# *China entertainment and media outlook* 2016-2020


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# Foreword

China, a land of pockets of impressive growth and opportunities, has seen rapid growth in the entertainment and media industry in recent years. It is forecast to rise at a compound annual growth rate(CAGR) of 8.8% over the coming five years, compared to global with a CAGR of 4.4%. The intra-industry dynamism within E&M is epitomised by the Internet advertising, Cinema and Video games segments, which are projected to rise over 2015-2020 with a CAGR of 13.9%, 18.9% and 7.4% respectively.

This China edition, includes intensive analysis of five shifts reshape the industry, and also data forecasts with commentary of 13 key segments. This close examination gives an opportunity for us to examine how consumers, advertisers, content creators and digital distributors are responding to these shifts over the next five years.

Today's entertainment and media companies are learning, acting and thriving in China, those with the right strategies and insights are most likely to succeed. The power of youth, the dominance of localized content, the resilience of a new kind of bundle, the difference of growth markets, the opportunities for new business models. These highlighted shifts can help companies position themselves, plan and do business better to drive growth.

Our hope is that this China Outlook will help you form a much clearer picture of tomorrow and make more informed business decisions based on what's ahead.

The Global Outlook provides a single comparable source of five-year forecast and five-year historic consumer and advertiser spending data and commentary. It covers 13 entertainment and media segments across 54 countries. For actual data, please visit the Global entertainment and media outlook 2016-2020 at www.pwc.com/outlook

***Wilson Chow***

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# *Entertainment & Media Outlook 2016-2020*

**Entertainment and Media market in China† (US dollar millions)**

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Entertainment and Media in China†‡** | | | | | | | | | | | |
| Business-to-business in China | 6,804 | 7,325 | 7,960 | 8,551 | 9,004 | 9,456 | 9,918 | 10,385 | 10,872 | 11,384 | 4.802 |
| Book publishing in China | 11,503 | 11,727 | 11,938 | 12,508 | 13,026 | 13,480 | 13,816 | 13,904 | 13,956 | 13,979 | 1.423 |
| Magazine publishing in China | 4,553 | 4,816 | 5,146 | 5,399 | 5,599 | 5,763 | 5,894 | 6,005 | 6,076 | 6,128 | 1.822 |
| Cinema in China | 2,150 | 2,748 | 3,181 | 4,313 | 6,398 | 8,486 | 10,413 | 12,222 | 13,827 | 15,239 | 18.956 |
| Internet access in China | 29,002 | 33,807 | 40,838 | 45,834 | 52,444 | 59,038 | 66,164 | 73,366 | 81,123 | 88,808 | 11.11 |
| Internet advertising in China | 7,725 | 10,152 | 13,042 | 18,186 | 23,200 | 27,980 | 32,633 | 36,966 | 41,020 | 44,609 | 13.969 |
| Newspaper publishing in China | 12,019 | 12,431 | 12,840 | 12,729 | 12,055 | 11,823 | 11,708 | 11,651 | 11,605 | 11,533 | -0.881 |
| Out-of-home advertising in China | 4,461 | 4,572 | 4,815 | 5,301 | 5,827 | 6,447 | 7,100 | 7,755 | 8,416 | 9,071 | 9.255 |
| Radio in China | 1,648 | 1,791 | 1,945 | 2,280 | 2,335 | 2,479 | 2,613 | 2,734 | 2,838 | 2,924 | 4.606 |
| Music in China | 638 | 675 | 716 | 785 | 865 | 957 | 1,057 | 1,164 | 1,271 | 1,367 | 9.578 |
| TV advertising in China | 15,018 | 15,497 | 15,976 | 16,467 | 15,659 | 15,659 | 16,598 | 17,528 | 18,466 | 19,403 | 4.381 |
| Total TV and video revenue in China | 8,850 | 10,397 | 12,367 | 14,921 | 17,697 | 19,334 | 21,237 | 23,320 | 25,131 | 27,063 | 8.867 |
| Video games in China | 5,472 | 6,345 | 7,326 | 8,276 | 8,980 | 9,666 | 10,354 | 11,101 | 11,933 | 12,851 | 7.432 |
| **Total Entertainment and Media in China** | **109,843** | **122,282** | **138,090** | **155,549** | **173,087** | **190,568** | **209,505** | **228,103** | **246,534** | **264,359** | **8.839** |
| **Total without double counting** | **107,068** | **119,173** | **134,592** | **151,634** | **168,826** | **185,947** | **204,473** | **222,688** | **240,745** | **258,209** | **8.87** |

†At average 2015 exchange rates.

‡Note: Digital advertising components such as online television, online radio, digital newspaper, digital consumer magazine, digital trade magazine and digital directory advertising are included in the respective segments and in the Internet advertising segment but only once in the overall total to avoid double counting. In addition, consumer spending on radio licence fees is included in both the TV and video and the radio segment but only once in the overall total.

Note: Numbers shown are rounded. Totals may not equal the sum of their parts due to rounding.

Data consumption can be measured in terms of both device and type of data consumed for the following 10 countries: USA, China, Japan, Germany, UK, Russia, France, Brazil, India and Indonesia.

Sources: World Association of Newspapers and News Publishers/ PwC/Informa Telecoms & Media/Ovum

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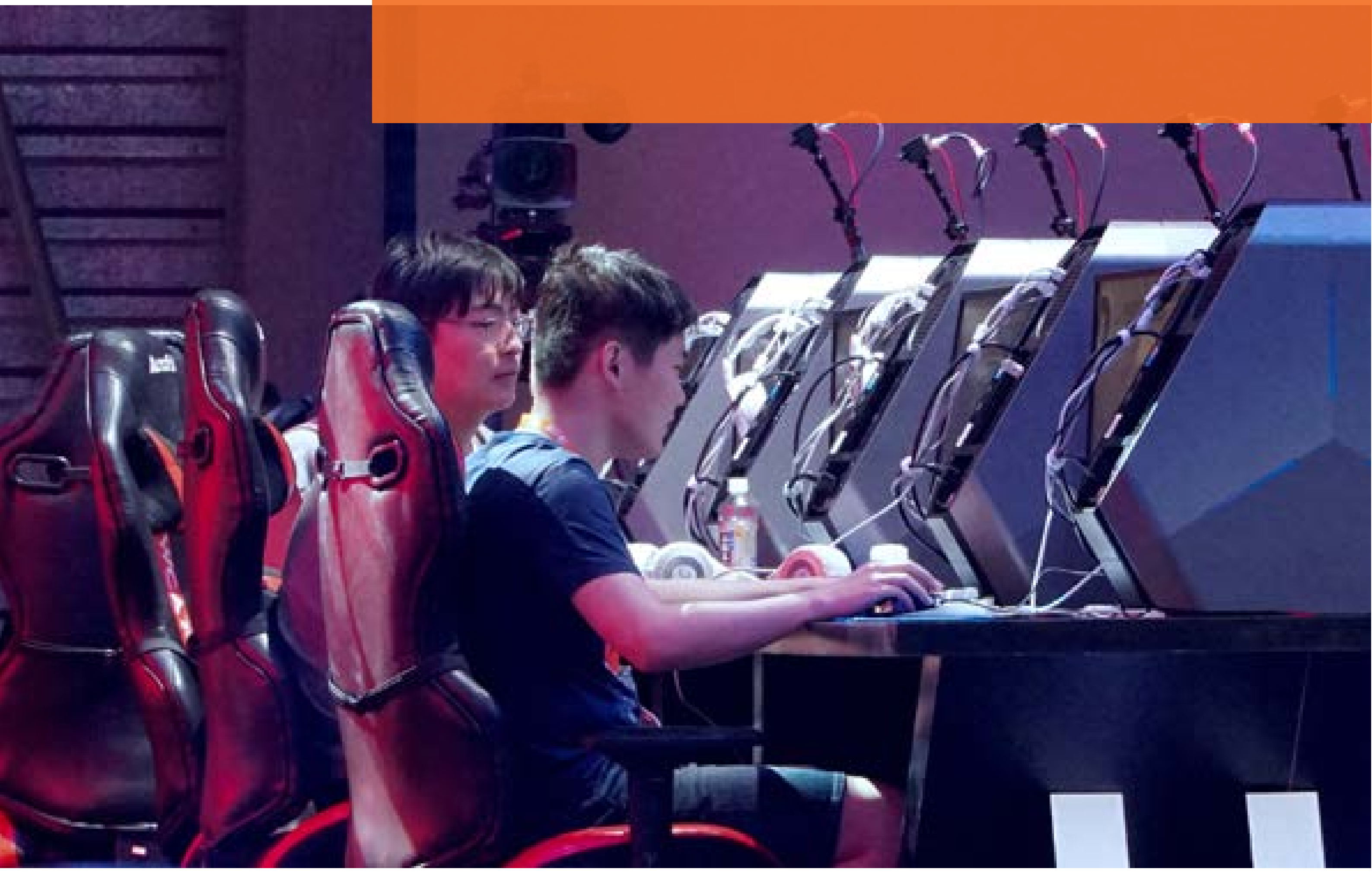
# Five shifts



## Shift 1: Demographic: Youth will be Served

In China, young people are becoming mainstream customers in the market, forecast to account for 35% of the total number of customers by 2020. [1] They tend to find appeal in new products and technologies, have strong brand loyalty and are heavy users of and dependents on mobile phones; and even though they may not earn much, they are optimistic regarding their future earnings and development, and so are less vulnerable to economic crises. To this younger generation, entertainment is not just for their leisure time, but is also one of the sources of gossip for their social life.

