look forward to working with our broadcast partner CCTV and its digital arm, CCTV. Com, to bring the excitement of the Olympic Games to a new generation of fans in China."

IOC Executive Board member, and member of the IOC's TV Rights and New Media Commission, Richard Carrión said: "The Beijing 2008 Olympics will break new boundaries in terms of digital Olympic broadcasting. It was important to the IOC to make sure that all potential partners understood the value of the rights and demonstrated that they would fully exploit these rights in mainland China, while also providing satisfactory guarantees of anti-piracy and security measures. By granting digital rights to CCTV.com, the IOC believes CCTV.com's digital team will work closely with the broadcast team at CCTV to develop joint activities across media platforms. This will ensure Chinese Olympic fans have access to the best possible Olympic coverage in 2008.

CCTV.com's General Manager, Mr Wang Wenbin, said: "The 2008 Olympic Games is both a milestone for new media broadcasting in China and also a milestone for the new media broadcasting of the Olympic Games."

On the back of these rights successes, CCTV is on course to win record advertising revenues for 2008. In the annual auction for airtime, held in November 2007, CCTV took in 8.03 billion RMB (more than GBP 500 million or USD 1bn at current exchange rates). The figure is well up on 2007, which brought in 6.795 billion RMB. The 18 per rise in revenues was a result of more than 30 per cent more companies entering the bidding, while long-time participants like Proctor and Gamble bid even higher this year. CCTV advertising chief Xia Hongbo was quoted as saying: "When you take into account that August 2008 is the Olympic month, it turns the whole year into a bumper year for advertising."

The auction involved more than 200 Chinese and foreign firms paying deposits of 1 million RMD and then making secret bids for blocs of airtime. The intensive bidding lasted for 14 hours. Proctor and Gamble topped the bidding for another year, spending 486 million RMB, well ahead of mainland dairy giant Yili's 374 million. China Life Insurance ranked third, spending 278 RMB.

One newcomer was China Airlines, paying more than 2.2 million RMB for a prime-time 5 second-commercial slot during the weather forecast in the Olympic month. They want to take the opportunity of the Olympics to make themselves better known to the world. Their bid was in line with the motivation of many mainland companies, who tend to overinvest in CCTV compared with foreign companies. According to Yuan Fang, a researcher at the Communication University of China, they see this year as a golden opportunity to make themselves internationally better known. The increased interest from domestic companies meant that foreign participants often failed to win slots. "Many multinational companies were at the auction, but they were outbid by more aggressive local companies," said R3 principal Greg Paull.

Foreign journalists also look set to gain from the changes brought in for the Olympics. They have been free to travel throughout China, including to Tibet and Singkiang, as well as to interview people without prior official permission, since January 1st 2007, when new regulations on reporting activities were introduced. (For the text of the regulations signed by Wen Jiabao in December 2006 see the Appendix.) The Chinese government is now considering making these changes permanent.

Mr Cai Wu, minster of the State Council Information Office, told the media on 27th December 2007 that China will continue the foreign journalists policy if it is proved in practice that it helps the world to have a better understanding of China.

Mr Cai had previously noted that foreign journalists had welcomed the new media situation at the 17th National Congress of the Communist Party of China in October. China Daily reported on 18th December that Mr Cai said: "They (the foreign media) welcomed the unprecedented openness of the congress and the services provided during that period. This is a good sign, and we will continue to be more open in the coming year, and provide a satisfactory service for all media." According to Mr Cai, China will "comprehensively implement" the State Council order granting foreign reporters more freedom to report before and during the Games. The 30,000 plus journalists expected for the Games will benefit from an improved news briefing system and a better quality news service, he promised.

Foreign journalists working in China are cautiously optimistic about the changes. Seiichiro Yamaguchi, Beijing bureau chief of the Fuji Television Network notes that China was more open in 2007 with more ministries holding press conferences. A report on August 3rd by China Daily news reporters Li Xing and Su Qiang came to a similar conclusion. They reported that: "The past seven months have witnessed increased coverage of China in the international media" who now enjoyed a "fitting legal framework governing their work in the country."

