ITALIA

Istituto nazionale per il Commercio Estero
意大利对外贸易委员会
Italian Trade Commission

CHINA TELEVISION INDUSTRY MARKET REPORT

June 3, 2011

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INTRODUCTION

Objectives

- The key objective of this briefing is to provide Italian players with a high-level overview of the Chinese television (TV) market, with a key emphasis on opportunities and challenges
- In addition, an overview of China's film regulatory environment has been included as well as considerations for Italian players interested in approaching the Chinese market

Doing market research in China and our methodology

- Generally speaking, conducting market research in China is different and significantly more challenging than it is in developed countries because of 1) the size and diversity of the country; 2) lack of fully reliable centralized/official information databases; 3) the change is constant and extremely rapid - the whole China economic system is far from being in equilibrium, therefore a solid market research work must be based on multiple resources and activities
- Our general methodology leverage a combination of resources/activities such as:
  - All relevant background information (existing available information, etc.)
  - Significant secondary research (in Chinese, English and Italian), from proprietary databases to access to associations or magazines, etc.
  - Primary research, which include access to external business network, interviews with experts and key insiders, possible visits to trade show or selected companies, etc.
  - Collective China knowledge/sector expertise/market research expertise with over 300 consulting projects executed in and outside China

Format of this report

- The report is organized in such a way to provide different level of details in different places – executive summary, overviews, and paragraphs in the body of the report, summaries, and appendices; we have also used bullet points throughout the entire report to make reading easier
- We have used abbreviations for recurring terms; see the appendix section for a glossary of terms used

Information sources

- Key sources of information for this report include
  - All background information
  - Many secondary sources
  - Interviews with industry insiders and experts
  - Our ongoing analysis of all key facts and data collected
- In the report, sources are mentioned for chart, tables and key data; secondary sources include dozens of Chinese sources (news reports, magazines, publications, government statistics, etc.) as well as several English sources, as well as all companies' web sites, press releases from various magazines, etc.
- In total about 20 mini-interviews were carried out for this report with a variety of industry insiders and production companies
- Ongoing analysis and re-elaboration of all data collected is key to cross-check data and information and identify key trends and industry dynamics

EXECUTIVE SUMMARY

1. CHINA TELEVISION MARKET

Supply Side

- China's TV market has experienced tremendous growth over the past years, with broadcasting revenues increasing from USD 10 billion in 2004 to USD 33 billion in 2010
- China has over 4,000 TV production companies; China became the number one country to produce dramas (by number) in 2005
- As of 2010, China has the world's largest television audience, with a 97% household penetration for TV coverage
- China's central government strictly controls the TV market, making it difficult for foreign players to penetrate; however, after the entry into the WTO[1] in 2001, the TV market has gradually become more liberalized
- Foreign companies are allowed to invest in TV production in China through Sino-foreign cooperation; however in JVs, foreign companies can only have minority stake and must follow strict regulations
- China has, to a degree, opened its satellite TV market to foreign companies; foreign satellite TV channels such as CNN, BBC and MTV are able to enter China through broadcasting landing right[2]
- China's TV market is largely polarized and dominated by a few key players; *China Central Television (CCTV), Shanghai Media Group (SMG) and Hunan Broadcasting System (HBS)* are the top three broadcasters by revenues
- Because the central government fears losing control over the media, there are many restrictions in place, limiting the entry of foreign broadcasters especially in terms of strict content censorship

Demand Side

- The total number of color TVs in households have increase significantly since the 1990's; the number has doubled in urban areas, reaching ~146 per 100 household and increased 22 times in rural areas, reaching 114 per 100 household
- Amongst all the genres offered, TV serial dramas and movies have the highest broadcasting and viewership ratings across China; additionally, variety shows are increasingly popular, especially talent shows and dating shows
- *Hong Kong, Taiwan, Korean,* and *Thai* are the more popular foreign TV dramas viewed by Chinese

[1] WTO – World Trade Organization
[2] Broadcasting landing rights allows foreign satellite television channels to broadcast at stipulated areas such as guesthouses, three-star hotels (or above) catering to foreign guests, buildings exclusively for office and residential use by expatriates, and within other specially designated locations

- There are four current TV medians are: 1) Cable TV; 2) Satellite TV; 3) IPTV[3]; and 4) CMMB[4] ; advance technology has allowed the triple network convergence[5] to take place, bringing China's TV market to a whole new level
- With the rise of new media, the higher-tier cities (i.e. Tier 1 and Tier 2 cities), young (under 25) and more affluent generations are more likely to be drawn away from TV; however, TV is still the largest advertising median

Import & Export Analysis

- In general, the import volume of TV plays is low and has been decreasing since 2005; for example plays fell from 430 in 2005 to 171 in 2010
- Major country/regions for TV import to China include: *Hong Kong*, *Taiwan*, *Korea*, and the most recently *Thailand*; price per TV series has been going up dramatically from US$ 100,000 to over US$ 600,000
- Foreign TV series (dramas) are dominated by imports from *Hong Kong*
- US and European TV movies are more popular and well perceived compared with TV series; imports of US and European TV movies are about 39% of total imports while TV series only reached 3% of total imports in 2010
- Chinese TV plays are mainly exported to other Asian countries; however there are some exports to the US, European Union, and Middle East countries

Distribution Overview & Practical Options for Market Entry

- Large TV play production companies and TV stations are the main distributors for foreign plays in China
- Foreign companies who are interested to enter China TV market can do so via three ways:
    1. *Import (including through satellite transmission);*
    2. *Sino-foreign co-production (joint production, collaborative production, and entrusted production)*
    3. *Joint Venture in production company*
- TV stations usually prefer locally produced plays over import plays because the copyright for imported plays normally only lasts 2-3 years
- Through Sino-foreign co-production or JV, foreign players can be treated similar to a local producer and therefore bypass strict regulations which are imposed on import
- In Sino-foreign JVs, the Chinese party must have the controlling power; i.e., foreign players can only have a minority share (49% maximum)

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[3] IPTV – Internet Protocol Television
[4] CMMB – China Multimedia Mobile Broadcasting
[5] Triple play convergence: the integration of telecommunication, internet network, and radio and television through a unified interface instead of three separated networks

- Application for broadcasting needs to first be reviewed (and possibly censored) by the *provincial TV and Radio Administrative Department* and *State Administration of Radio, Film and TV* (*SARFT*)

2. REGULATORY ANALYSIS

- *SARFT* is the main regulator of the TV industry; all content management will have to be screened by *SARFT* before approval
- Censorship and banning of programs are common in China; content which would challenge political authority or are considered inappropriate would be censored or not approved for broadcast
- In order to enter China, companies need to have a broadcasting landing right; application to import and broadcast requires over 3 months for approval
- Investment in media is restricted as per the *China Investment Catalogue*[6]; therefore foreign ownership in any JV shall not exceed 49% and registered capital of USD 2 million is required (USD 1 million for cartoons)
- There are copyrights regulations implemented, however, the management and enforcement of such regulations are weakly dealt with by the Chinese government; it is difficult to control the piracy market as well and infringements are rampant

3. POTENTIAL OPPORTUNITIES & CHALLENGES

Opportunities

- Chinese government has been pushing digitalization and the concept of triple play convergence, which will assist in the development of the TV industry as a whole
- Chinese audiences are becoming more open to western culture and there is a perception that western TV plays are more creative and original compared with domestically produced plays
- There is increasing Sino-foreign cooperation thanks to China's entry to WTO, which creates opportunities for new entrants
    - e.g. more opportunities in Sino-foreign co-production and JV besides import, although foreign investment is still restricted

[6] The China Investment Catalogue details industries that are encouraged, restricted (allows minority stake JV) and forbidden (not allowed); if an industry is not listed, then it is simply "allowed"

- The table below summarizes areas of potential investment opportunities

Table: Investment Options for Italian Companies Entering the China Market

Investment Mode	Type of Investment Allowed	Note
Import	Restricted	- Import content is reviewed by *SARFT*; content may be significantly edited; taking months to years
Production Company	Restricted	- Minority share (max 49%) Joint Venture allowed - Minimum investment is US$ 2 million (US$ 1 million for cartoon production) - Foreign invested companies may also apply for distribution license
Co-Production	Allowed	- Three types of co-production opportunities: 1) joint production; 2) collaborative production; and 3) entrusted production
Distribution	Forbidden(*)	- (*) Joint Venture Production company may apply for distribution license
Broadcast (Cable)	Forbidden	- Cable broadcast only allowed by Chinese players; dominated by CCTV
Broadcast (Satellite)	Restricted	- Foreign broadcasters (e.g. BBC, MTV) may broadcast so long as they receive *broadcast landing rights*
Representative office	Allowed	- Representative office is required in order to obtain landing rights and broadcast satellite transmissions

Source: JLJ Analysis on multiple sources

Challenges

- Awareness of plays from many Asian countries are quite high, e.g. from *Hong Kong*, *Taiwan* and *Korea*; however awareness of *Italian* TV plays remains low
- Import / Sino-foreign co-production and its censorship are under tight control; the time for proper censorship tests applicants' patience vary from 3 months to several years (e.g. Grey's Anatomy from the US took 6 years for approval)
- Content being broadcasted is also restricted, which cannot be considered politically sensitive or inappropriate

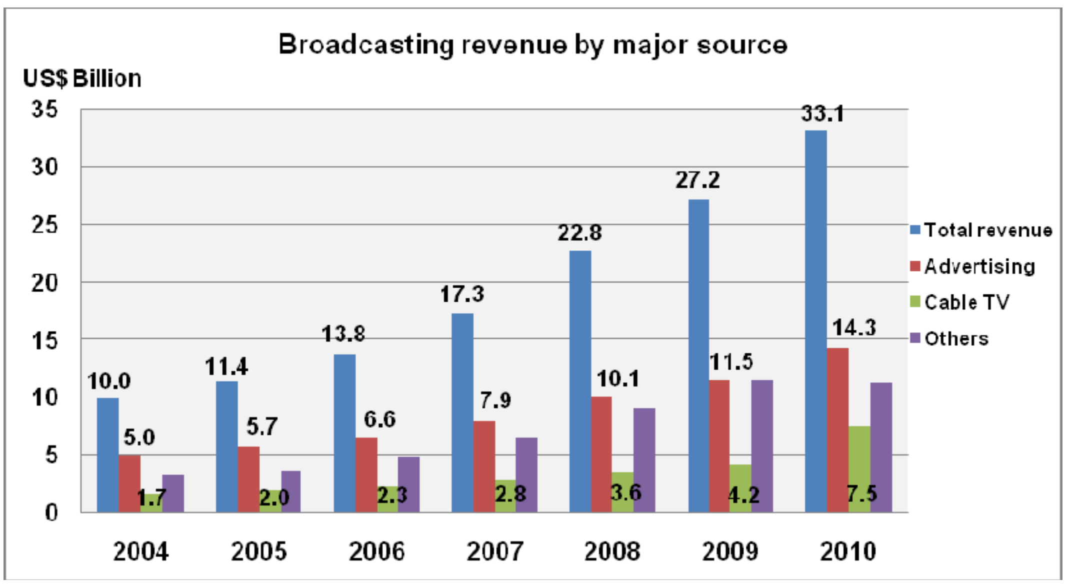
4. CONCLUSIONS

- China has the largest TV audience in the world, and with the increasing broadcast coverage especially in rural areas, opportunities exist for foreign players
- Many Asian players invested heavily in the TV industry (e.g. actors frequently interact with Chinese audiences to promote TV plays) chain in China
- Most European (including *Italian*) companies just started to enter the market and learning more about Chinese audiences and their preferences
- Tight government censorship adds more barriers for foreign entry, therefore before entering the market, it is critical to first understand the regulatory environment