There are two key characteristics of the young people market in China. The first is the way they prefer to access information. Rather than reading to proactively obtain information, they are more involved in passive engagement with information that is pushed to them, and absorb

[1] McKinsey & Company: Research Report on Middle class reshaping the Chinese Consumer Market

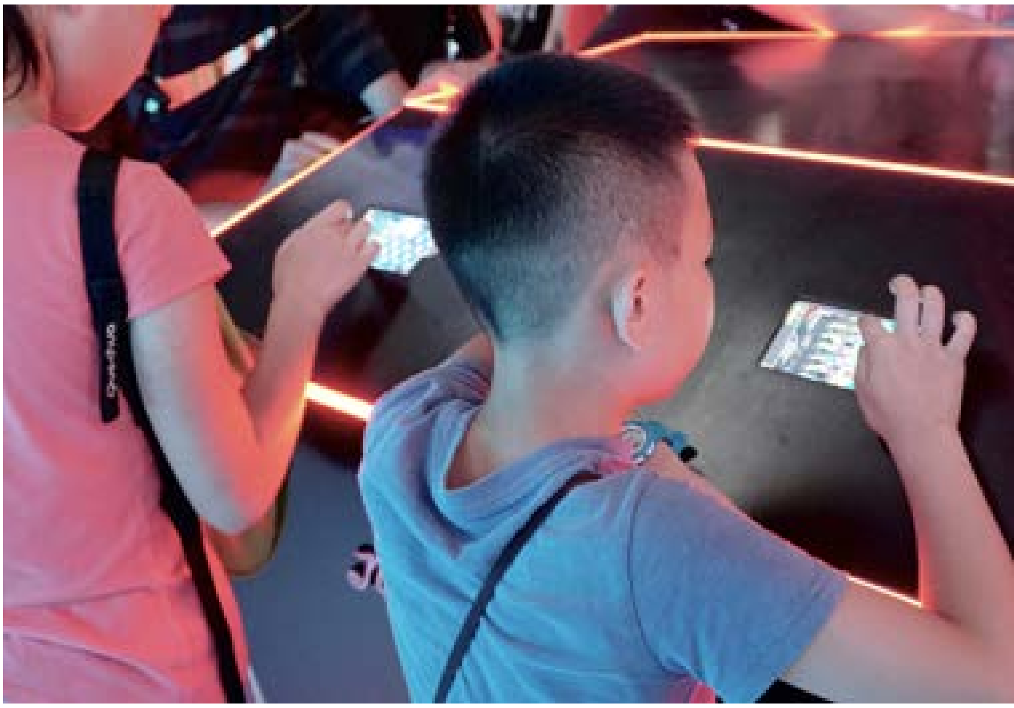
information piece by piece –making movies, TV and video programmes even more promising for reaching the young people market in future. In fact, the substantial decline in traditional readers makes the related industry deteriorate even further.

The second characteristic is the affinity with social media, leading to fans having a substantial impact. A study indicates that one-third of social media users are post-1990s generation, surpassing the 1980s generation to become the largest social media community. [2] Many brands are also adapting their sales strategies, based on the trends among specific social media in China.

In 2015, a low budget online drama, "Go Princess Go", became one of the hottest topics by using social media platforms, boosting on-line viewing numbers achieving 200 million clicks in a single day, and generating a record 2.6 billion views. Because of the impacts arising from its fans, it also developed a unique economy, which we call the "Internet celebrities economy".

From 2014 to 2015, numbers of fans of Internet celebrities grew explosively from 100 million people to 310 million, making brands transform their sales and marketing strategies. By leveraging the core competitive advantages of Internet stars, these brands want to develop their businesses, through raising brand awareness in order to boost sales of their products.

In 2016, it is expected that the industrial output value generated through the influence of Internet celebrities will exceed 58 billion yuan. [3] However, sales arising through internet celebrity influences also come with risks, as brands must make even more cautious decisions in selecting the celebrity for a partnership, regarding whether the brand identity and the selected celebrity can be a match. Otherwise, brand values may be adversely affected.



## Shift 2: Competition: Content is Still King

Preferences and tastes regarding content differ between markets, so businesses have to customise their content based on local culture and style, as well as TV viewing experiences, in order to meet the needs of local consumers. Recently, there have been more cases in which Chinese entertainment businesses are increasingly adapting content through acquiring its intellectual property rights.

In the TV industry within China, it is becoming increasingly popular to "adapt acquired foreign programmes to local content by purchasing intellectual property rights". Examples include Running Man and The Voice of China. Deploying audience analyses and making use of big data helps with decisions to acquire such rights and create content that fits the local style, such as through choosing suitable guests and designing programme sessions.

[2] «Kantar Social Media Report 2016»

[3] iResearch "White paper on Chinese fans and lifestyle in 2016"

Suggested "The Chinese government realises domestic entertainment production needs more creativity. A response involves to acquire copyrights and localise oversea programmes, which only cures the problem in the short term but is not sustainable in the long term. Therefore, in 2014 the State Administration of Press, Publication, Radio, Film and Television of People's Republic of China stipulated the order for a "Cutback on TV Entertainment" [4], regulating the model of acquiring foreign intellectual property rights in China. The aim is to promote and enhance the ability to create original content, stimulating production teams to consider the true value of their content so they can create more sophisticated and original productions.

In the film industry, there is support from Chinese policies, and producers have a deep understanding of the preferences of Chinese consumers. In 2015, 60% of the movies in China were made locally; and while 50% of the movies ranking among the top ten in the box office during 2014 were locally produced, this figure increased substantially to 70% in 2015. [5] In 2015, the concept for the film Monster Hunt originated from Zhaiyao of Pu Songling's Strange Tales, with the costumes for the monsters designed with reference to The Classic of Mountains and Seas, making Chinese customers more engaged through using literary works they are familiar with and leading to box office revenues of 2.438 billion yuan, outperforming Fast and Furious 7, which reaped 2.426 billion yuan, and The Avengers, which earned 1.465 billion yuan. This set a great example as one of the most successful films in China.[6]

In fact, many Chinese broadcasters are competing to acquire broadcasting rights in order to offer more differentiated content choices. LeTV Sports Super League acquired the exclusive broadcasting rights to 240 games in two seasons of 2016/2017 FA Premier League in China, Hong Kong, Macao, Taiwan, India, US, Canada and all southeast Asian countries and regions, for 2.7 billion yuan; and the exclusive broadcasting rights of English Premier League soccer in Hong Kong for 1.2 billion yuan.

Recently, adapting online novels into TV series and movies has become increasing popular. By of the end of 2014, 114 online novels had been adapted in this way, with 90 of the novels made into TV series and 24 of them into movies. As this trend is red hot now, the fees for usage rights are also skyrocketing; they can start from 2 million yuan, and the rights to some famous online novels can be sold for over 10 million yuan.

[4] "Notice on the program arrangement and record keeping of Satellite Synthetical Channel in 2014"

[5] Chinese Film Box Office Database

[6] EntGroup

# Shift 3: Consumption: Joy of Bundles

In China, bundling products and services into a "living ecosystem" is also becoming popular. For business, a closed loop can be constructed by vertical integration or lateral development inside a value chain, implementing the strategy of cross-selling and enhancing cost exchanges.

LeTV is one of the first providers to offer content for end-to-end services. It was established as an online video platform, and is growing "upstream", transforming to a platform that offers end-user applications and platforms such as super, TV handsets, and LeTV store applications platforms. The business logic is to start with video content and then bundle this with end-user applications to enhance the overall user experience, and increase customer retention.

In this era of mobile internet applications, the use of social networks and online behaviour has been undergoing major changes, and users are expecting to enjoy communications at anytime, anywhere. The goal of constructing Tencent's "Mobile Social Empire" was not only direct communications but also developing a mobile community and stickiness, offering a mobile ecosystem that includes mobile payments, personal finance, lifestyle services and ecommerce, and using a payment chain to connect on-line and off-line ecosystems in a closed loop (O2O ecosystem). Thus, QQ and WeChat do not just involve a chat and social tool but also a bridge connecting aspects of lifestyles such as wallets, healthcare, fun, eating, playing, group purchases, KTV and movie tickets, QQ shopping and Tencent school – spanning everything from eating, through accommodation, to learning.

Xiaomi is an example of such a business, creating products ranging from end-user hardware applications to a platform ecosystem. It includes MIUI software and information technology hardware that appear to be independent but in fact comprise a tightly integrated business ecosystem model. Xiaomi's smart hardware ecosystem is centred on routers, surrounded by a series of important devices such as smartphones, toolboxes and TVs, which are all interconnected through software. By making use of sales and development of smart hardware, Xiaomi can build a mobile Internet ecosystem that is based on MIUI, enabling tight integration between hardware and system in order to enhance user experiences, while there is control of strategic value with a good grasp of critical resources for user input. Eventually, Xiaomi will be able to sell all kinds of smart hardware and applications based on its ecosystem's products and plug-ins.

In the video games industry, GameMei creates a visualised development platform that offers a closed-loop ecosystem with "game playing," "game creating" and "game promoting" features by integrating a vertical value chain, and simultaneously meeting the interests and demand of game developers, players and brand marketers. Video games enthusiasts will have access to enjoyable but creative games and can even purchase a games template to develop their own games via DIY to earn some money; whilst being able to offer their DIY games for sale in the game community.

In China, "pan-entertainment" is the strategy adopted by many cultural entertainment businesses. "Pan-entertainment" means developing multi-level products based on a company's intellectual property – such as games, animation, drama, films and fiction. This is called "fans' economy", establishing the birth of a cultural entertainment ecosystem that provides all kinds of entertainment. For a business, the upsides of pan-entertainment are a reduced risk of initial investment, marginal cost savings, and customer base expansion to enhance ROI so that they can realise products' long term value and achieve advantages of scale. Hence many technology conglomerates have such "pan-entertainment" schemes as their core aims for their future development, such as Tencent, Huayi Brothers Media Group and Alifun.

## Shift 4: Geographic: Growth Markets

When businesses develop their strategies, those strategies should vary from one to another. China's entertainment media market is emerging compared with more mature Western market. In 2014, China's entertainment media market surpassed Japan to become the biggest market in Asia. Eleven of the 13 sub-industries are set to exceed typical global growth rates in the next five years.

Also, even though many Chinese entertainment media businesses started late, many of them have roles on the international stage, delivering Chinese culture to the world. One of the success stories is an example of domestic company enjoying the benefits of globalisation – China Media Capital, which in 2012 announced a partnership with DreamWorks Animation SKG to set up Oriental

DreamWorks. That venture used the world's leading computer animation production creativity and technology, integrated with Chinese elements, to distribute its product globally. In 2016, Shanghai Oriental DreamWorks and DreamWorks Animation SKG jointly produced Kung Fu Panda 3, which is the first animation produced by Oriental DreamWorks and is set for global release in 2017.

Meanwhile, the Chinese mobile game industry has begun building its overseas strategy. Game developer Lilithgames launched its classic mobile game Allstar Heroes in 2014, and last year released the game in English with the title Dot Arena, in Singapore, Brunei and other Southeast Asian countries. The iOS version of the game ranks among the top iOS apps in terms of earnings in Singapore, Malaysia, Thailand, South Korea, Hong Kong, Macao and Taiwan, and the results are promising.