The same article quoted Liu Jianchao, Director-general of the Information Department of the Chinese Foreign Ministry giving several examples of how the government has made efforts to implement the regulations. He cited a case where a foreign journalist who had been stopped from reporting by the local leader and rang the Ministry. "As soon as we received the call, we contacted the local government and enable the journalist to continue his work" he said.

The Foreign Correspondents Club of China paints a less rosy picture. According to their survey of foreign correspondents, published in August 2007, many feel that they are not given complete freedom to report, and despite some improvements harassment of journalists is still common.

The Chinese side stresses that they are keen to improve conditions for foreign journalists but they expect in return a better and more detailed picture of China to appear in the international media. Cai Wu noted that: "we sincerely hope that through the efforts of our friends in media circles we can present to people around the world an accurate picture of China, that adheres to reform and opening up, promotes harmonious development and commits itself to building a moderately prosperous society."

Liaoning Publishing Floats Editorial Business on Shanghai Stock Market

The 21st December 2007 listing and share issue by Liaoning Publishing and Media Company Ltd (LPMC) on the Shanghai stock market is a landmark in ownership for Chinese media. LPMC is the first complete company to be allowed to list on a stock market anywhere.

Previously, media companies have only been allowed to list their operational businesses like printing and distribution, while editorial functions have remained closely controlled. There are at least seven other publication companies listened in China, for example Xinhua Media and B-Ray Media in Shanghai, and Beijing Media in Hong Kong, but these have only listed their operational businesses. The official justification for this restriction is that it prevents market imperatives from corrupting editorial judgements.

The policy was signalled in early 2007 in an interview with the Financial Times given by Liu Binjie, head of the General Administration for Press and Publication. He told the paper that Beijing was backing listings by and estimated 13 publishing and newspapers groups as part of a broad reform of the industry. Keeping the two parts of the business together would make them more attractive to investors. "Considerable risk is created if papers' business and publishing department are completely separated." Liu also said that there is likely to be an upper limit on foreign ownership, and that the majority of capital would remain with the state.

Cai Mingzhao, deputy director of the Information Office of the State Council, told the China Internet Media Forum on 4th December that it was likely that state-owned news websites will also soon be allowed to list.

LPMC, the first of this new wave of listings, was approved by the China Securities Regulatory Commission on 20th November for an initial public offering on the domestic stock market.

LPMC aims to raise more than 600 million RMB (40 million GBP, 80 million USD) by selling 140 million A shares, representing 25.41 per cent of the enlarged capital. The shares opened at 16.63 RMB, 258 per cent higher than its initial public offering price of 4.64 RMB. It closed at 19.93 later that day, demonstrating investor confidence in the publishing stocks.

State-owned Liaoning Publishing Group holds 402.9 millions shares, a controlling 73.41 per cent of LPMC, while the Advertising and Communication Centre of Liaoning TV holds 1.45 per cent. Liaoning Publishing, the holding company of LPMC, was established in April 2004. Based in Shenyang, the capital city of the northeastern Liaoning Province, it is engaged in publishing, distribution and printing. It claimed a net profit of 40.94 million RMB (2.73 million GBP or 5.5 million USD) for the first half of 2007, on operating revenues of 430 million RMB.

This listing included five of LPMC's publishing houses, whose output covers textbooks, fine arts, science and technology and other areas. According to Liaoning Publishing, another four publication companies, including Liaoning Children's Publishing House and Liaoning Educational Press, are expected to be listed within the next six months. However, two houses whose work is judged to be a state strategic publishing task, including Liaoning People's Publishing House, are excluded from the plan.

Ren Huiying, CEO of LPMC, said in a December interview with China Book Business Report that LPMC is trying to follow market principles successfully, as well as keeping an eye on the direction of public opinion. According to Mr Ren, four major investment projects, totalling around 703.81 million RMB, are expected after the listing. The including the setting up of a publication and scheming company and the expansion of a publication distribution company. It will also focus on the Amazon-Joyo project and e-business platform upgrades.