CHINA TELEVISION MARKET: SUPPLY SIDE

Overview

- In 1958 China's first TV station was founded in Beijing, after 50 years development there are now over 300 TV stations and over 2,200 TV channels well established in China by 2010
- *The State Administration of Radio, Film and Television* (hereinafter referred to as the *SARFT*) operates as the regulatory and cultural guardian of broadcasting in China
- *SARFT* is responsible for censoring any materials that might be objective to Chinese government (i.e., politically sensitive) or cultural standards
- The number of TV production companies has increased to over 4,000 with annual production of 436 TV plays; China's TV industry has become very productive and fruitful in recent years (the largest TV drama production country since 2005)
- As shown in the following chart, China's broadcasting revenue has been growing at a 22% CAGR[7]in total revenue. 19% CAGR in advertising and 28% CAGR in cable TV from 2004-2010

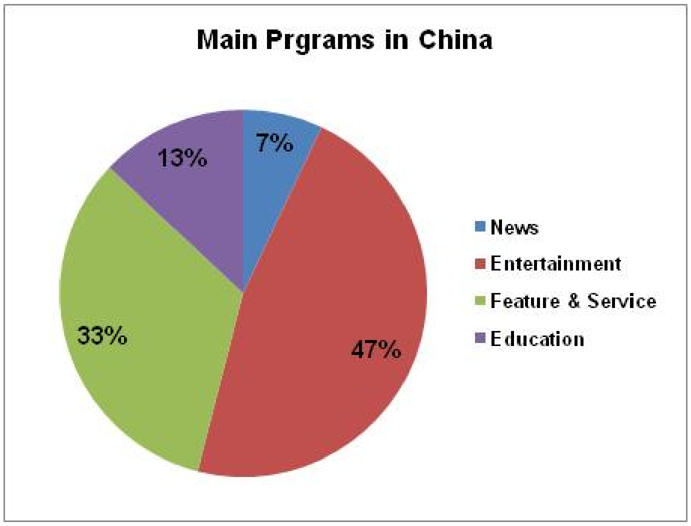


Source: JLJ analysis based on multiple sources

- Other revenues mainly came from fiscal subsidy, revenues generated from TV broadcasting (excluding cable TV), and radio broadcasting
- Total revenue hit US$ 33 billion in 2010, and advertising revenues made up over 43% of the total revenues

[7] CAGR: Compound Annual Growth Rate, it calculates the year on year growth rate over a period of time

- The four main categories of TV programs in China include: news, entertainment, feature & service, and education); a breakdown of the percentage of each is illustrated in the chart below:



Source: JLJ analysis based on multiple sources

- Popular TV import countries or regions have changed over recent years - *US* TV dramas were popular in the late 1980s, followed by *Japanese* and *Taiwan* TV series; *Korean* dramas are currently the most popular
- TV series, TV programs, and cartoon are the major categories of imported plays in order of trade volume

Major TV Production Companies

- There were over 4,000 broadcast TV production companies (excluding TV stations who also participate in TV production) certified in 2010, including both state-owned and private
- Production companies located in Beijing account for roughly 18% of the total qualified companies
- Within TV stations there are production departments as well, and they can produce TV plays (series and programs mostly) as well
- Private TV production companies are dominant (97% out of the total) in China TV market; however content wise they are still "inside the system" and do not enjoy the same level of freedom as TV production companies overseas

- All content (both domestic and foreign produced) needs to be reviewed and approved by *SARFT* before it can be aired (see *Content Management* under Regulatory Analysis)
- Many of the production companies were established in the 1990s and their business range covers production, distribution, advertising, artiste management, equipment rental, foreign program introduction and so on
- Chinese TV production companies seldom provide local audience with variety and creativity as production leans towards TV dramas
- The most popular shows are largely copied from abroad, for example "*Super Girl*" is a Chinese version of "*American Idol*" and "*China's Got Talent*" became the most successful "*Got Talent*" program in terms of viewership
- Foreign investment is forbidden in Chinese TV and radio broadcasting operations (but restricted in satellite broadcast); within production enterprises, only minority stake (49%) is permitted
- Although Chinese government continues to impose tight control over market access for the mass media, policy restrictions have been eased since China's entry to WTO in 2001
- For example, apart from import, foreign investment is now permitted, to some degree, in TV production in China
- Three major ways for foreign players to participate in TV production include: 1) Joint production; 2) collaborative production; and 3) entrusted production – detailed below:

Examples of Sino-foreign cooperation in TV production	
According to No. 41 *Provisions on the Administration of Sino-foreign Cooperation in the Production of TV Plays* *Article 5* suggests the following ways in Sino-foreign TV production:	
Joint production	Both Chinese and foreign parties invest, assign key production personnel, and share benefits and risks in the production of TV plays (including cartoons)
Collaborative production	The foreign party invests, assigns key production personnel and shoots all or part of the outdoor scenes; the Chinese party offers labor or equipment, appliances, and places in the production of TV programs
Entrusted production	The foreign party invests and entrusts the Chinese party to produce the TV programs

Source: JLJ analysis based on *SARFT*

- *Interim Regulations on the Administration of Sino-foreign Joint Venture and Cooperation in Broadcasting and TV Program Production and Management Enterprises* specify the provisions on Joint Ventures (see *Sino-foreign JV* under Regulatory Analysis)

Highlights of provisions on Sino-foreign Joint Ventures		
The provisions also apply to enterprises from *Hong Kong*, *Macau* and *Taiwan*		
Capital requirement	***Qualification requirement***	***Content requirement***
• Foreign production companies are allowed to establish joint ventures in China with foreign ownership up to 49%; the minimum capital requirement of JV is US$ 2 million or US$ 1 for animation	• One of the Chinese parties must possess a *television drama production permit (Class A)* according to *SARFT*	• Jointly operating enterprises shall produce TV plays with exception of current political news and similar special/sensitive topical and column programs • At least two-thirds of the content being produced should be on Chinese subject matters

Source: JLJ analysis based on *SARFT*

- *SARFT* and (*Ministry of Commerce People's Republic of China*) *MOFCOM* are jointly responsible for the examination and approval or the establishment of Sino-foreign JV
- In JV or any other kind of Sino-foreign cooperation, *SARFT* encourages to use more Chinese specialists and makes sure that the Chinese party has the controlling power
- Domestic production companies tend to produce series that are 20-40 episodes in each TV series, and each episode lasts about 45 minutes
- TV movies are produced in 90-120 minutes lengths; Chinese TV stations do not normally separate them into 2 parts unless they are very long
- Once the TV series or movies are sold, it depends on the TV stations how they to cut it into episodes

- The Table below provides a list of key production companies:?

Company Name	Established Year	Headquarters	Core Business	Representative Work
State-owned				
CCTV Animation Co.,Ltd	2007	Beijing	production	*TV Program: Journey To The West, Legend of Nezha, The adventures of Little Carp,The Animal's Carnival*
China International Television Corporation	1984	Beijing	production, distribution, advertising, foreign TV plays introduction	*TV Program: Sing The Same Song, Happy Family, Dream World, Special 6+1, Happy Cyclopedia TV series: Daxidi, Fanfu Courtyard, Deep In The Night*
Qiushi Film & TV Center	N/A	Beijing	production	*TV Series: A Hundred-year Course, Backbone, Scientific Development Road*
Viewpoint Communication Co.,Ltd	2000	Beijing	production, culture exchange, equipment rental, exhibition	*TV Program: China Archeological Secrets, To the South Pole, CEO's Eye China, Craftwork Treasure of China*
Shanghai Film, Radio & TV Production Ltd (under SMG)	1999	Shanghai	production	*TV Program: Aida, My Hero, My Show, Dancing Together China*
Happy Sunshine Interaction Entertainment Ltd (under HBS)	2006	Changsha	production	*TV Program: Happy Boy, Super Girl, Miracle Dancing*

Table Continued →

→Table Continued

Company Name	Established Year	Headquarters	Core Business	Representative Work
Private				
Enlight TV Production Co. Ltd	1998	Beijing	production, distribution, advertising	*TV Program: Entertainment Live, Top List of Music, Top List of Film, Best Site TV series - Shanghai Grand, Project A, Chiese Brothers*
Joyful Culture and Entertainment Co. Ltd	1998	Beijing	production, distribution, advertising, artiste management	*TV Program: Super Model, You Are The One TV series: The Great Revival, Where Is Our Youth Age, Orange Furong Flowers, Hero, Rubik's Cube*
Tang Dragon International Media Group	1994	Beijing	production, distribution	*TV Program: Follow Me, Life, Super Cinema, Golf World*
Egasus & Taihe Entertainment International	1993	Beijing	production, distribution	*TV Program: Folk Music Program, Novelty List, Entertainment Star, Oriental Talk Tonight TV series: Ultimate Plan*
Hai Run Movies & TV Production Co. Ltd	1993	Beijing	production, distribution	*TV Program: Drawing Sword, Brother, Mountain Patrol, Red Memory*
JV				
Shanghai Oriental Nick TV Production Co.,Ltd	2005	Shanghai	foreign program introduction, culture exchange	*Cartoon: Cat Dog, Hey Around TV Progam: Childrens' Choice, Blue Clue*
Huaso Film/TV Digital Production Co.,Ltd	2004	Beijing	production	*TV Film: Ten Warriors*

Source: JLJ Analysis on multiple sources including company websites

Key National Broadcasting Companies/Channels

Overview

- There are three national broadcasting companies in China: 1) China Central Television (CCTV); 2) China Education Television (CETV); and 3) China Xinhua News Network Corporation (CNC)
- Among the three, CCTV is the leading national broadcaster and most recognized in China. having 20 variety of channels vs. the other two having 5 and 2 channels respectively

Snapshot of China Central Television (CCTV)