Thirdly, Chinese businesses are constantly striving to build and introduce innovative business models. LeTV.com commenced with a business model focused on offering video content, and was a leader in innovation. Combining the platform, content, terminal and application as four in one, LeTV.com is the first video portal connecting the whole industry value chain and its business system with its "free + charge" business model. LeTV.com is also strong in utilising its capital to seize new market opportunities, to consolidate its core assets and competitive advantages. Earlier this year, LeTV Sports completed the second round of financing, with 8 billion yuan, and actively invested in procuring the rights to sports programmes. In addition to purchasing rights, LeTV Sports is investing in the launch of the whole ecosystem services on the industry chain. There are two key points to the core logic of its investment. Firstly, it emphasises the rapid expansion of market share; and secondly, it quickly expands user access in order to enhance its customer database.

In China, the media industry is not just an arena for traditional media to compete; other players in the Web2.0 interactive era include mobile phone media, digital magazines, mobile TV, the Internet and digital TV. Therefore, China's social media industry has seen the advent of different competitors, such as the e-commerce conglomerate Alibaba; and Internet video websites Tudou, Youku, and Tencent. There are even some other businesses starting to join this media industry. Since 2012, Alibaba has continuously invested capital throughout the media industry. Media categories include traditional media, film and television culture (Huayi Brothers, Group Ali Pictures which was formerly named Culture China), television media, social media (Sina weibo.com, MoMo), video (Youku, Tudou), new media, and technology media. The main objective for these media is to provide a direct interactive platform for consumers, in order to effectively communicate with their consumers.

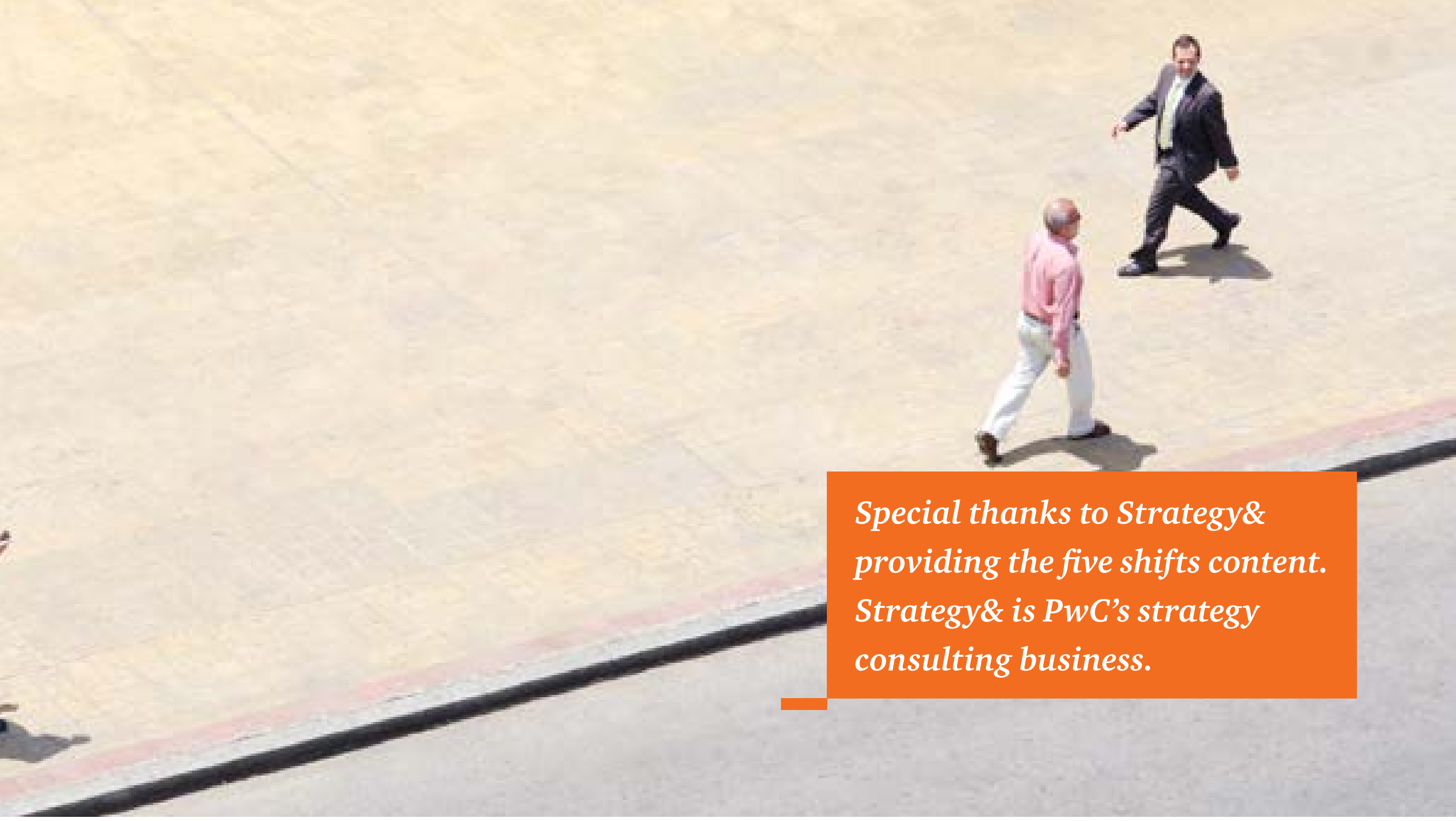
In recent years, "mini-movie" has been introduced as a new concept for communication with potential commercial value for the traditional media and film industry. "Mini-movie" is a video (short movie) designed to be played on a variety of new media platforms, with "genre" movies that are suitable for mobile or leisure time viewing.

In comparison with traditional media, the mini-movie, with its own interesting elements and appeal, is delivered to viewers via low-cost Internet video as a communication channel. It focuses on putting together a story with a brand and product appeal, using the core value of the product to influence the audience, building an emotional link between the brand and its audience, and in doing so becoming a new way of communications and a more effective means of brand marketing.

With the popularity of mobile phones, consumer entertainment modes have changed. Additionally, the rise of online video has had a positive impact on the effects and market values of the mini-movie business. The leading film companies are also actively trying to make breakthroughs in traditional film production, which was based on a big budget commercial model. For example, Huayi Brothers and China Telecom TV189.COM collaborated to launch the mini-movie channel. The two companies expanded comprehensive cooperation in the mini-movie industry; Tencent and Digifilm.com.cn (Beijing) have officially entered into partnership for the developing strategies related to

and cooperating in mini-movies. They announced they will soon launch original video episodes in "Mini Movie Theatre"; Radio and Television Shanghai, Shanghai Media Group (SMG) BesTV and Huayi Brothers are joining forces to cooperate regarding rights and acquisition of selected films and television shows. They will launch a "Mini Movie Micro-drama Channel" on the BesTV platform.

With the emergence of a new culture, entertainment and media industry, China's policies have become more and more regulated, so will affect the future development of this industry. Additionally, the focus and implementation of policies of each province and city in China might affect the future potential and development of the country's cultural entertainment industry, which can result in opportunities for businesses that are interested in competing at different market levels in provinces and cities. For example, Beijing City Cultural Bureau launched a low ticket price policy, a theatre operations service platform project, and aggressive promotions for premier shows. Zhejiang Province proposed providing support for the development of cultural industries in terms of capital, taxation, land, finance, personnel and organisations, and strives to derive 7% of GDP from the province's cultural industry. Delegations from Fujian cultural industry and Hong Kong cultural enterprises are discussing cooperation in cultural industry funds, film and television entertainment, publishing and other fields. They have signed agreements for 14 projects spanning film and television media, and creative design.



*Special thanks to Strategy& providing the five shifts content. Strategy& is PwC's strategy consulting business.*

# Shift 5: Business Model: Transforming with Trust

In China, the entertainment media industry has been influenced by digital content and Internet media concepts arising from structural changes in the industry. Traditional businesses face imminent challenges necessitating changes and transformation, whilst leading to a new business model that may create more opportunities for offering consumer products and services that suit customers' current needs and behaviour.

The most striking situation is the effect of digitalised content on traditional publishing. It is speculated that China's digital publishing sales will account for 50% of the entire publishing industry in 2020, and 90% of books will be published in online versions in 2030 – clearly indicating China's trend towards digital publishing. [7] Shanghai Translation Publishing House is a professional publisher that specialises in dictionaries. It has developed from a paper-based publisher to a platform provider that integrates media, digital products and e-commerce, making it a successful example of a traditional business that has become digitised.

Since 2012, Shanghai Translation Publishing Agency has launched electronic versions of literary masterpieces on e-book platforms such as iPad or JD.COM. It is the first domestic publishing agency to sell these books in electronic format in China.

The involvement of the Internet has brought new media to the traditional music industry. In 2014, Warner Music began working with Tencent Live Music. They were aware of the limited access to concerts with limited audiences. But by using Internet broadcasts, the audiences can be substantially increased. They not only offer copyrighted works on the Internet, but are also attempting to ensure live music better meets the needs of fans and other consumers.

Concerts by renowned pop singer Jacky Cheung attracted 18,800,000 on-line viewers, with over 308 million play views, and 2.19 million viewers for a single concert. This business model is unprecedented, and strikingly different to the traditional offline model. [8] As long as customers are becoming accustomed to pay-to-view value-added services in China, on-line and off-line payment per view can be achieved. This is a major change and an opportunity for the traditional music industry.

[7] China Securities Journal

[8] Beijing Morning Post

# Business-to-business

# 01

Total B2B revenue in China was US$9.00bn in 2015, up 5.3% from 2014. Last year was the connecting year of China's social and economic development blueprint: "12th Five-Year Plan for 2010—2015" and "13th Five-Year Plan (13th FYP) for 2016—2020". China's economy is shifting from an investment- and export-led economy towards a domestic consumption and services-driven one. China's economy is changing gears — from a double-digit growth rate before the 2008 Beijing Olympics to a lower rate of growth. According to Chinese President Xi Jinping's statement, China's GDP annual growth rate during 2016—2020 "must be at least 6.5%".