The listing of LPMC is regarded as a breakthrough in the Chinese publishing market and a signal for the start of a whole new stage in cultural reform. It is seen as a pioneering example for other publishing houses to follow. According to Ouyang Jian, deputy director of the Publicity Department of the Central Committee of the Communist Party of China: "It is an important achievement in systematic cultural reform. It marks new success while deepening reform in the publishing and distribution industry.

Internet in China: breakneck expansion and regulatory confusion

The internet continues to be wildly popular with Chinese people and companies that provide services and content are enjoying a boom time. Ji Weidong, Executive Director of Morgan Stanley in China, told the 2nd December 2007 "CCW CEO&CTO Summit 2007" that Chinese new media corporations are now worth more than 60 billion US dollars, a more than tenfold increase over the last five years.

China already leads the world in some aspects of the internet. According to Ji, five of the top twenty websites are in China and China has the largest group of under-30 internet users in the world.

IDG Global Vice-President Xiong Xiaoge was similarly optimistic, telling the Summit that more than four billion US dollars in venture capital had flooded into China in the last two years. "China is a real heaven for those who want to set up their own internet business," he said.

Online gaming is one of the healthiest growth areas according to the "2007 China Game Industry Survey Report" issued by the Gaming Committee of the Publishers Association of China and International Data Corporation. The Report shows that as of December 2007 China had over 40 million online gamers, a 23 per cent increase from 2006. Sales revenue reached 10.57 billion RMB, up by 61.5 per cent over 2006. It is estimated that by 2012 there will be nearly 85 million online gamers in China and sales revenue will be more than 26 billion RMB.

China has 126 online games development companies with 250 self-developed online games, employing 21,034 people in November 2007. 12 of these companies are enjoying export success, having generated sales revenue of USD 55 million.

Meanwhile, the regulatory framework for online operations in China remains complex. On 31 January 2008 the State Administration of Radio, Film and Television (SARFT) and the Ministry of the Information Industry (MII), who are responsible for different aspects of the online world, issues new regulations designed to clarify the situation. Currently, SARFT is responsible for audio-visual content while the MII covers the internet itself.

The object of the new regulations is to clarify the responsibilities of the two Ministries. The aim of regulation is stated as the protection of the interests of the state and of the public. Audio and visual content published on the internet and services, together with uploading services for this content remain the responsibility of SARFT. This body is charged with the administration, monitoring and regulation of the industry , as well the establishment of industry guidelines and security. The MII itself has monitoring responsibilities over the internet as a whole.

Companies wishing to provide audio-visual products online must first apply for certification from SARFT and gain registration. They must fulfil the requirements, *indicated right:*

Despite this attempt by the authorities to establish clear rules regulation activity on the internet, many serious problems remain unresolved. For example, are the popular private companies like Tudou and Youku , which provide uploading services for audio-visual material, obliged either to become state owned or face the prospect of closure? Can individuals upload current affairs programmes from CCTV, or are these official programmes covered by the ban? At the time of writing there is no public information that can resolve these thorny problems and the Chinese internet industry remains without adequate regulation. In our next issue we will carry further coverage of this developing situation.

- They must be legal persons
- They must be either entirely or majority state-owned
- They must have a clean record over the last three years with regard to appropriate laws and regulations
- They must possess an adequate programme censoring system and security technology
- They must have appropriate legal support
- They must act according to the relevant official guidelines

  There is also a list of illegitimate activities:
- Uncertified companies are forbidden from providing uploading services for audio-visual material.
- Individuals are forbidden from uploading news programmes dealing with current affairs and politics
- Both individuals and companies are forbidden to upload programs from illegal channels.
- If illegal content is identified, the operators must immediately delete it.

  Any violation of these regulations may result in a warning from the authorities and a fine of up to RMB 30,000. Serious violations of the regulations can result in the termination of internet access and the cancellation of access licences.