Overview

- Over the years, CCTV has emerged as China's most influential state-owned national TV broadcaster having over 90% of TV network coverage nationwide
- Being the leading broadcaster in China, CCTV occupies the biggest proportion of the audience market share (approximately one third) and has the world's largest audience
- On average, CCTV's programs are seen by about 73 million viewers daily, and a typical viewer spends about 2 hours watching CCTV programs a day
- CCTV has a total of 20 channels, of which 15 channels are broadcast nationwide and 5 are international channels (English, French, Russian, Spanish and Arabic)
- The appendix lists all 20 CCTV channels and a short description of each channel
- Presently, CCTV has broadcasting networks in over 120 countries, showing a variety of 400 programs daily
- Foreign programs are also available on CCTV channels, including television dramas and movies from the *United States*, *Hong Kong*, *Taiwan*, *Japan*, *Korea*, and *Italy*, among others
- In order to expand the Chinese traditions and culture, CCTV also engages in program exchange agreements; foreign programs are able to be broadcast in China, and in return, Chinese programs will be broadcasted overseas
- In 2001, CCTV allowed *AOL Time Warner* to air programs in *Guangdong* province in exchange to air CCTV News channel in *New York, Los Angeles* and *Houston*
- CCTV aims to create the greatest number of international channels so as to strengthen the understanding between China and the rest of the world

- The table below provides an overview and ranking of the top 12 channels; annually, about 67% of the top 12 channels (in terms are viewership) belong to CCTV; the more popular channels are CCTV 1, CCTV 6, CCTV 8 and CCTV 3

Rank	Top 12 Channels in China	2010 Viewership Ratings	Rank	Top 12 Channels in China	2010 Viewership Ratings
1	CCTV 1	0.66	**7**	Jiangsu Satellite TV	0.28
2	CCTV 6	0.43	**8**	Zhejiang Satellite TV	0.27
3	CCTV 8	0.37	**9**	CCTV 13 (News)	0.26
4	CCTV 3	0.34	**10**	CCTV 4	0.23
5	Hunan Satellite TV	0.32	**11**	Anhui Satellite TV	0.23
6	CCTV 5	0.29	**12**	CCTV 14	0.20

Source: JLJ analysis based on multiple sources

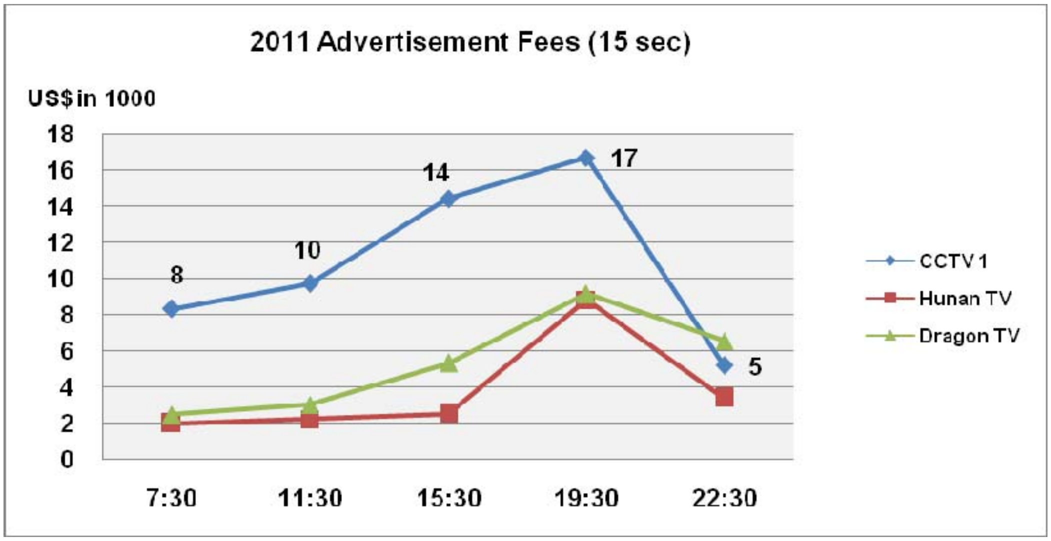
- CCTV channels are constantly facing fierce competition from aggressive provincial broadcasting channels like *Hunan Satellite TV, Jiangsu Satellite TV* and *Zhejiang Satellite TV*
- Notably, one of CCTV's most popular programs viewed nationwide is *"The Spring Festival Gala"* featured during the Chinese New Year's eve; viewership of the program hit a record high of over 80% audience market share in 2010

Advertising

- Being the top broadcaster with the highest viewership, there is increasing demand to advertise products on CCTV channels
- CCTV holds annual advertising auctions to determine which companies win the bids; prices were driven up to over USD 7 million (RMB 50 million) for a 60 days advertising right during prime time[8] slot (also known as Golden Time period)
- Advertising auction sales for CCTV have risen steadily from a total of over USD 0.4 billion (RMB 3 billion) in 2003 to a total of over USD 1.4 billion (RMB 10 billion) in 2010

[8] Prime time refers to the 19:00 to 22:00 time slot of a day; it has the highest number of viewers daily and most companies want to advertise their product during prime time

- Comparisons of a 15 second advertising slot can be seen in the chart below; it is about two times more expensive to advertise on CCTV 1 as compared to *Hunan Satellite TV*[9] and *Dragon Satellite TV*[10]



Source: JLJ analysis based on multiple sources

- In 2010, CCTV's total television advertisement revenue were about USD 2.5 billion (RMB 17 billion), which is tantamount to the total combined revenue of the top ten provincial cable TV operators

[9] Hunan Satellite TV was the 5th ranking TV channel in terms of viewership in 2010
[10] Dragon Satellite TV was the 11th ranking TV channel in terms of viewership in 2010

Major Regional / Local broadcasting companies / channels

Overview

- Regional television broadcasting in China can be divided geographically into provincial-level, city (local)-level and county-level
- Despite the central government's strict control over the media, China's television market has over 1,000 provincial and city-level television stations, offering over 3,000 variety of channels
- Organizationally, a major city-level broadcaster may be of greater size and influence compared to smaller provincial-level broadcaster; an example would be the *Shanghai Media Group* (*SMG*), a renowned city-level broadcaster

Key Regional Broadcasting Companies

- *SMG* is the 2nd highest revenue earning broadcaster ranked behind *CCTV*; *SMG's* total revenue was over USD 1.6 billion (RMB 11.3 billion) in 2010

Shanghai Media Group (SMG)

SMG 上海文广新闻传媒集团 SHANGHAI MEDIA GROUP

- SMG (formed in 2001) was restructured into two entities - *Radio and Television Shanghai* (RTS) and *Shanghai Oriental Media Group* (SMG; abbreviations remain unchanged)
- RTS is state owned and mainly responsible for broadcasting news content, while SMG became a public holding enterprise, responsible for non-news related programs and advertising
- The *Dragon Satellite Television*, one of SMG's renowned subsidiaries, generated about USD 17 million (RMB 113 million) and was ranked 11th in China's provincial satellite television ratings in 2010
- *"China's Got Talent" (Season One)* was broadcasted on Dragon Satellite Television in 2010, peaking at 500 million viewers per episode to become the highest number of audience among all the 'Got Talent' programs
- In 2003, SMG and CNBC established program share agreement, and the show "*Managing Asia*" is a successful joint effort of the strategic partnership
- In 2010, SMG owned the first TV shopping license and declared the opening of Shanghai Oriental Shopping Channel, the first analogue channel specializing in TV shopping 24 hours a day

Source: JLJ analysis based on multiple sources

- Another renowned provincial-level broadcasting company is the *Hunan Broadcasting System (HBS)*, ranked 3rd after the *SMG* in terms of total revenue

Hunan Broadcasting System (HBS)

- The Hunan Broadcasting System (HBS) is state owned and was first aired during 1970; it was formerly known as Golden Eagle Broadcasting System (GBS)
- Under HBS is the Hunan Satellite Television channel, which is seen as a strong competitor, especially to CCTV
- Hunan Satellite Television Channel generated USD 0.5 billion (RMB 3.6 billion) in revenue and held 5th place in terms of viewership ratings in 2010 (the other top 4 being CCTV channels)
- One of the famous programs broadcasted by the Hunan Satellite Television is the "*Super Girl*" national singing competition program, which spun off many similar talent shows from competitors ever since 2004
- Audience ratings hit a record high and the estimated total revenue from the 2005 Super Girl contest was about USD 95.75 million

Source: JLJ analysis based on multiple sources

Key Provincial Satellite Television Channels

- Regional broadcasting companies usually own both the provincial satellite television and the cable system
- However, satellite channels are more popular; one of the reasons being the innovative programs that satellite TV channels offer, such as ‘Super Girl’, ‘Super Boy’ (both singing competitions), ’If You’re The One’ (dating show) and ‘China Got Talent’ (talent competition)
- The top 10 provincial satellite television channels in China have over 60% nationwide TV coverage; *Hunan Satellite TV*, *Jiangsu Satellite TV* and *Zhejiang Satellite TV* were the leading satellite channels in 2010

Rank	Top 12 Satellite Television Channels	Viewership Ratings 2010	Market Share 2010
1	*Hunan Satellite Television*	0.381	2.961
2	*Jiangsu Satellite Television*	0.311	2.418
3	*Zhejiang Satellite Television*	0.261	2.027
4	*Anhui Satellite Television*	0.199	1.543
5	*Beijing Satellite Television*	0.168	1.303
6	*Tianjin Satellite Television*	0.151	1.172
7	*Liaoning Satellite Television*	0.14	1.091
8	*Jiangxi Satellite Television*	0.134	1.043
9	*Heilongjiang Satellite Television*	0.13	1.014
10	*Shandong Satellite Television*	0.125	0.971

Source: JLJ analysis based on multiple sources

- In terms of viewership, satellite channels are in close competition with CCTV channels (as mentioned in the table under CCTV); top 12 channels comprises of only CCTV channels (8 channels) and satellite channels (4 channels)
- Notably,all satellite TV channels are required to broadcast some CCTV materials like CCTV news and propaganda programs; however, this does not seem to affect satellite TVs’ capacity to compete with CCTV
- Early 2009, there was a sudden surge for provincial satellite channels to broadcast popular TV series and competition was intense among satellite TV channels
- Consequently, *SARFT* forced over 200 satellite TV stations to sign an agreement of Self-governance for Television Series Broadcasts in order to solve the disputes of programming schedules

Foreign broadcasting companies / channels

- Since China joined the World Trade Organization (WTO), the Chinese government gradually began to become more liberal with the media market
- Presently, there are 34 foreign channels allowed to be broadcasted on satellite TV in China
- Foreign-owned channels were given landing rights to be broadcast on local satellite and cable system; so far, the only province with such rights is *Guangdong*, the region around the *Pearl River Delta* neighboring *Hong Kong*
- CETV (owned by *AOL Time Warner*), *Phoenix Satellite Television* (owned by both Today's Asia and News Corp) and *Star TV* (owned by *News Corp*) were among the first few channels allowed to be broadcasted in *Guangdong*
- Foreign channels like CNN and MTV (both with landing rights) are unknowingly tapping into the Chinese market through legally or illegally owned satellite dishes, reaching a far greater audience than expected
- In 2009, the number of households with legal satellites was about 4 million, and the number of household with illegal satellites was roughly 40 million
- Illegal satellite dishes with the capability of detecting overseas channels are highly popular and could be acquired cheaply through illegal distributors
- The entry of the latest two new foreign channels, ESPN and STAR Sports, suggested the ease in foreign media related to sports, possibly due to the 2008 Olympics held in *Beijing*
- Popular foreign channels are HBO (films and drama), ESPN (Sports), Phoenix Infonews, Phoenix Chinese and Discovery
- However, the fear of losing control over the media when foreign broadcasters enter and the financial rationale of boosting the broadcasting industry creates a dilemma for the central government loosening restrictions on foreign broadcasters