China's "New Normal" economy will provide a stimulus to the sector. Between 2016 and 2020, total B2B revenue will grow at a CAGR of 4.8% to become the world's third-largest market at US$11.38bn.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Business-to-business in China (US dollar millions)** | | | | | | | | | | | |
| Business information | 2,888 | 3,090 | 3,345 | 3,572 | 3,762 | 3,939 | 4,110 | 4,275 | 4,445 | 4,622 | 2,888 |
| Directory advertising | 389 | 407 | 431 | 457 | 480 | 504 | 527 | 550 | 571 | 589 | 389 |
| Trade shows | 1,414 | 1,515 | 1,633 | 1,734 | 1,824 | 1,921 | 2,028 | 2,143 | 2,270 | 2,408 | 1,414 |
| Professional books | 1,682 | 1,845 | 2,033 | 2,226 | 2,332 | 2,441 | 2,551 | 2,671 | 2,799 | 2,936 | 1,682 |
| Trade magazine | 431 | 468 | 518 | 560 | 605 | 652 | 701 | 746 | 788 | 828 | 431 |
| **Total Business-to-business in China** | **6,804** | **7,325** | **7,960** | **8,551** | **9,004** | **9,456** | **9,918** | **10,385** | **10,872** | **11,384** | **6,804** |

Sources: Ovum/Informa Telecoms & Media/PwC

# 1 Business information

China's B2B market was dominated by business information at US$3.76bn, accounting for 41.8% of total B2B revenue in 2015. In 2015 the Chinese government launched a few important policies and set up funds to: encourage mass entrepreneurship and innovation and the growth of small and medium-sized enterprises; invigorate state-owned enterprises; and kick off "Belt and Road" initiatives overseas. As a result, Chinese economic transition will lead more companies to increase such spending over the next five years. Total business information revenue is forecast to grow at a CAGR of 4.2% to reach US$4.62bn in 2020.

Despite the economic slowdown, there have been over 10,000 new enterprises registering every day since 2014. In the first half of 2015, newly registered enterprises had a total registered capital of about US$1.9trn, 43% more than a year earlier. As the government has decided to drive economic growth through boosting innovation and domestic consumption, a start-up boom has been taking place. In September 2015 the State Council launched a US$9.4bn fund to support small and medium-sized enterprises (with authorized capital less than US$3.1mn). By the end of September, small- and medium-sized enterprises accounted for 96.6% of the total newly registered enterprises in 2015.

The numbers of young and educated "Chuangke" ("makers") who long for success with start-ups, business incubators and angel investors have been growing rapidly. Consultancy firms, which build easy access to venture capital for start-up companies, will be highly in demand.

One of China's major economic tasks for 2016 is to improve the overall business environment by encouraging mergers, reorganisation and, in some cases, companies filing for bankruptcy. As a result, law firms expect to see an uptick in bankruptcy filings.

## 2

# IPOs and SOEs

As the business market grows, more companies aim to sell shares to the public and list shares on a stock exchange. According to ChinaVenture, during the first 11 months of 2014, 224 Chinese companies completed IPOs globally — including Jack Ma's Alibaba on the New York Stock Exchange — to raise an aggregate US$55bn, up 159% compared with 2013. Domestically, there were more than 100 IPOs, which between them raised a total of around US$9.7bn in 2014.

IPOs were frozen in July 2015 after the stock market experienced a turbulent time. Four months later, the China Securities Regulatory Commission restarted IPOs by allowing 28 companies to go public by the end of the year. The complexities of IPO listing in global markets and the policy changes by the Chinese securities regulator will facilitate the continuous growth of business information financial revenue over the forecast period.

State-owned enterprises (SOEs) are still the pillars of China's economy and sustain long-term growth: 106 Chinese companies — from sectors such as mining, oil and gas, and finance — accounted for one-fifth of the Fortune Global 500 list of 2015. In 2015 the Communist Party of China Central Committee and the State Council issued a guideline to deepen the reforms by modernising SOEs, enhancing state assets management, promoting mixed ownership and preventing the erosion of state assets.

There are several hundred consultancy companies in China, including overseas companies like McKinsey & Company and Boston Consulting Group, and local companies such as Bexcel Management Consultants and Alliance PKU Management Consultants. McKinsey Greater China, by far the largest global management consulting firm in China, has more than 350 consultants.

Apart from China's domestic economy development, both foreign and local consultancy companies will also benefit from China's key international development plans over the forecast period, including: almost US$60.6bn worth of deals between China and the UK signed during Chinese President Xi Jinping's visit to the UK in October 2015; the Silk Road Economic Belt and the 21st-Century Maritime Silk Road initiatives, passing through more than 60 countries and regions in Asia, Europe and Africa; and the China-led Asian Infrastructure Investment Bank, which was signed up to by more than 50 countries by the end of 2015.

## 3

# Directories and trade magazines

With increasing numbers of mobile Internet users, revenues will continue to switch from print towards digital in the B2B segments of trade magazines and directories. Trade magazine digital advertising and circulation revenue is forecast to grow from US$98mn in 2015 to US$285mn in 2020: digital's share of total trade magazine revenue will thus increase from around 15% in 2015 to more than a third by 2020.

Digital directory advertising revenue surpassed print for the first time in 2013, and became more than twice as big as print directory advertising revenue in 2015 at US$328mn. It will grow at a CAGR of 9.1% to reach US$508mn in five years' time, when it will account for 86.3% of total directory advertising revenue.

Most traditional directory companies have launched online B2B platform and mobile apps. Some have even closed their print businesses to focus on digital or telephone products — 114chn.com, for example — and newcomers have stepped into the market with digital-only products. Alibaba (1688.com) and HC360.com are the leading players in digital business directories. China Telecom has been the largest player in the print directory sector, publishing Yellow Pages at both national level and provincial level. China Telecom has also been spending efforts on building the online version of Yellow Pages known as locoso.com.

Digital circulation revenue will increase strongly and become the driving force of circulation growth. Over the forecast period, trade magazine digital circulation revenue will increase by a CAGR of 31.6% to reach US$163mn in 2020. Apart from increasing Internet penetration, the growth of digital revenue is also attributed to the prosperity of Chinese e-commerce market. The State Council has set a goal of establishing an open, orderly and reliable e-commerce market by 2020; issuing a circular asking its ministries and departments as well as provincial-level authorities to boost the development of the sector, including lowering the entry threshold, tax-reduction and favourable policies on e-commerce and delivery companies in rural China. Over the forecast period, e-commerce will lead a notable growth in the digital revenue of directories and trade magazines.

# 4 Professional books

As the second-largest contributor to total B2B revenue, total professional books revenue was US$2.33bn in 2015. Electronic professional books revenue will grow at a CAGR of 11.2% to reach US$858mn in 2020, contributing 29.2% of total professional books revenue in that year.

In 2014 China's R&D investment was US$201.4bn, a 9.9% increase on 2013 and accounting for 2.05% of GDP. While government investment has increased steadily, the private sector contributed 84.2% to the growth of R&D investment, driven by large- and medium-sized industrial enterprises. The "mass entrepreneurship" strategy will encourage R&D expenditure by start-ups and small companies in the next few years.

The government's anti-corruption campaign has been determined to cope with abuses of R&D funds. Higher education institutions have become the focus of efforts by the Central Commission for Discipline Inspection of the Communist Party of China to combat this. The anti-corruption campaign will help to generate more organic growth in professional books by increasing the supervision of the spending of R&D funds.

The country also has more than 2,200 universities — more than any other country in the world. Chinese innovators filed one-third of the world's patent applications in 2014, with 928,177 filings. The State Intellectual Property Office said that it received 1.88 million patent applications in the first three quarters of 2015, up 22% from a year ago. The demand for professional books will grow along with this trend, particularly in the areas of finance and accounting, and technology and health. Collaborations and M&A with international publishing groups will contribute to activity as well. The liberalisation of the trade magazine segment will be more significant in the forecast period: more overseas trade magazine brands will enter the Chinese market and publish localised versions. There have been thousands of such books, including professional books from overseas, sold through leading online book sales platforms, such as JD.com and Dangdang.com. Trade magazine groups will emerge within different industries, such as the Chinese Medical Association, which is currently producing more than 100 types of magazines and periodicals in the medical and healthcare industry.

All these factors will push the total revenue of professional books further. By 2020 it is forecast to reach US$2.94bn, a CAGR of 4.7% over the forecast period.

## 5

# Trade shows

In 2015 the State Council approved the establishment of an inter-ministerial conference system on China's exhibition industry to promote the development and reform of the sector, as well as set the goal of completing an optimised, well-functioning exhibition industry system by 2020. Trade shows' revenue accounted for 20.3% of China's total B2B revenue in 2015. With government support and economic development, trade shows revenue is expected to grow steadily over the forecast period, from US$1.82bn in 2015 to US$2.41bn in 2020.

Economy- and trade-themed exhibitions and conferences account for around 70% of exhibition space. Automobile, business services, art and culture, special equipment manufacturing and wholesale were the top industries in terms of exhibition frequency and size in 2015. The market was dominated geographically by Shanghai, Guangzhou, Beijing, Chongqing and Nanjing. According to the UFI (the Global Association of the Exhibition Industry), China accounted for four of only 20 exhibition venues in 2014 with a size exceeding 200,000 square metres. The total number of mega-size exhibition spaces of over 100,000 square metres has surpassed 100 in China and the quality of venues has improved, with the number of UFI-accredited venues having increased to 86 by 2014.

But the country's political and economic centres — Beijing and Shanghai — were overcrowded, while plenty of venues in second- and third-tier cities were empty. In 2015 exhibitions in Shanghai accounted for 44 of the total of 190 national exhibitions supported by the Ministry of Commerce. Shanghai Auto Show in April witnessed 928,000 visitors in eight days, with more than 2,000 exhibitors from 18 countries in a venue with 350,000 square metres of space. It is worth noting that the imbalance has been improving gradually and will be better still in the next few years. Thanks to China's Silk Road Economic Belt and the 21st-Century Maritime Silk Road initiatives, cities in West China will become more active in the exhibition business.

In the next five years, the trade shows segment will be liberalised further in terms of organisers and funding. More international trade show brands will choose China as their destination, while many will acquire Chinese trade show brands. For example, the UK's ITE Group purchased a 50% investment stake in Chinese Chinacoat/Surface Finishing exhibition.

Chinese organisers will increase their export of trade shows. In 2014 Chinese trade shows were exhibited in 65 countries, including the US, Germany and Russia. This segment will also be further strengthened through upstream and downstream enterprises of the industrial chain, such as transportation, logistics, telecommunication, finance, tourism, food and accommodation, as well as printing and advertisement. China currently has more than 30,000 students in college and university studying in trade shows, outnumbering any other country in the world. This will provide the sector with enough talent to achieve further growth.

# Book publishing

# 02

Total books revenue in China, which consists of consumer, educational and professional books publishing revenues, was US$13.03bn in 2015, and will increase to US$13.98bn in 2020, rising at a 1.4% CAGR over the next five years.

China is one of the world's largest book markets and two Chinese publishers — Phoenix Publishing & Media Group and China South Publishing & Media Group — have entered into the top ten in Livres Hebdo's ranking of global publishers. This is the first time non-Western publishers have entered into the top ten. Retailer Xinhau is the biggest bookstore chain in the country with more than 14,200 stores. According to Baensch International Group the seven-storey Xinhua store in Shanghai attracts 9,000 visitors a day and their principal outlet in Beijing brings in more than 7,000 visitors a day. Xinhau is the only bookstore chain to operate throughout the country.

Although books are still censored in China, censorship is far less heavy than in the past and the variety of new books coming on the market is growing every year. Also, increasing numbers of Western authors are releasing their books in China and choosing to censor their own work in order to reach one of the largest audiences for books in the world.

Outside of major cities, public libraries are relatively rare, which has allowed a network of private libraries to develop across the country. Some private libraries now have hundreds of branches, while others are small set-ups launched by parents looking to share books they had purchased for their own children.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Book publishing in China (US dollar millions)** | | | | | | | | | | | |
| Professional books | 1,682 | 1,845 | 2,033 | 2,226 | 2,332 | 2,441 | 2,551 | 2,671 | 2,799 | 2,936 | 4.712 |
| Consumer book publishing | 3,916 | 4,134 | 4,282 | 4,635 | 4,988 | 5,319 | 5,584 | 5,647 | 5,718 | 5,797 | 3.054 |
| Educational books | 5,905 | 5,748 | 5,623 | 5,647 | 5,705 | 5,720 | 5,680 | 5,586 | 5,440 | 5,246 | -1.666 |
| **Total Book publishing in China** | **11,503** | **11,727** | **11,938** | **12,508** | **13,026** | **13,480** | **13,816** | **13,904** | **13,956** | **13,979** | **1.423** |

Sources: Ovum/Informa Telecoms & Media/PwC

1

# Consumer books

Total consumer books revenue stood at US$4.99bn in 2015 and will rise to US$5.80bn in 2020, growing at a 3.1% CAGR over the next five years. Consumer books print/audio revenue will increase to US$5.22bn in 2020 from US$4.79bn in 2015, growing at a 1.8% CAGR.

Some international publishers have been eager to enter the Chinese market. Penguin was the first, opening a Chinese office in 2005. Recently, it began publishing books in Chinese as well as English. Other international publishers with offices in China include Pearson, Hachette, McGraw-Hill, Reed Elsevier and Bertelsmann.

Favourable state policies, market needs and technological innovation are driving growth in e-books revenue, according to the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT). Digital reading is now the main type of reading for Chinese consumers and more than half of e-books were read on mobile devices, according to the Chinese Academy of Press and Publication. But the rise in e-books has enabled piracy, which will restrict the potential market size for all e-books — not just consumer e-books.

Consumer books electronic revenue will reach US$572mn in 2020, having grown from US$200mn in 2015, increasing at a 23.4% CAGR.

## 2 Educational books

Total educational books revenue stood at US$5.71bn in 2015 and will fall to US$5.25bn in 2020, declining at a -1.7% CAGR. Educational books print/audio revenue will shrink to US$5.19bn in 2020, from US$5.69bn in 2015, declining at a -1.8% CAGR.

Textbooks dominate China's book publishing market, accounting for around 50% of titles sold, with the vast majority of publishers producing some kind of textbooks or learning aids. The Chinese government is a significant purchaser of educational books and some educational publishers have come to rely on the government's custom to keep them afloat. E-books have not gained significant traction in the educational books market, with e-readers and tablets too expensive for many schools to afford. By 2020 just 1.1% of total educational books revenue will come from e-books, when total educational books electronic revenue will reach US$59mn from US$19mn in 2015. But it seems likely that the Chinese government will look to invest in educational e-books in the future — as will Chinese parents, given the high priority given to education in China.

## 3 Professional books

Total professional books revenue will rise to US$2.94bn in 2020 from US$2.33bn in 2015, increasing at a 4.7% CAGR. Professional print/audio books revenue will rise from US$1.83bn in 2015 to US$2.08bn in 2020, at a 2.6% CAGR, while professional electronic books revenue will grow from US$504mn in 2015 to US$858mn in 2020, at an 11.2% CAGR over the next five years.

Growth in industry and education will drive professional books revenue in China, as will the continuing entrance of major international book publishers like Pearson. As in other markets, professions such as law and medicine, where heavy and unwieldy books are the norm and salaries are relatively high, will see the highest take-up of e-books because workers in those professions have the opportunity to use e-books and will benefit from them.

# *Magazine publishing*

# 03

Total magazine revenue in China, comprising total consumer magazine revenue and total trade magazine revenue, was US$5.60bn in 2015 and will rise to US$6.13bn in 2020 at a 1.8% CAGR.

Total consumer magazine advertising revenue reached US$1.06bn in 2015. China’s consumer magazine revenue relied less on advertising and more on circulation, which accounted for 78.8% of total consumer magazine revenue in 2015. With the rise of broadband and growing smartphone penetration, there has been a substantial increase in revenue from digital consumer magazine circulation and advertising, and this will continue to grow in the forecast period, at a CAGR of 12.6% and 17.5%, respectively. China’s total consumer magazine revenue will be US$5.30bn by the end of 2020, up from US$4.99bn in 2015, at a CAGR of 1.2%.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Magazine publishing in China (US dollar millions)** | | | | | | | | | | | |
| Trade magazine | 431 | 468 | 518 | 560 | 605 | 652 | 701 | 746 | 788 | 828 | 6.489 |
| Consumer magazine publishing | 4,123 | 4,347 | 4,629 | 4,839 | 4,994 | 5,111 | 5,193 | 5,259 | 5,289 | 5,299 | 1.195 |
| **Total Magazine publishing** | **4,553** | **4,816** | **5,146** | **5,399** | **5,599** | **5,763** | **5,894** | **6,005** | **6,076** | **6,128** | **1.822** |

Sources: The Advertising Association of Thailand/Ovum/Informa Telecoms & Media/PwC

# 1 Circulation

Circulation revenue underpins China's consumer magazine market. Magazines published by the Communist Party of China (CPC), including bimonthlies Banyuetan China Comment (about 2.2mn an issue in 2014) and Qiushi Theory (about 1.56mn an issue in 2014), were among the most circulated magazines. This circulation success is mainly because Banyuetan China Comment was declared to be must-read material for anybody preparing for the annual civil service exam in China. The circulation of Qiushi Theory, the leading magazine of the CPC, relied heavily upon the government.

Every year, the Party committees and the propaganda department take measures to guarantee the circulation of these CPC magazines by mandatory subscription at each level of government administrative organs, state enterprises and service organisations. Although the party issued a new edict regulating the mandatory subscription process in 2013, there has been very limited influence on circulation growth. In October 2015 the Party took measures intended to achieve greater success in increasing subscriptions to important party magazines in 2016. In addition, new titles promoting the CPC's ideology have been added every year — in July 2015 Lei Feng magazine was launched in Beijing by the People's Publishing House, with a print run of 50,000 copies an issue.

# 2 General-interest

With an average cover price of only between US$0.65 and US$1.01, most of the popular general-interest magazines like Duzhe and Story China rely heavily on the scale of circulation. Bimonthly Duzhe, China's best-selling consumer magazine, enjoys an average monthly circulation of 7mn and has high brand loyalty, with about 80% of circulation coming from subscriptions. Duzhe Publishing & Media, the publisher of Duzhe, earned revenue of US$85mn during the first three quarters of 2015, which is almost 10% higher than the same period last year.

3

## Mid-range and high-end

Compared to general-interest magazines, mid-range and high-end magazines rely much more on advertising revenue. The typical cover price of mid-range magazines, like China Scenic and Vogue (China), is between US$1.50 and US$4.50 an issue; while high-end magazines are more than US$7.70 per issue, like iLook, and could be as expensive as US$15.50, like Robb Report. As most high-end magazines are beyond the financial reach of mainstream magazine buyers, circulations are relatively low.

4

## Decline in newsstands and move online

The decline of the newsstand, a major magazine distribution channel, has also influenced the circulation of both general-interest magazines and mid-range/high-end magazines. By the end of 2014 there were 28,000 newsstands in total nationwide, down by 3,817 from 2013. Bookstores and supermarkets have therefore become more and more important as retail channels for mid-range/high-end magazines. In addition, magazines have worked closely with e-commerce websites, such as Zazhipu and Taobao, to offer a wide variety of newspapers and magazines at lower prices and convenient delivery services.

In the 2013—2015 period, some magazines ceased publication or moved online. French Le Figaro magazine's Chinese version and iLook magazine all shut down in 2015, while Rayli Shishangxianfeng magazine and The Bund magazine only publish digital versions as of 2016. In the coming years, revenue pressure means that more magazines are expected to cease publication. It is also worth noting that there has been a growing interest in Western magazines in China: magazines like Time, National Geographic and The Economist have been sold through the e-commerce platform of Alibaba's Tmall.

5

# Advertising

China's total magazine print advertising revenue is slowing, affected by the economic performance of three key industries — real estate, automotive and commercial retail. Four industries (cosmetics, personal goods, clothing and automobile) contributed more than 60% of total consumer magazine advertising revenue in 2015, with BMW, Mercedes Benz, VW and luxury brands like LVMH still among the top advertisers. The cost of advertising on the cover gatefold of the Chinese edition of Vogue was about US$320,000 an issue in 2015.

Although the Chinese economy has slowed down, the emerging middle class has been leading the economy towards a more organic and services-driven profile. H&M, the fast-fashion clothing retailer, advertised in the September 2015 issue of ELLE (China), a reflection of the slowdown in the high-end luxury market and the growth of the middle-class consumption market.

6

# Strong inflight magazine performance

Advertising revenue from the inflight magazine segment, in contrast, has been growing rapidly. According to the Civil Aviation Administration of China (CAAC), the number of passengers taking flights reached 390mn in 2014. The cost of advertising on the cover gatefold of the inflight magazine of China Southern Airlines, which carried over 80mn passengers on its fleet of more than 400 aircraft, was US$200,000 an issue in 2015. The average price of a full-page advert in one of the top-ten circulation inflight magazines (between 200,000 and 300,000 circulations every issue) was around US$50,000 an issue.