Import – Export Analysis

HS code 9900 which normally covers media especially video production is no longer available from China Customs, therefore the import export analysis is based on SARFT and other relevant sources

Imported TV plays in China

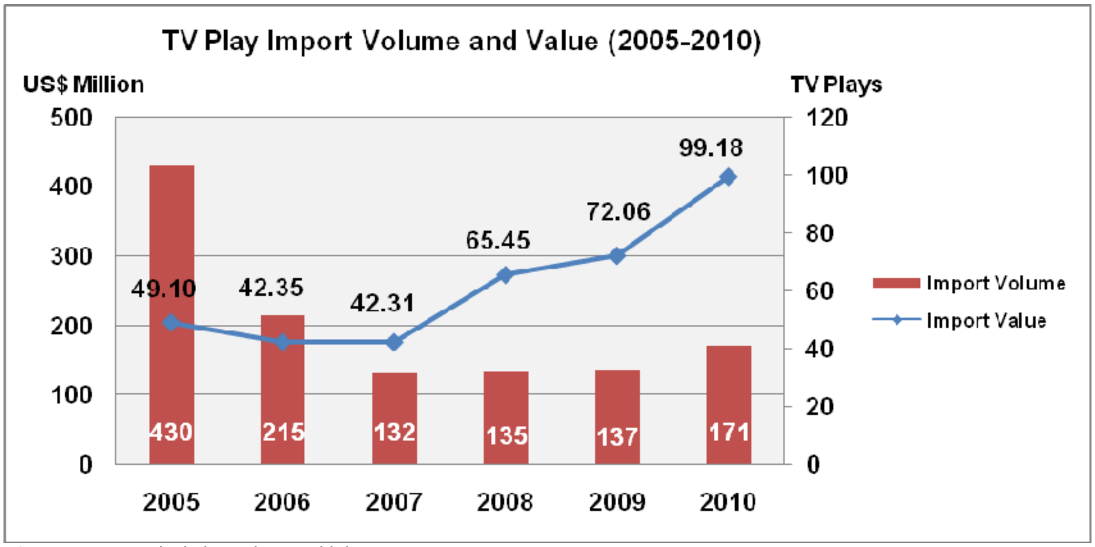
- The total number of imported TV plays in the China market is relatively very low with only 171 imported in 2010
- Average censorship process for import takes at least 3 months, and in some extreme cases it may even take over 6 years before Chinese audience can see it from the TV screen, e.g. "*Grey's Anatomy*"
- *SARFT* enforces strict censorship controls on imported plays and the censorship is tighter for TVs than it for films because TV audience is much larger than other forms of media
- All of the restrictions on broadcasting in China are regulated by *SARFT* and they have impacts on imported TV plays

No. 42 Provisions on the Administration of Import and Broadcasting of Overseas TV Programs (Article 18)
➢ The time for broadcasting overseas TV plays per day should be less than 25% of the total time for broadcasting TV plays in each TV channels
➢ The time for broadcasting other imported TV programs per day should be less than 15% of the total time for broadcasting in each TV channels
➢ During prime time (19:00-22:00) imported TV plays can only be broadcasted with the approval from SARFT (before 2004, it was 15% of the total programming during prime time)

Source: JLJ analysis based on *SARFT*

- The copyright for an overseas TV play usually lasts for only about 2 to 3 years which makes TV stations more reluctant to purchase imported TV plays and more of them lean towards locally made programs or shows
- The annual quota for imported TV plays is set by *SARFT* and then distributed to provincial Bureau of Radio, Film and TV
- The quota is not public information and is considered to be sensitive and confidential
- The same imported TV play can be broadcasted at most on two provincial level channels
- As of in 2010, there were 171 TV plays allowed to be broadcasted in China imported from overseas, including 104 TV series and 67 TV movies

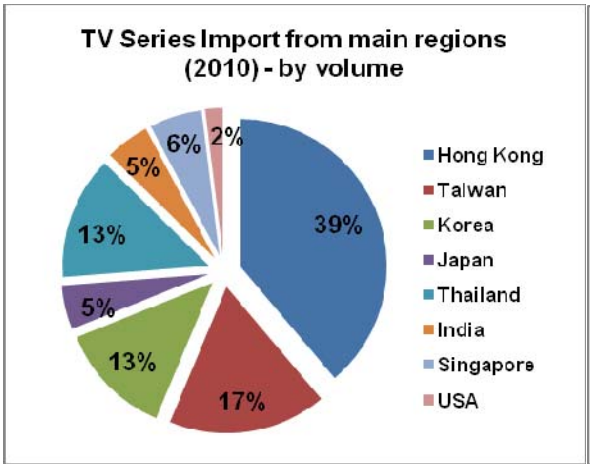
- As displayed in the chart below, 2005-2009 experienced a downward trend in volume but an increase in import value of TV plays imported to China from overseas

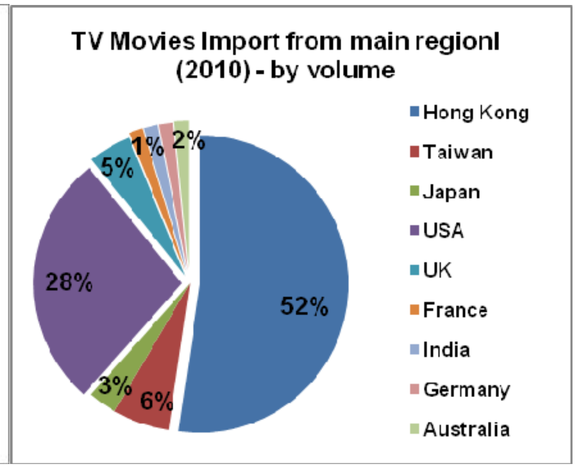


Source: JLJ analysis based on multiple sources

- In 2010 the import volume of overseas TV plays began to pick up; growth in value continues to increase
- The value per imported TV play grew from US$ 100,000 to almost US$ 600,000 over the past a few years, more so with *Korean* dramas, which prices increased significantly after one Korean TV series "*Dae Jang Geum*" had huge success in China in 2005
- The Chinese prefer Asian TV series and movies, and the imports of TV plays are primarily from other Asian countries
- European and US are more competitive in the area of TV movies relative to TV series (39% VS 3% in movie and series import volume respectively)
- In 2010, *Hong Kong*, *Taiwan* and *Korea* topped the list in overseas TV series, surprisingly in terms of quantity *Thai* dramas are picking up and closely follow the *Korean* because of the sharp price increase in imported *Korean* dramas
- European players seldom compete in the overseas TV series sector
- More diversities have been shown in the TV movie sector, e.g. US movies occupied one-third of the total market in terms of volume, and Chinese audience get to see more European movies especially from the UK and Germany
- Nevertheless half of the foreign TV movies market is still dominated by Hong Kong as of in 2010
- Italy is not a popular region where China imports TV plays, and Chinese audience in general has low awareness of Italian TV series or movies

- The charts below illustrate the main regions from which TV plays are imported

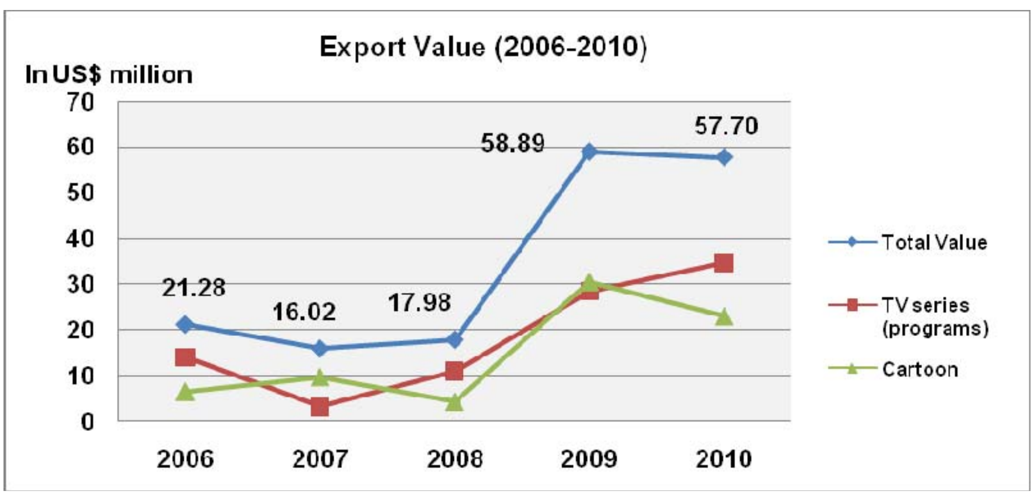




Source: JLJ analysis on multiple sources

Export TV Plays

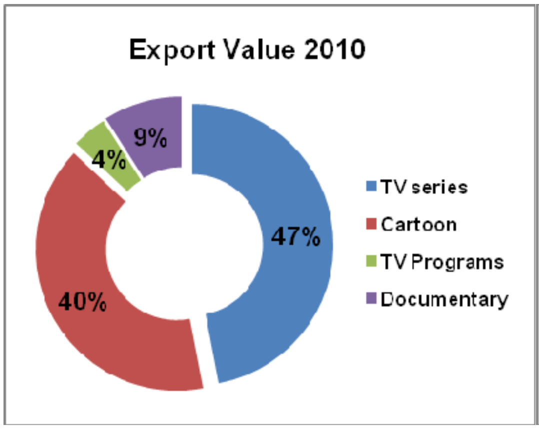
- From 2008 to 2009, China TV play export experienced a huge increase however the total export value was still quite a lot less than the import value which does not correspond to China being the largest TV drama producer

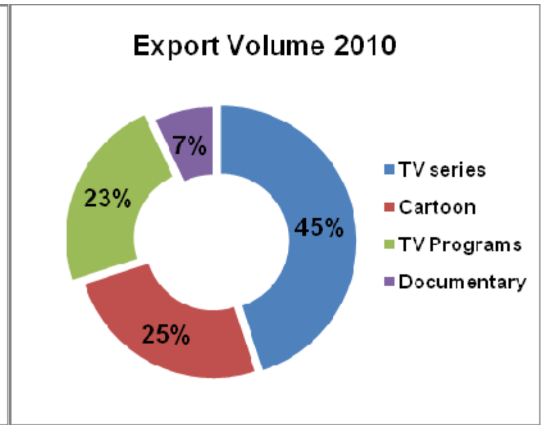


Source: JLJ analysis on multiple sources

- The increase in export value was mainly driven by favorable government policies such as fund support and tax reduction to offset the negative impact of the financial crisis
- Cartoons export in particular grew dramatically in 2009 and its export value exceeded TV series once again after 2007
- Last year, TV series constituted the majority in both export value and volume