7

# Digital advertising

Nevertheless, it is inevitable that advertisers will continue to divert a portion of their expenditure away from the traditional media to the Internet. Reading on mobile devices has become increasingly popular — there were 415mn Chinese mobile newsreaders by the end of 2014, according to China Internet Network Information Centre (CNNIC). Digital consumer magazine advertising revenue will rise from US$87mn in 2015 to US$195mn in 2020, while digital consumer magazine circulation revenue will grow from US$141mn to US$255mn.

In order to respond to the pressure from digital media and to integrate resources to strengthen profitability in the coming years, Shanghai United Media Group (UMG) was established in October 2013 as the country's biggest news company. By the end of 2015 UMG operated 32 newspaper and magazine titles, as well as ten

news websites, 18 apps and over 50 WeChat channels, which have over 450mn active users. Even the non-commercial magazines of the CPC, Qiushi Theory and Banyuetan China Comment, were very active in new media. The annual page views of Qiushi Theory in 2014 reached 60mn and the Qiushi Theory app had over 400,000 downloads. Page views of commercial magazines were much higher — the website of fashion magazine Vogue (China) saw over 30mn monthly unique visits in 2015.

Most magazines have launched stand-alone apps in the past decade. Almost all are free to download, although they might not allow readers access to the newest or the complete contents. iPad versions of financial and fashion magazines have been the driving force of paywalls, but their impact on the whole industry has been limited. The most popular magazine apps are free and ad-supported, and this is expected to remain the case over the forecast period.

In 2015 O2O (online to offline) was popular in China. Both Modern Media Group and Vogue (China) launched updated versions of their apps, iLady365 and Vogue MINI, to enhance the O2O shopping experience for fashion reader-consumers. In December 2015 brands like Louis Vuitton and Lane Crawford both advertised in the Vogue MINI app, embedding the "click-to-buy" interface.

Almost all major media have official Weibo and WeChat accounts/channels, allowing them to release the latest contents and interact with readers. For example, the Weibo account of Caixin Weekly, a financial magazine established in 2010, promoted its 2016 subscription at the end of 2015 with the "Kindle Paperwhite" gift campaign among its 1.92mn followers. Tencent's WeChat has become the most popular mobile app in China with 600mn active users.

The advertising cost of ten WeChat posts on the Vogue (China) account, with content editing services, was US$46,300 a year in 2015, given its large subscription base of 560,000 on WeChat. The popularity of WeChat has also boosted the business of marketing companies specialising in WeChat campaigns and management. In 2015 Banyuetan China Comment commissioned such a company to operate its WeChat channel and achieved more than 300,000 subscribers. Apart from traditional media, commercial companies in the food and beverage, real estate, e-commerce and automobile industries were the main clients of such services. Because Weibo and WeChat are now the major source for the younger generation to get information, this has created a new platform for traditional media to generate advertising revenue beyond print newspapers. For most magazines, "2 We+1 App" (WeChat+Weibo+Official App) is the strategy on mobile.

Another important trend in the magazine industry in 2016—2020 will be that revenue sources are expanded both vertically and horizontally. Many magazine companies have founded subsidiary companies in sectors like PR and events, e-commerce, art investment and financial. For example, Trends Media Group partnered with Harper's Bazaar in China to establish Bazaar Energy, a company providing events, branding and promotion services to clients including Bank of China, BVLGARI and Poly International Auctions. The newly IPO-listed Duzhe Publishing & Media has already included e-commerce and Internet products development into its major business. The proportion of magazine revenue generated by non-magazine business will continue to enlarge.

## 8 Trade magazines

Chinese total trade magazine revenue reached US$605mn in 2015 and is forecast to grow to US$828mn in 2020. According to the State Administration for Industry and Commerce, the total number of market entities located in China reached 75.11mn by the end of September 2015, with a year-on-year growth rate of 8.4%. Despite the economic slowdown, there have been over 10,000 new enterprises registering every day since 2014.

As the government has decided to drive economic growth by boosting innovation and domestic consumption, a start-up boom has been taking place. In September 2015 the State Council launched a US$9.4bn fund to support small and medium-sized enterprises (those with authorised capital of less than US$3.1mn). The number of young and educated so-called chuangke ("makers" in Chinese), who look to succeed through start-ups, business incubators and angel investors, has been growing rapidly. The State Council's "mass entrepreneurship" strategy will create new demand for trade magazines among newly established companies, particularly in the fields of technology, eco-energy and LED lighting. As one of the most important circulation channels of trade, trade shows will also foster the growth of trade magazines over the forecast period.

# Cinema

# 04

Chinese cinema is currently in the midst of an extraordinary growth spurt that, if it continues at the current rate, will see its box office revenue exceed that of the US by 2017.

Box office revenue in 2015 rose by an estimated 49.0% year-on-year to US$6.30bn, from US$4.23bn in 2014. The 2014 figure itself was a 36.1% rise on 2013. These astonishing figures mean that China is already the world's second-largest film market and by 2020 it is anticipated that box office revenue will be at US$15.08bn, at a 19.1% CAGR over the forecast period.

Admissions will soar from 1.16bn in 2015 to 2.50bn in 2020, at a 16.6% CAGR. The average admission price will increase over the same period from US$5.44 in 2015 to US$6.04 in 2020.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cinema in China (US dollar millions)** | | | | | | | | | | | |
| Box office | 2,096 | 2,685 | 3,109 | 4,231 | 6,305 | 8,381 | 10,296 | 12,091 | 13,681 | 15,079 | 19.053 |
| Cinema advertising | 55 | 63 | 72 | 82 | 93 | 105 | 117 | 131 | 146 | 161 | 11.555 |
| **Total Cinema in China** | **2,150** | **2,748** | **3,181** | **4,313** | **6,398** | **8,486** | **10,413** | **12,222** | **13,827** | **15,239** | **18.956** |

Sources: Ovum/Informa Telecoms & Media/PwC/European Audio Visual Observatory

## 1

## 3D increases in popularity

Around 60% of ticket sales are now made online and China is one market in which the enthusiasm for 3D has never palled. 3D box office in China was worth over US$2bn in 2014 (making it the largest 3D box office market in the world) and over 86% of screens were configured for 3D. In addition, China continues to be IMAX 3D's second-largest and fastest-growing market, with Chinese consumers increasingly seeing the value of the IMAX experience.

## 2

# China and Hollywood

China is both the biggest rival to Hollywood and its most alluring partner. Hollywood's share of the Chinese box office is slipping, down to 38.4% in 2015 (from 45.5% in 2014). The Chinese market is heavily regulated. Under the quota system, only a fixed number of Hollywood films (currently 34) are allowed into the Chinese market. The US studios in turn receive only a fixed amount of their Chinese box office revenue (reported to be around 25%) and the Hollywood titles are often shoehorned into end-of-year release dates, when they are made to compete against each other. The valuable summer months are left free for local movies.

In spite of these restrictions, Hollywood is determined to consolidate its position within the Chinese market. In the second half of 2015, US trade body the Motion Picture Association of America (MPAA) confirmed it had signed a trade deal with China's Film Bureau. An "Agreement on Cooperation in Importation and Distribution of Revenue-Sharing Films", this is intended to ensure greater transparency in the releasing and auditing of Hollywood films in China. Local distribution is still dominated by two state-run companies, China Film Group and Huaxia Film, which between them control 50% of the market, although a handful of private companies — among them Enlight Media, Bona Film Group and Wanda Media — now have a significant market share.

As the MPAA continues to highlight in its reports, piracy remains a significant issue in China. Box office fraud is widespread too. Nonetheless, with such sizeable Chinese investment in Hollywood films, it is expected that these films will enjoy easier access into Chinese cinemas. Underlining the increasing mutual dependence between the Chinese and US industries, certain Hollywood films (notably Point Break in late-2015) are being released in China ahead of their US launches.

## 3

# Chinese investment in the US

Chinese investment is continuing to pour into American companies. Media and property outfit Wanda took over leading US cinema chain AMC in 2012. In early 2016 Wanda also acquired Legendary Entertainment (the US media company behind films such as Batman Begins and Jurassic World.) Back in China, Wanda is currently building the world's largest film and TV studios — a 494-acre complex due to open in April 2017. IMAX has announced plans to double the number of screens it has in China to around 500. Meanwhile, in 2015 Chinese studio Bona Film Group announced plans to invest US$235mn in six big-budget 20th Century Fox movies.

## 4

# Surge in new screens

Every year, thousands of new screens are opened in China. Bloomberg reported in 2015 that around 15 new screens open in the country every day. Others suggest the numbers are higher than that. China's huge population is still relatively undercatered-for in terms of cinema numbers. The more optimistic forecasters have suggested that the Chinese cinema boom is recession-proof; as with many other countries, going to the cinema is seen in China as an affordable form of entertainment.

# Internet access

# 05

China has the largest advanced fixed and mobile broadband networks (FTTH/B and LTE) in the world. Deployment and take-up of these technologies has surged in 2015, although the country still faces significant challenges in extending broadband coverage to rural areas.

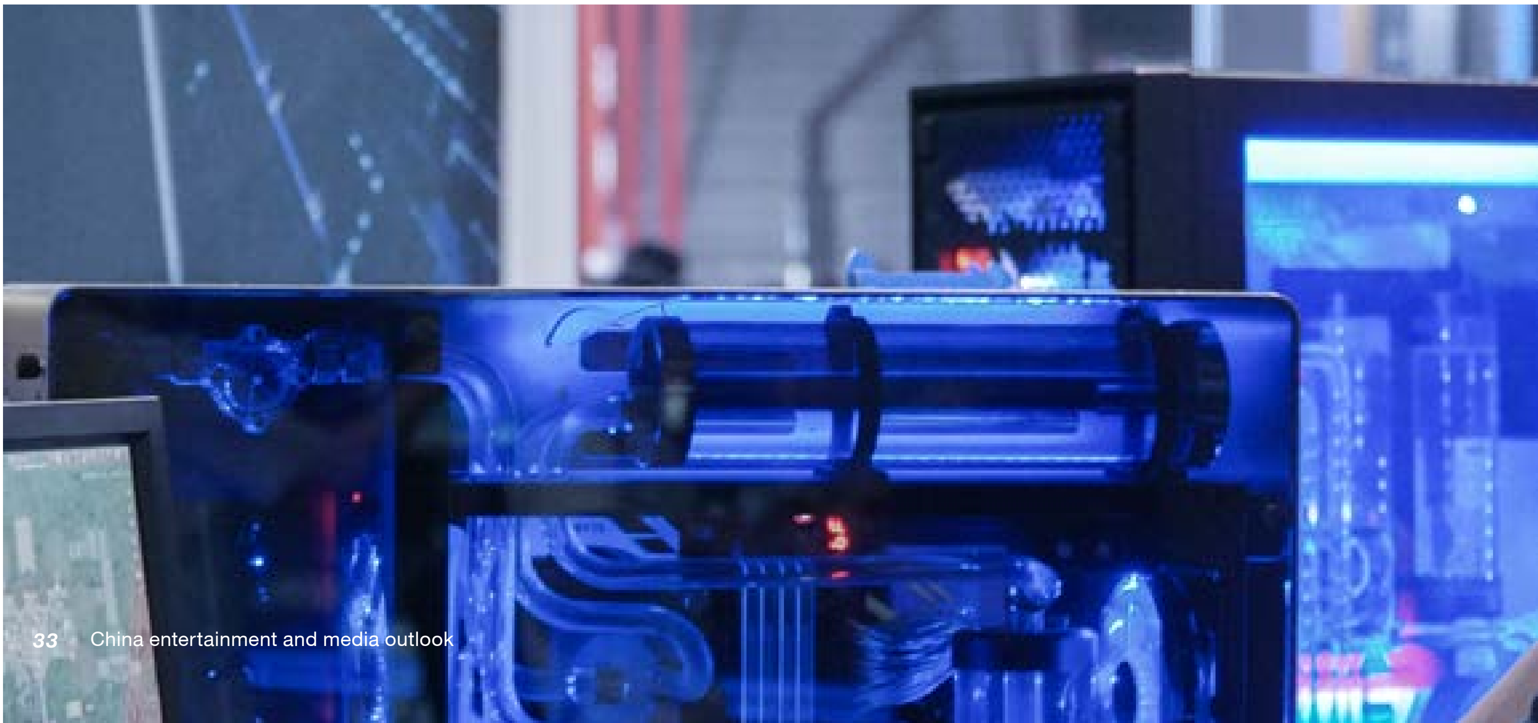
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Internet access in China (US dollar millions)** | | | | | | | | | | | |
| Mobile internet access | 10,707 | 14,603 | 18,981 | 21,894 | 26,372 | 30,798 | 35,743 | 40,781 | 46,414 | 52,047 | 14.564 |
| Fixed broadband access | 18,295 | 19,204 | 21,858 | 23,939 | 26,071 | 28,241 | 30,420 | 32,586 | 34,709 | 36,761 | 7.114 |
| **Total Internet access in China** | **29,002** | **33,807** | **40,838** | **45,834** | **52,444** | **59,038** | **66,164** | **73,366** | **81,123** | **88,808** | **11.11** |

Sources: Informa Telecoms & Media/PwC/Ovum/Telecom Regulator Authority of India (India)

1

# Fixed broadband access

In the fixed broadband market, the three major operators — China Telecom, China Unicom and China Mobile — are upgrading the country's networks.



## 2 Broadband China and fibre rollout

Under the country's national broadband plan — Broadband China, launched in 2013 — the operators had a target to deliver fixed broadband connections to 50% of households by end-2015. In September 2015 the country's Ministry of Industry and Information Technology (MIIT) reportedly claimed that China had achieved its targets for 2015.

The number of fibre-to-the-home/building (FTTH/B) subscriptions rose by around 48mn to 142.8mn in the nine months to September 2015, compared with MIIT's target of 40mn. The total number of fixed broadband households stood at just under 219.9mn at this time.

By 2020, however, the proportion of fixed broadband households taking high-speed (greater than 30Mbps) services is expected to rise to 28.5% (from 15.6% in 2015), while take-up of medium-speed connections will grow even faster, to 50.1% of broadband households by 2020. By this date, around 88% of fixed broadband subscriptions will be based on FTTH/B, with the share of cable and DSL having declined to 5% and 7% respectively. As a result of the migration to higher-speed services, fixed broadband access revenue will grow at a healthy CAGR of 7.1% in the five years to 2020, reaching US$36.76bn by that date.

Broadband China also set a target for all major urban areas to have access to 50Mbps or higher FTTH/B services by end-2020, and for rural households to have access to services of at least 12Mbps. Progress is being made towards the urban goal province by province, with rollouts across all urban parts of the provinces of Sichuan, Henan and Hubei being completed or announced in September 2015 (by China Telecom, China Unicom and China Mobile respectively).

Progress in rural areas remains patchy, however. Accordingly, in October 2015, the Chinese government announced plans to provide US$22bn to promote fixed broadband infrastructure development in rural areas. Whether this will be enough is not clear: some local reports have suggested that total investment of around US$300bn — from operators and government combined — will be needed to reach the goals in the Broadband China initiative.

## 3 Mobile Internet access

All three operators have also been investing heavily in long-term evolution (LTE) network rollouts, although they have adopted divergent strategies.

## 4 China Mobile

China Mobile has established a clear lead in the LTE (4G) market, with around 247.6mn subscribers at September 2015: an approximate 82% 4G market share and an increase of 275% on its LTE customer base at end-2014. China Mobile is basing its deployment on the TD-LTE standard, for which all three operators were licensed in December 2013. By June 2015 China Mobile had deployed 940,000 base stations (more than double the total one year earlier) covering over one billion people; and the operator invested CNY33.7bn (US$5.8bn) on the LTE rollout in the first six months of 2015.

5

# China Telecom and China Unicom

China Telecom and China Unicom both opted to base their 4G networks on a combination of the TD and FDD standards for reasons of spectrum efficiency and greater availability of devices supporting FDD. But MIIT did not issue a full commercial FDD licence to them until March 2015. Both operators have invested substantially in expanding their coverage and market share since then. Unicom aimed to invest CNY100bn on its 4G network in 2015, including 635,000 new LTE base stations — bringing the total number of its 3G and 4G base stations to a targeted 1.2mn, covering around 95% of the population. China Telecom had 320,000 LTE base stations in service by June 2015, up from 140,000 six months earlier.

## 6 Other developments

The cost of ongoing LTE rollouts will be rationalised by the formation of a tower-sharing joint venture — China Tower — between the three operators, the details of which were finalised in October 2015. The pressure on costs has been intensified by a government directive for the operators to cut their fixed and mobile broadband prices by 30% by end-2015, as well as to offer faster Internet speeds. All three operators are also attempting to drive value from premium services such as LTE-A and VoLTE, introduced during 2015 or pending for 2016.

The improving coverage of mobile broadband networks (3G and 4G) and the relative affordability of mobile Internet services have helped boost mobile Internet penetration to 61.5% in 2015, equating to 846.7mn subscribers. High-speed mobile Internet connections recorded a 270.7% increase during 2015. Another critical growth factor is the huge popularity of smartphones, apps and over-the-top services (such as the WeChat messaging service). Smartphone penetration is estimated to have reached 60.3% of total mobile phone connections in 2015, while the number of app downloads jumped by 47%. Mobile Internet access revenue reached US$26.37bn in 2015, and is expected to rise to US$52.05bn in 2020: a CAGR of 14.6%. The number of mobile Internet connections will grow at a CAGR of 4.8% over the same period, to 1.4bn, with 75.6% being high-speed mobile Internet connections by 2020.

## 7 Data consumption by device

Total data traffic consumed over wireless devices will exceed 181trn MB by 2020. This will represent a five-year CAGR from 2015 of 42.8%. More data will be delivered in China than in the UK, France and Germany added together, and only the US will see higher figures.

In total, 37.1% of data traffic was transferred over smartphone devices in 2015, with this set to increase to 47.5% in 2020. The tablet peaked in 2015, accounting for 28.6% of data traffic, but its share of the market will fall to 25.5% by 2020. “Other portable” in 2015 accounted for one-third of all data traffic, but the increased adoption of smartphones will cause a fall in its share to 26.9% in 2020.

Video is by far the largest single content type in terms of traffic, representing nearly 80% of all data traffic in 2015, ahead of Web browsing, which accounts for just 6.4%. The trend of video dominance is set to grow to such an extent that it will represent 85.9% of all data transferred in 2020. Data traffic from music, games, Web browsing and social networking added together will comprise less than 10% of all data traffic.

Tablet and other portable users are consuming video content the most. For both types of device, more than 80% of all data traffic on them is video content, and this will near 90% by 2020. Smartphone usage differs only a little — video usage is predominant, but in 2015 Web browsing and the storage of digital media between them comprise over 10% of all data traffic. The amount of traffic from Web browsing especially will fall.

The increase in smartphone usage is making China more similar — in terms of content adoption — to countries such as the US, the UK and Germany rather than the other BRIC markets.

# *Internet advertising*

# 06

China is comfortably the largest Internet advertising market in Asia. Total Internet advertising revenue in China was US$23.20bn in 2015, more than US$15bn ahead of Asia's second-largest market, Japan. Only the US exceeds China in terms of revenue on a global scale, yet the market is far from exhausted. The majority of households still lack fixed-line Internet access (broadband household penetration stood at 43% in 2015) and with the sheer size of the Chinese population this represents enormous potential for future growth. Total Internet advertising revenue will grow by a 14.0% CAGR, reaching US$44.61bn in 2020.

China's Internet advertising sector has benefitted hugely from China's strong economic performance over most of the historic period. The growing middle class in China is embracing technology, and Internet has created a huge channel for marketers to reach newly empowered consumers. Although China's economy has slowed down, economic growth is still forecast to be well above comparable economies of similar size.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Internet advertising in China (US dollar millions)** | | | | | | | | | | | |
| Mobile internet advertising | 762 | 1,052 | 1,404 | 1,810 | 2,332 | 2,974 | 3,756 | 4,695 | 5,810 | 7,115 | 24.999 |
| Wired internet advertising | | | | | | | | | | | |
| - Classified Internet advertising | 1,645 | 1,812 | 1,988 | 3,941 | 5,317 | 6,199 | 6,894 | 7,467 | 7,881 | 8,041 | 8.624 |
| - Other display Internet advertising revenue | 2,134 | 2,932 | 3,881 | 4,943 | 6,046 | 7,090 | 7,959 | 8,537 | 9,010 | 9,399 | 9.224 |
| - Video Internet advertising | 211 | 295 | 399 | 630 | 920 | 1,241 | 1,557 | 1,808 | 1,971 | 2,112 | 18.071 |
| - Paid search Internet advertising | 2,973 | 4,061 | 5,370 | 6,862 | 8,584 | 10,476 | 12,468 | 14,459 | 16,348 | 17,942 | 15.886 |
| Total | 6,963 | 9,100 | 11,638 | 16,376 | 20,868 | 25,005 | 28,877 | 32,271 | 35,210 | 37,494 | 12.433 |
| **Total Internet advertising in China** | **7,725** | **10,152** | **13,042** | **18,186** | **23,200** | **27,980** | **32,633** | **36,966** | **41,020** | **44,609** | **13.969** |

Sources: Ovum/InformaTelecoms & Media/PwC/IAB New Zealand/IAB Australia/IAB Singapore/DENTSU (Japan)

1

# Paid search

Desktop paid search is the single-largest revenue-generating Internet advertising sub-component in China, comprising 37.0% of total Internet advertising revenue in 2015. Chinese users spend a lot of their time online seeking information or exploring products, music or videos and this is reflected in China's large paid search market. Advertisers will increasingly allocate their digital budgets to search engine marketing over the forecast period as paid search's share will rise to 40.2% by 2020. Paid search Internet advertising revenue rose to US$8.58bn in 2015, and this is expected to more than double over the next five years, reaching US$17.94bn in 2020, at a 15.9% CAGR.