- The premium of cartoons is much higher than that of TV programs indicating a market for Chinese cartoons overseas





Source: JLJ analysis on multiple sources

- *Hong Kong*, *Taiwan*, *Japan*, *Korea*, and other Asian regions are still China's main export target at this moment, although the market has been expanding to Europe, the US, and some Middle East countries
- *China International Television Corporation* (CITVC) is the largest exporter thanks to its government background and advantages in channeling; a lot of the private companies are growing fast and following right after CITVC

Distribution Overview & Practical Options for Market Entry

Overview

- Only TV plays with distribution permits can be legally broadcast; the permit is granted by *SARFT*
- In China, most production companies also distribute as a way to capture more profit/margin by being involved more areas of the distribution chain
- However many small production companies (with annual production less than 100 episodes) do not distribute themselves and have to turn to distributors
- For example, small production companies can either sell the copyrights to distribution companies or use them as an agent and pay them 15% to 30% of the total profit as commission afterwards
- TV plays can normally be distributed twice in china; In the first round distribution, production or distribution companies sell the TV plays to national (such as CCTV) or provincial broadcasters
- In the second time distribution, upper level TV stations resell the TV plays to small scale TV broadcasters, e.g. city or county TV stations, to utilize resources; however the revenue generated at this stage is not as high as in the first round
- Normally TV production or distribution companies do not share any profit in the second round distribution because the copyrights have been transferred to TV stations
- Provincial and lower level TV stations cannot compete with national televisions in terms of purchasing power, therefore many times they purchase promising programs jointly to compete against media conglomerates
- There are mainly two ways for foreign TV plays to access the China market: import (including through satellite transmission) and co-production with local companies

Import (including through satellite transmission)

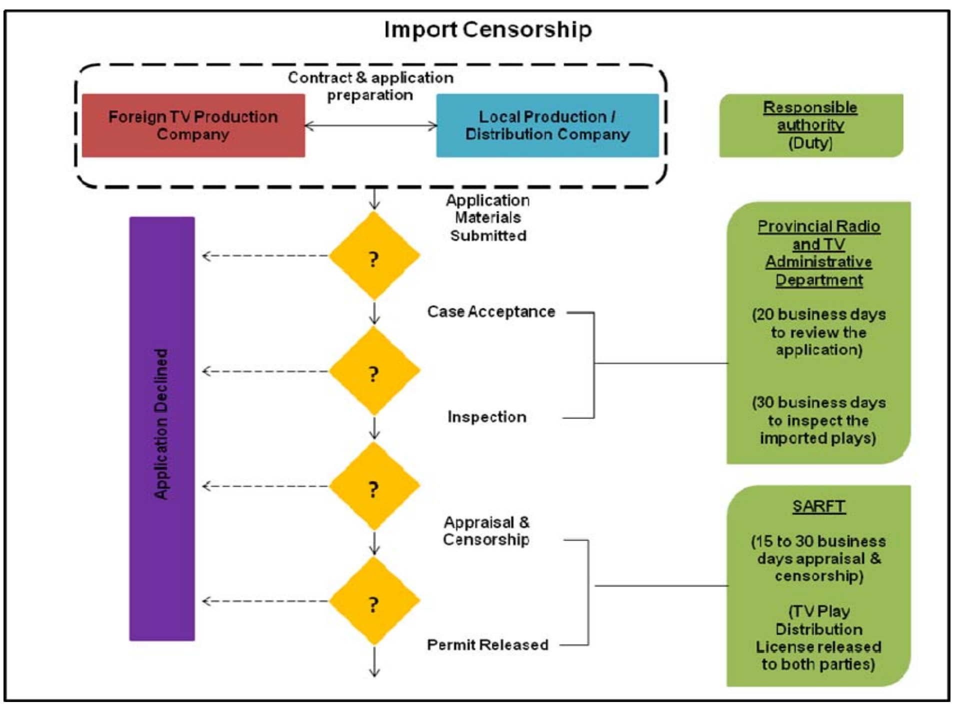
- To distribute TV plays, overseas TV production companies usually look for large production companies or distributors (including TV stations) in China
- The application and censorship processes both with and without satellite transmission are very similar, and the main difference is in application materials

- The foreign TV production company shall assist the Chinese party in preparing the following application materials:

No. 42 Provisions on the Administration of Import and Broadcast of Overseas TV Plays (Article 9 & 10)
1. Application for the Import of Overseas TV Plays (provided by provincial Radio and TV Administration Departments)
2. Import contract (in both Chinese and foreign language)
3. Certification of copyright (in both Chinese and foreign language)
4. A complete set of video tape with pictures, sound, and time code
5. A brief for each episode with at least 300 Chinese characters
6. Captions in both Chinese and foreign language for the beginning and end of the TV play
Through Satellite Transmission
1. Application for the Import of Overseas TV Plays (provided by provincial Radio and TV Administration Departments)
2. Import contract (in both Chinese and foreign language)
3. Certification of copyright (in both Chinese and foreign language)

Source: JLJ analysis based on *SARFT*

- Following is a flow chart of import review and possible censorship:



Source: JLJ analysis based on multiple sources

- *SARFT* is responsible for the approval of the import and broadcast of overseas TV plays and provincial *Radio and TV Administrative Department* is in charge of the preliminary examination within respective jurisdictional areas
- The import entity shall file an application to provincial Radio and TV Administrative Department
- The import entity gets a TV Play Distribution License from *SARFT* if application gets approved; otherwise *SARFT* shall give an explanations for the decline

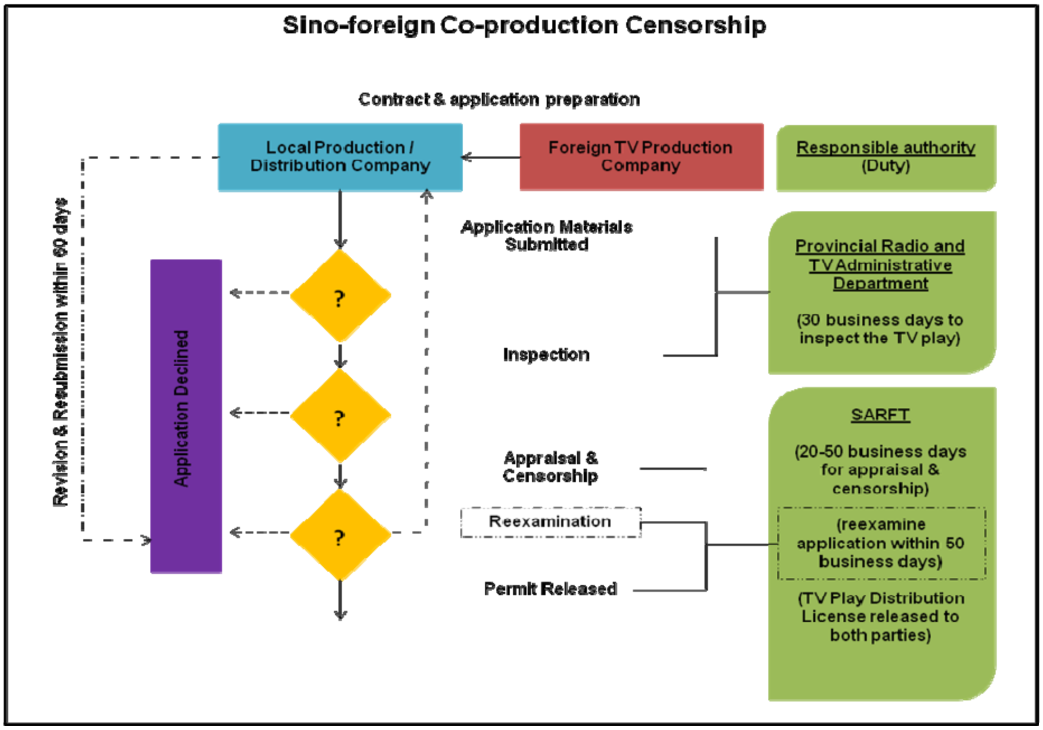
Co-production

- Co-production with Chinese partners are considered “domestic productions” and are able to bypass some of the import restrictions imposed on foreign programming
- The applicant of Sino-foreign co-production shall submit the following materials when filing the application:

According to No. 41 Provisions on the Administration of Sino-foreign Cooperation in the Production of TV Plays
Application of Sino-foreign joint production (Article 7)
1. An application
2. A photocopy of the TV Play Production License (Class A)
3. The preliminary examination of Provincial Radio and Television Administrative Department (unless the Chinese party directly file the application to SARFT)
4. A brief for each episode with at least 5,000 Chinese characters or a complete screenplay
5. The name list and resume of key production personnel, including scriptwriter, producer, director, and leading actors and actresses
6. The production plan, shooting scenes in China and detailed shooting schedules
7. The letter of intent for cooperation
8. A legal person registration certificate of the foreign party (resume in case of natural person) and credit certification; the examination and approval organ may require the foreign party to submit a notarized foreign third party guarantee letter
Application of Sino-foreign collaborative or entrusted production (Article 10)
The provisions do not require No. 2 and 3 as listed in Sino-foreign joint production, and in No.4 the abstract for each episode is above 1,500; the rest of the requirements are the same as in joint production

Source: JLJ analysis based on *SARFT*

- As illustrated by chart below, Sino-foreign co-production review and censorship process is slightly less complicated than the review of a fully imported play:



Source: JLJ analysis based on multiple sources

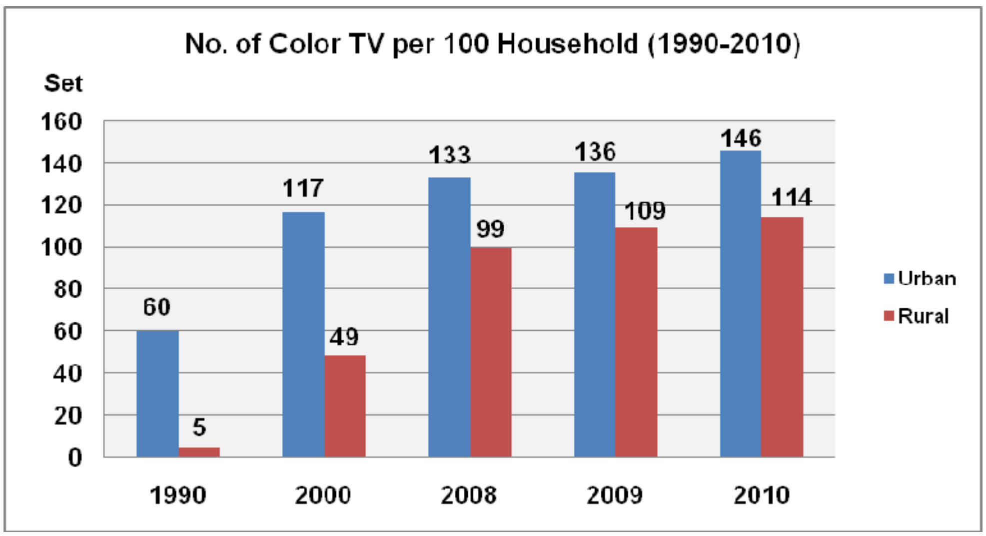
- *SARFT* is responsible for the approval of TV plays (including Cartoons) through Sino-foreign cooperation and regulate the foreign party
- Provincial Radio and TV Administrative Departments is in charge of the specific administration and preliminary examination within its administrative areas
- The Chinese party who possesses the TV Production License (Class A) can file an application directly to *SARFT* (apply to all the joint production which requires the Chinese party to have a Class A TV Production License[11]
- Other Chinese TV play production companies (collaborative and entrusted production) may need the approval of provincial Radio and TV Administrative Department first when applying for Sino-foreign application
- Within 50 days, *SARFT* shall examine the TV plays through Sino-foreign joint production; review time for collaborative or entrusted production is usually 20 days
- *SARFT* may issue an approval of distribution to qualified applicants, and in case of unqualified application, *SARFT* may also give the applicants explanation of the disapproval
- An applicant may file an application to *SARFT* to reexamine within 60 days after the previous case disapproval, and *SARFT* shall make a decision and reply the applicant within 50 days

[11] See above *No. 41 Provisions on the Administration of Sino-foreign Cooperation in the Production of TV Plays*

CHINA TELEVISION MARKET: DEMAND SIDE

Key Market Demographics

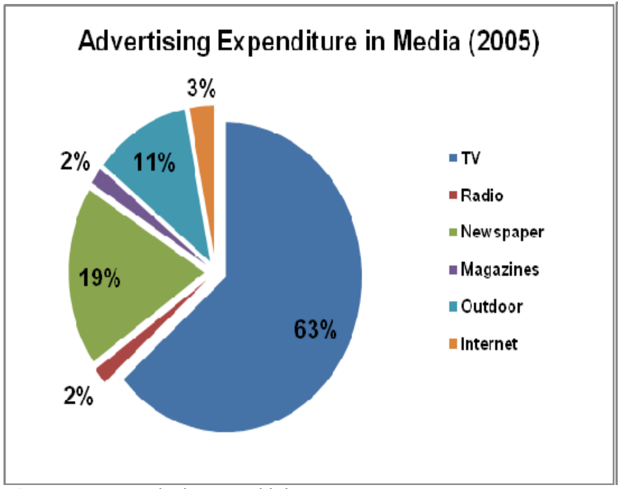
- In the past 10 years, Chinese TV viewer spent on average 130-170 minutes watching TV every day; although there is a shift of attention towards new media (e.g. IPTV),
- TV coverage had been constantly rising and in 2010, TV coverage rate of China's population reached over 97%
- The total number color TV sets in households has risen significantly since 1990; in 1990 the number of urban and rural households were 60 and 5 respectively per 100 households
- This figure has grown to 146 color TVs per 100 urban households and 114 color TVs per rural household; the chart below illustrates the growth rate in the number of TV sets per 100 households from 1990-2010

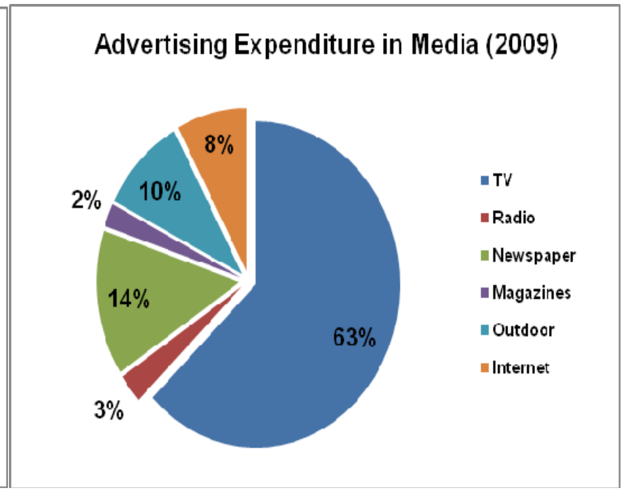


Source: JLJ analysis on multiple sources

- TV viewing in the rural areas are a key driving force of the TV industry, especially when advertisers are actively expanding into the secondary and tertiary cities
- The daily average time spent watching TV is around 2.3 hours for viewers aged 15-24; the number of hours increases steadily with age and those aged 45 and above watch an average of 4 hours per day
- Generally, the average hours watched on weekends are higher than on weekdays; and daily television ratings peak at 12pm to 2pm and even higher during the 'prime time' from 7pm to 10pm
- Over the years, the usage of internet has grown significantly from about 137 million in 2006 to over 450 million users in 2010; although traditional TV viewing is threatened by new media, traditional TV still has the largest audience base

- The charts below illustrate the changes in media advertisement expenses based on media type; there is a marked increase in Internet expense from 2005 to 2009, growing from 3% to 8%, while expenditures in TV remained constant at 63%





Source: JLJ analysis on multiple sources

- New media distribution is not restricted to computers, but also made available through mobile phone, IPTV, outdoor LED, office LCD and LCD screens in public
- In view of the media market trend, TV media owners are now utilizing new media platforms to reach out to greater audience; for example, leveraging on IPTV to broadcast popular programs
- Notably, the progress of new media is more acute in the high-tier cities, among the young and more affluent generation

Programming overview

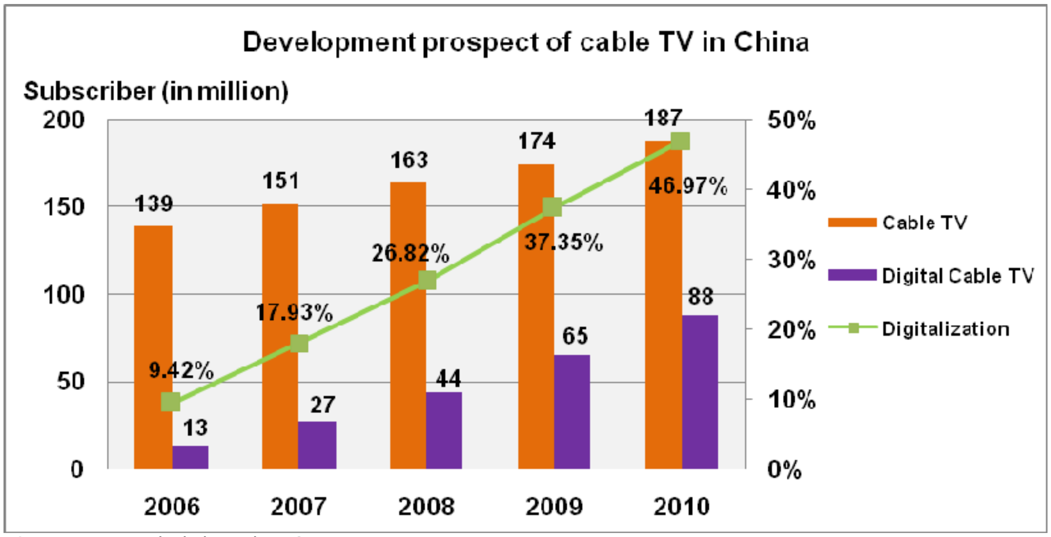
- Older generation, aged above 45, tends to watch more *finance*, *law*, *education*, *life service*, *drama*, *news* and special topic TV shows
- Younger generation, aged 15 to 34, prefers *films*, *music*, *youth*, *foreign language* and *variety* shows
- Amongst all the genres offered, television serial dramas remain the highest broadcasting and viewership ratings across China
- Chinese TV dramas have always been the dominant programming in the TV market; during the 18:00 to 24:00 time period, market share of the Chinese drama is over 80% nationwide
- Of foreign TV dramas, *Hong Kong* dramas have the highest viewership ratings; *Taiwan* and *Japan* dramas are gradually regaining their popularity in viewership ratings
- Most American dramas are popular in demand; however, due to strict censorship, these dramas are seen on the internet or DVDs illegally

- Foreign dramas in the genre of action, biography and suspense are the most favorable genres
- Some foreign broadcasters localize their content for the China's television market
- For example, MTV, owned by *Viacom*, is one of the most successful foreign channels in China; as quoted by the *Viacom* Chief President Sumner Redstone, "We create music with local people for local audiences respecting local culture"
- Variety shows are increasingly becoming more popular, especially talent shows and dating shows
- One of the more famous dating programs is "*If You Are The One*", produced by *Jiangsu TV*; however, due to the negative impact on society caused by the program, *SARFT* had to intervene and restrict certain contents
  - In 2010, popular dating shows such as "*If You Are The One*" were taken off the air due to the 'materialistic' behavior of participants broadcasted; for example:
  - "I would rather cry in the back of a BMW than smile on the back of a bicycle," said one woman on the program to a potential suitor

Main TV operations in China

Cable TV operations

- Large local TV cable operators have acquired fragmented cable networks over the years and undergo less pressure of competition due to regional monopoly
- As displayed in the chart below, during the past five years, the number of households equipped with cable increased by 8% to nearly 187 million subscribers[12], becoming the world's largest cable user base

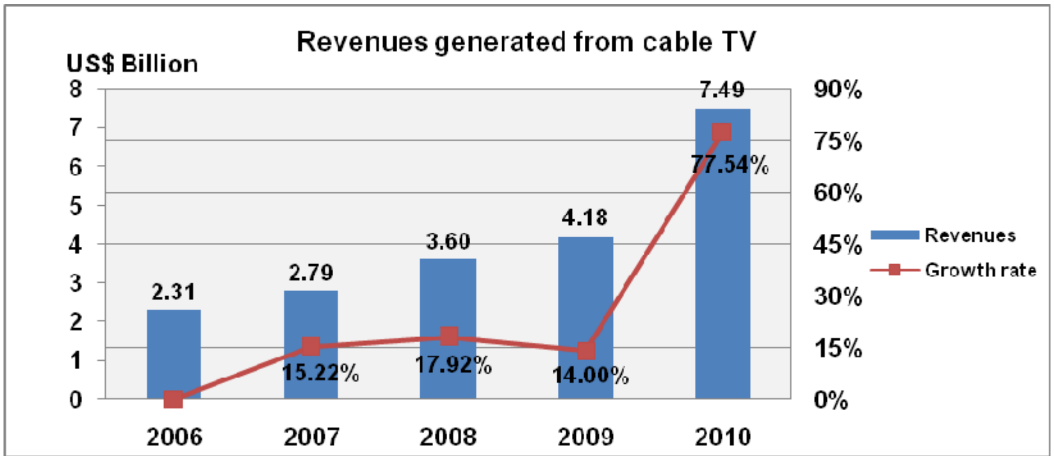


Source: JLJ analysis based on *SARFT*

- In China, the coverage of cable TV network has reached 98% of the household and consolidation of cable TV is just the first step of developing TV broadcasting
- As a political imperative, China has been speeding up the upgrade of terrestrial analog TV to terrestrial digital TV; by 2010 digitalization has reached above 45% and by 2015 it is estimated that analog signals will be ceased in China
- The Chinese government has taken initiatives to facilitate digital TV industry growth and meet its digitalization goals by giving out set-top boxes for free and encouraging inter-province networks
- TV digitalization has covered many of the tier 1 and 2 cities in more developed regions, and now the geographic emphasis has been shifted to rural areas especially in the west

[12] Note: The number of households equipped with cable TV includes those equipped with digital cable; thus of the 187 million households equipped with cable, 99 million have analog cable, while 88 million are equipped with digital cable (~47%)

- As the following chart indicates the impetus of developing digital TV has driven a significant revenue boost in cable TV for the year 2010



Source: JLJ analysis based on *SARFT*

- Since the beginning of 2010, the average revenue per household increased roughly 75% for families who have installed digital cable TV; In Shanghai, for example, the subscription fee for digital TV per month increased from US$ 1.9 (RMB 13) to US$ 3.4 (RMB 23) in 2010

Satellite TV operations

- Under the *SARFT* initiative, satellite broadcasting was originally aimed to target the rural and remote regions not served by cable systems
- Satellite TV operations are penetrating into China's TV market, reaching a significant network coverage (note: actual network coverage cannot be determined due to the phenomenon of illegal satellite)
- Currently, there are over 30 provincial satellite networks in China; the total cumulative viewership of satellite TV increase from over 10 billion to over 39 billion; about a 15% CAGR from 2000-2010
- For legal satellite dishes, signals are relayed through cable systems, allowing the government to control content; viewers may subscribe and pay for satellite channels
- China media law prohibits the setting up of private satellite dishes to receive foreign programs; only three-star and above hotels and expatriate office buildings are allowed have dishes able of receiving foreign signals
- However, many viewers purchase private (illegal) satellite dishes and tap on the 'free' satellite signals as well as overseas signals
- With the introduction of the triple network convergence, programs from satellite TV channels will be more widespread

IPTV operations (Internet Protocol TV Operations)

- Content and service providers intend to become less dependent on traditional TV broadcasting and therefore see IPTV as another opportunity for innovation and revenue increase
- Currently new media only contributes about 10% to the profit of local TV production companies, but is expected to account for up to 50% in the near future as the technical and regulatory environment become more mature in China
- China's embrace of digital products accelerated the growth of IPTV; nationwide the subscriber base jumped to 8.5 million in 2010, a 96% sharp increase from 4.5 million in 2009
- IPTV end users mainly cluster along the coastal areas, which are the more developed parts of China, and the market has taken shape in *Shanghai*, *Zhejiang*, *Fujian* and *Guangdong* provinces
- Despite of the uneven distribution of IPTV subscribers, the triple play convergence policy will encourage IPTV's development and future growth in China
- The same administration on content and broadcast network operation have been applied to IPTV; IPTV services can only be provided by companies that possess *Permission on Information Network Broadcasting Programs*
- So far there are only four operators – *Shanghai Media Group (SMG)*, *CCTV*, *Southern Media*, and *China Radio International* (*CRI*) – that have been awarded the necessary IPTV licenses in China
- SMG was licensed by *SARFT* to broadcast its own programs on IPTV networks (with China Telecom) in 2005, and this case has been seen as the first successful cooperation between the broadcast ing and telecom sectors;
- The success of the *SMG/China Telecom* partnership was followed by *CCTV* and *Southern Media* in 2006 and *CRI* in 2007
- The Beijing Olympic Games in 2008 was another platform for IPTV growth (the number of IPTV subscribers tripled), and programs including "*Live the Olympics*" and "*Olympics on TV*" where viewers could watch the games
- However only TV stations and other media companies are eligible for providing IPTV content, the services provided by telecommunication companies are limited to access equipment, service platform and broadband network

China Mobile Multimedia Broadcasting (CMMB) operations

- CMMB is another new-media outcome with the arrival of 3G era and the triple play convergence policy
- CMMB is China's own broadcasting technology system, which is based on satellite and terrestrial interactive multiservice infrastructure (STiMi) and can function as a portable or mobile TV
- *SARFT* has been promoting CMMB since the 2008 Beijing Olympics; China has completed the deployment of CMMB networks in more than 300 cities and the number of subscribers reached 10 million in 2010
- To promote the wide adoption of CMMB, free channels such as CCTV news are offered to subscribers
- Besides the GPRS traffic charges, users also need to pay for TV subscription (a bit less than US$ 1 per month) at this moment
- However the number of channels is limited, and it is usually between 4 and 16 in addition to CCTV
- Similar to IPTV, content providers to CMMB are limited to only a few media companies with *SARFT* approved, e.g. SMG and CCTV among others
- *China Mobile* is ahead of other telecom giants in CMMB business and it is building up China's biggest mobile video base in Shanghai with the goal of becoming the largest wireless video base nationwide

REGULATORY ANALYSIS

Overview

- There are three main bodies regulating and overseeing the media industry of China – the *Central Propaganda Bureau* (CPB), the *General Administration of Press and Publications* (GAPP), and the *SARFT*
- CPB is a Communist Party body responsible for the daily operations of the media, and the setting and implementation of the Communist Party's media policy
- CPB issues censorship orders based on their own discretion deemed beneficial to society
- *SARFT* and GAPP issue media regulations to control and limit the entities who are allowed to produce and disseminate news and cultural products through a licensing system

No. 42 Provision on the Administration of Import and Broadcast of Overseas TV Programs (Article 3)
➢ The *SARFT* shall be responsible for the examination and approval of the import of overseas films and TV plays, and the import of other overseas TV programs through satellite transmission
➢ The provincial radio and television administrative departments shall, upon the entrustment of the *SARFT*, be responsible for the preliminary examination of the import of overseas films and TV plays within their respective jurisdictional areas, and the examination and approval of other overseas TV programs and the supervision on the broadcast of them
➢ The radio and television administrative departments at the prefecture (city) level shall be responsible for the supervision over the broadcast of overseas TV programs within their respective jurisdictional areas

Source: JLJ analysis based on *SARFT*

Content Management

- The *SARFT* is responsible for television drama content management and supervision nationwide; there is strict government control over media content and violation of regulations is viewed with great seriousness
- The censorship of media content is mainly to prevent any challenges to the Chinese government's political authority and to serve the social interest of the Chinese public
- *SARFT* actively bans and censor TV content that are considered to be inappropriate to society; this is based on *SARFT* discretion and regulations, which are constantly changing depending on the government's decisions, for example:
  - In May 2011, police and spy dramas were banned for the 3 months to encourage stations to focus on more wholesome programming
  - In April 2011, time travel dramas are viewed as 'treating history in a frivolous way' and banned from broadcasting
- Content restrictions applies to both domestic and foreign imported programs

No. 42 Provision on the Administration of Import and Broadcast of Overseas TV Programs
Article 5 (Television dramas shall not contain the following content)
➢ Content violating the basic principles determined in the Constitutions, inciting resistance or violation to the implementation of the Constitutions, laws, administrative regulations and rules;
➢ Content endangering national unity, sovereignty and territorial integrity;
➢ Content divulging State secrets, endangering State security, damaging State reputation and interests;
➢ Content inciting ethnic hatred, ethnic discrimination, violation of ethnic customs and habits, harming ethnic feelings, violating ethnic unity;
➢ Content violating State religious policies, propagating religious extremism or heresy and superstition, discriminating or insulting religious beliefs;
➢ Content disordering social order, destroying social stability;
➢ Content propagating obscenity, gambling, violence, terror, drug use, instigating criminal acts or teaching criminal methods;
➢ Content insulting or slandering others;
➢ Content endangering social ethics or excellent ethnic cultural traditions;
➢ Content endangering the lawful rights and interests of minors or harming the physical or mental health of minors;
➢ Other content prohibited by laws or administrative regulations

Source: JLJ analysis based on *SARFT*

Sino-foreign JV

- Foreign companies may engage in mainly two types of joint ventures with local production studies to enter the China's TV market; namely, Sino-foreign equity joint venture or Sino-foreign co-operative joint venture
- However, the JV must adhere to the following requirements:
  - Foreign entrants must form a joint venture (JV) with a licensed Chinese television or radio program production enterprise, with foreign ownership limited to a maximum of 49%
  - At least USD 2 million registered capital[13] is required; as for cartoons (animated programs), the registered capital requirement is USD 1 million
  - News-related programs for television and radio are highly restricted, and two-thirds of the program produced must be China-related
  - The foreign applicant must be an established television producer in their home market
  - The new JV must have independent logos and branding
  - Local-level radio and television stations are not permitted to (i) lease out or jointly operate their channels or frequencies to, or with, foreign entities, or (ii) establish set programs with foreign entities

Type of Joint Venture	Description
Sino-Foreign Equity Joint Venture (EJV)	Viewed as a legal person and thus has a limited liability
	Partners share profits, losses and risk in equal proportion to their respective contributions to the venture registered capital
Sino-Foreign Cooperative Joint Venture (CJV)	Viewed either as a legal or a non-legal person; the latter is not very common though
	Partners are allowed to share profits according to the terms of a negotiated Joint Venture Agreement, and not necessarily in proportion to capital contribution

- *Time Warner* was the first to form Sino-foreign joint venture film production with *Beijing*-based *China Film Group* and *Zhejiang*-based *Hengdian Group*
- Subsequently, *Sony Pictures* together with *China Film Group* formed a Sino-foreign joint venture film and television digital production company

[13] Registered capital is the amount of money that can be put into a Limited or Unlimited company in the form of shares.

KEY MARKET DYNAMICS

1. Digital Media Space in China is on a rise – including the concept of the Tri-Network Convergence

- China has the world's largest television audience (over 1.2 billion), internet users (over 450 million) and mobile subscribers (over ~800 million)
- Along with the burgeoning growth of new media and the Chinese government's aim to digitalize all of its cable networks (above the county level) by 2015, the media industry will continue to expand rapidly
- More importantly, with the establishment of the Tri-Network Convergence, TV consumption will experience further growth as new media channels become available

2. Highly regulated industry dominated by few key players

- China's entry into the WTO had opened the TV market; however, only to a small degree
- Foreign players are still restricted in terms of foreign investment, i.e. the Sino-foreign joint venture requires foreign company to establish minority stake
- Furthermore, tight censorship regulations by the *SARFT* limits the entry of foreign players, especially for western countries' where blockbusters and TV dramas usually fail the content screening process
- China's TV market is dominated by a few key players, such as CCTV; it may be difficult for foreign broadcasters to penetrate and establish themselves in China

3. Growth potential for foreign broadcasting companies

- Although the media industry is a state-dominated industry and highly regulated, there are still prospects for foreign companies to penetrate into China's TV market
- This is especially so as the Chinese government wants to promote cultural exchange to amplify the understanding of China across the globe; there are greater instances of program exchanges with foreign broadcasting companies
- The shortage of valuable television programming contents and production capabilities is the main driving factor behind the import of foreign programs
- Sino-foreign joint ventures could be formed; notably, major global media players who possess scale and secure financing have a leading edge when tapping into China's market

CONSIDERATIONS FOR ITALIAN PLAYERS

- The following section introduces potential opportunities and challenges for Italian players in TV market in China
- Italian TV play production companies face similar opportunities and challenges as most of the other European companies

Potential Opportunities in the China TV Market

- **Rapid market growth in TV broadcasting**
  - ➢ The triple play convergence and digitalization keep stimulating the prosperity and development of TV market in China as a whole
  - ➢ Accelerating the broadcasting development in rural areas indicates promising growth and future for TV market

- **Growing demand and call for diversity**
  - ➢ Despite of the fact that China becomes the largest TV drama producer, there is a gap in high quality TV plays remaining unfilled which allows Italian TV production companies to bring potential into play
  - ➢ Although the market for foreign TV plays in China is still dominated by Asian players, the Chinese are in general open to overseas plays and especially appreciate diversity and creativity
  - ➢ Sometimes one or two successful representative work can open a new market for the foreign country (potential increase in both import volume and value)
  - ➢ At this moment, there is more potential for Italian or European TV movies than TV series because the former is comparatively more accepted and popular in China

- **Increasing Sino-foreign cooperation**
  - ➢ The market has become more liberalized after WTO with more foreign investment allowed in China, e.g. Sino-foreign cooperation and foreign satellite channels
  - ➢ Ways of cooperation (e.g. co-production, JV) have become more diversified which give Italian players more options to enter China market
  - ➢ Compared with import, co-production and JV allow foreign players to have more privileges similar to local TV producers
  - ➢ Multiple channels have opened to foreign players and Italian players should leverage possible relationships with local government, TV stations and production/distribution companies with strong network

Potential Challenges in the China TV Market

- **Low awareness in China**
  - The market is very competitive; however Italian (or European in general) TV plays have not aroused attention in China market
  - However awareness building is long term because it takes time for audience to shift preferences
  - Word-of-mouth works well in China, but for Italian players marketing or branding is still missing; attending TV festivals or exhibitions can be a good start
  - Interaction between actors/actresses and audience is important, and foreign market leaders such as Japan and Korea have paid extra attention in this aspect to boost attention among young audience
  - To build country awareness, Italian companies should engage and cooperate with various stakeholders, including local production/distribution companies, TV stations, governmental organizations, and promotional agencies, etc.

- **Strict control limits development**
  - Overseas TV plays in China is not completely market driven although the market has opened up especially with China's entry into WTO
  - The censorship on import and co-production in China are still tight and a time consuming process (from a few months to several years)
  - For Sino-foreign JVs, the foreign party is limited to a minority stake (49% maximum); thus controlling power is with the Chinese party
  - *SARFT* sets quota and broadcast time for foreign TV plays, foreign cartoons in particular, to protect the survival and well being of local producers
  - *SARFT* also imposes tight control over the content to be broadcasted and it should not cause conflict with the official State ideology

- **Challenge in finding good partners**
  - Large production/distribution companies (including TV stations) have a lot of local and international TV plays in hand; therefore small-scale overseas production companies may find it hard to stand out without established network
  - While small local partners may not be able to find the best channels to promote or sell the (Sino-) foreign TV plays

CONCLUSIONS AND FINAL CONSIDERATIONS

- China's TV market is growing rapidly in the recent years, with more than 300 TV stations and 2,000 TV channels
- Local TV stations and TV play production companies are very productive; China became the largest TV drama producer with 400 TV plays annually although the quality and variety of most Chinese TV plays are relatively low
- China has the largest audience in the world (over 1 billion people) and TV broadcasting covers over 97% of the household
- China was able to generate over US$ 33 billion by 2010 from broadcasting, with advertising contributing 43% of the total revenue
- Government policy is in favor of promoting digitalization and triple play convergence to modernize TV market in China with IPTV and mobile TV as the representation of new media
- The most popular channels in China are CCTV and provincial satellite channels such as SMG and HBS with the highest viewership and advertising charges among all
- Increasing number of foreign players are or have been tapping the China market and fulfilling the needs of local audience, especially for young generation who are open to foreign culture
- To further encourage culture exchange and attract foreign investment, Chinese government gradually opening up the market, especially after WTO
- Two common ways to enter China TV market are import and cooperation with local companies
- However, the market is highly restricted for imported content/media plays – requiring review and possible censorship from the 3 government agencies (*SARFT, CPB,* and *GAPP*)
- *SARFT* imposes tight censorship and control over all import and Sino-foreign co-production in terms of quota, broadcasting time, content, JV ownership, and any other aspects concerning overseas media in China
- Quota for import TV plays to be broadcasted is restricted, and normally the broadcasting time for foreign plays cannot be during prime time
- The average time for censorship takes at least 3 months or longer depending on the length and content of the TV plays; application usually has to be reviewed by provincial Radio and TV Administrative Department before it goes to *SARFT*
- Restrictions are less for joint produced plays regarding broadcasting as they are seen as domestically produced content, however investment also has restrictions in that the foreign party can only attain minority stake in a JV
- TV series (dramas), TV movies, and variety shows are the most popular in China

- Asian TV plays dominate the China TV market with *Hong Kong, Taiwan, Korea*, and *Thailand* being the major foreign players; European and *US* production companies see more opportunities in TV movie sector
- Being able to leverage various network (local TV production company, TV station, local government, etc.) is the key to promote and sell (Sino-) foreign plays
- Attending TV and film festivals and interaction with audience can be effective ways to increase awareness
- Opportunities primarily exist for Italian player through joint production of plays; however, they must approach the market carefully and understand the players and potential JV partners

APPENDIX

Appendix 1. Glossary of Key Terms

Glossary	Definition
The State Administration of Radio, Film and Television (SARFT)	• SARFT is under the direct control of the State Council • It is the main administrative body in charge of the country's radio, film and television industries • SARFT approves the content of radio and TV programs and films, overseeing film imports, and stipulating the proportion of time allocated for foreign programs • SARFT authorizes the establishment of cable channels • SARFT controls and supervises the access of satellite networks
IPTV – Internet Protocol Television	• IPTV is a medium through which internet television services are delivered
CMMB – China Multimedia Mobile Broadcasting	• CMMB is a mobile television developed in China by the SARFT • The intended usage for CMMB is on small screen devices such as mobile phones
Triple play convergence (Tri-Network Convergence)	• Triple play convergence is the integration of telecommunication, internet network, and radio and television through a unified interface instead of three separated networks • IPTV are used in the triple play convergence
Broadcast landing rights	• Broadcasting landing rights allows foreign satellite television channels to broadcast at stipulated areas • Areas include guesthouses, three-star hotels (or above) catering to foreign guests, buildings exclusively for office and residential use by expatriates, and within other specially designated locations
Registered Capital	• Registered capital is the amount of money that can be put into a Limited or Unlimited company in the form of shares

Appendix 2. CCTV Channels and Programming

Number	Channels	Description
1	CCTV 1	**General:** a primary channel consisting of all genres of TV programs
2	CCTV 2	**Finance:** a finance channel which includes issues regarding energy conservation, stock exchange, scams, finance and consumer related game shows
3	CCTV 3	**Arts and Entertainment:** a channel focusing on arts in general
4	CCTV 4	**International** (Chinese , Asian, Europe & American): a variety of programs inclusing documentaries, music, news, dramas, sports and cartoons
5	CCTV 5	**Sports:** a live sports channel based in China that features coverage of popular World sporting events and tournaments
6	CCTV 6	**Movie:** a movie channel showcasing movie series, film reports etc.
7	CCTV 7	**Military and Agriculture:** a channel focusing on China's military and agricultural lifestyle
8	CCTV 8	**TV Series:** a channel showcasing a variety of television dramas
9	CCTV 9	**Documentary** (English & Chinese): a documentary channel
10	CCTV 10	**Science & Education:** a channel focusing on science and education
11	CCTV 11	**Chinese Opera:** a chinese opera channel
12	CCTV 12	**Society & Law:** a channel focusing on law and relations
13	CCTV 13	**News:** a 24-hour Chinese news channel report of domestic and international current affairs
14	CCTV 14	**Children:** a channel with a variety of cartoons e.g. SpongeBob SquarePants
15	CCTV 15	**Music:** broadcast a diverse music genres, including Classical music, Chinese traditional music and popular music
16	CCTV International News	**International News (formerly known as CCTV 9):** a 24-hour English news channel report which includes in-depth reports, comentary programs and presentations on topics such as business, finance, economics, sports and culture

Table Continued →

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Number	Channels	Description
17	**CCTV Español International**	**Spanish (formerly known as CCTV-E):** a spanish language entertainment and news channel with spanish subtitles. Provides both Chinese and international news coverage. Broadcast a variety of programs including news, educational programs and Chinese soap operas
18	**CCTV Français International**	**French (formerly known as CCTV-F):** a French language entertainment and news channel with French subtitles. Provides both Chinese and international news coverage. Broadcast a variety of programs including news, educational programs and Chinese soap operas
19	**CCTV العربيـــة international**	**Arabic:** an Arabic language channel with programs covering news, feature stories, entertainment and education
20	**CCTV Русский International**	**Russian:** a Russian language channel with programs covering news, feature stories, entertainment and education

Appendix 3. TV and Film Festivals

Festival Name	Location	Time	Website
Shanghai International Film Festival	**Shanghai**	**June**	www.siff.com
Changchun China Film Festival	**Changchun**	**August**	www.chinaccff.com
Beijing College Student Film Festival	**Beijing**	**April/May**	www.daxueshengfilm.com
China Golden Rooster & Hundred Flowers Film Festival	**(change locations every year)**	**October**	www.movie.ijiangyin.com/publish/goldRooster.html
Shanghai TV Festival	**Shanghai**	**June**	www.stvf.com
China Golden Eagle TV Art Festival	**Changsha**	**September/ October**	www.hunantv.com
Sichuan TV Festival	**Chengdu**	**November**	www.sctvf.com
China International Film&TV Programs Exhibition	**Beijing**	**August**	www.citv.chnpec.com
Shanghai Student Television Festival	**Shanghai**	**June**	www.sstvf.org
China Student Television Festival	**Beijing**	**October**	www.cstvf.com