Baidu, China's own search engine, dominates the paid search market in China with a market share of approximately 70% (around 8—10% globally). Other players include Qihoo 360 and Sogou. Baidu has recently focussed on greater international expansion by entering large, less developed emerging Internet markets. The company entered the Brazilian paid search market in 2014 and also has operations in Egypt, Thailand, Indonesia and India, with an eye on expanding its paid search services further in these markets.

## 2
# Display

Display Internet advertising revenue, including video and other display, saw a year-on-year increase of 25.0% in 2015, comprising 30.0% of the total market with a revenue of US$6.97bn. By 2020 display Internet advertising is forecast to reach revenue of US$11.51bn, although its share of total Internet advertising revenue will fall to 25.8% as growth is even faster elsewhere.

Major local publishers driving growth in display advertising include Tencent (which owns QQ, China's largest and most used Internet service portal), Alibaba, Taobao and Tmall. The Chinese are also embracing social media, making social media networks another growth driver. Some estimates indicate there are more than half a billion active monthly users of social networks. Local players dominate China's social media landscape due to tight state control over the Internet. Sina Weibo (often referred to as China's Twitter) is the leading network. Other popular sites include Renren and Q Zone (owned by Tencent).

Programmatic buying is on the rise in China, and will likely boost the display market as it continues to develop. Using automated trading processes gives publishers new channels to capitalise on unsold inventory and opens up a big pool to potential advertisers. It also promises advertisers better targetting and efficiency as ads previously limited to one specific site can appear on multiple sites, depending on the end user. While it has seen steady growth in recent years, including mobile, China is still lagging behind markets such as the US and the UK in the use of automatic trading (including real-time bidding). Not many publishers have moved their inventory to the automated ecosystem yet because most Chinese publishers still value traditional media buying, where they gain control over which ads are displayed on their page, scheduled to a fixed time and price.

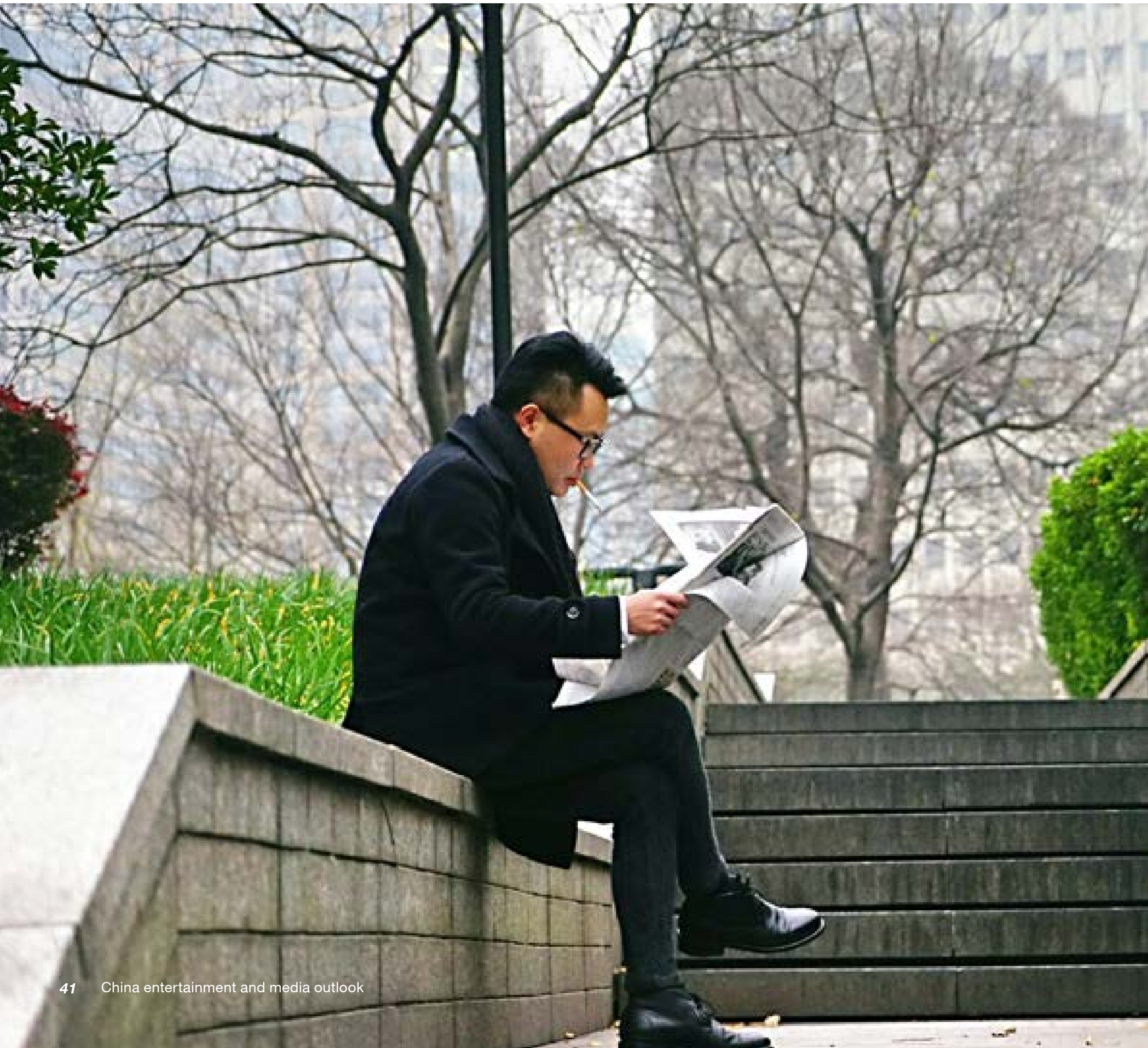
Other display, including conventional banner and interactive non-video ads, accounted for 86.8% of total display advertising spend in 2015. Video advertising, however, is on the rise. It is the fastest-growing desktop sub-component of the Chinese Internet advertising market, with a CAGR in the forecast period of 18.1%. Chinese advertisers spent US$920mn on video ads in 2015. By 2020 video Internet advertising revenue is forecast to reach US$2.11bn, capturing 18.3% of desktop display advertising spend. iQiyi (owned by Baidu) surpassed Youku Tudou to become the leading Chinese online video platform in 2014.

## 3
# Mobile

Mobile Internet advertising revenue is growing more rapidly than any other desktop Internet sub-component. Growing at a 25.0% CAGR, mobile Internet advertising spend will increase from US$2.33bn in 2015 to US$7.12bn in 2020.

User traffic is increasingly shifting towards mobile. Baidu reported that mobile accounted for nearly two-thirds of its search traffic in the third quarter of 2015. Although mobile ads are growing at a fast pace, they remain a small part of overall ad spending. It is still a challenge to accurately measure the effects of mobile campaigns and ads typically have lower conversion rates compared to desktop. Mobile ad spending is, however, increasing with the rise of online mobile payment systems such as Alipay (the leading Chinese mobile payment system). These systems are making it easier and more convenient for Chinese consumers to pay with mobile online, boosting mobile e-commerce.

# Newspaper publishing



07

China's total newspaper revenue was US$12.06bn in 2015, and is forecast to fall to US$11.53bn in 2020 at a CAGR of -0.9%.

With an average daily unit circulation in print of 146.56mn, a free dailies circulation of 6.12mn and a fast-growing average daily unit circulation in digital of 3.76mn, China had the largest market for newspapers by volume in 2015. The average daily unit circulation total is forecast to grow at a CAGR of 6.9%, reaching 210.17mn by 2020; in particular, the average daily unit circulation in digital will rise at a CAGR of 47.2% to 26.00mn in five years' time.

China's total newspaper circulation revenue lags behind two other major markets, Japan and the US, primarily because of the low average price and the popular, free-to-read model in digital newspapers. But with a CAGR of 3.2%, total newspaper circulation revenue will grow from US$6.51bn to US$7.63bn between 2015 and 2020.

Total newspaper advertising revenue slowed in 2012, hurt by the economic performance of three main industries — real estate, automotive and commercial retail. Newspaper advertising suffered more than other traditional media from this dip, with total revenue falling to US$5.55bn in 2015, with a CAGR of -6.8% now expected.

People's Daily, the official newspaper of the Communist Party of China (CPC), continued to have the largest daily print circulation at 3.2mn. The circulations of the CPC's other three major newspapers — Guangming Daily, PLA Daily and the Economy Daily — were all above 700,000 in 2015. There are 31 CPC newspapers with an average daily circulation of about 12mn in total.

With more than 3mn daily circulation, the other most circulated newspaper in China is the Reference News, a newspaper translating selected articles from the international media into Chinese, published by China's Xinhua News Agency.

Every year, the Party committees and the propaganda department take measures to guarantee the circulation of these CPC newspapers by mandatory subscription at each level of government administrative organs, state enterprises and service organisations. The Party is determined to tighten up content control and strengthen ideology, and took effective measures at a government meeting in October 2015 to achieve a bigger success in the subscription numbers of the main party newspapers. The Ministry of Propaganda, the State Post Bureau (SPB), universities and governments at lower levels all responded actively to achieve the subscription goal of 2016.

SPB, the only organisation with nationwide delivery coverage, remains dominant in newspaper distribution. But while newspaper distribution only contributed 2% of SPB's total revenue, it accounted for more than 10% of total costs in 2014: a subscriber living in downtown Beijing has an identical delivery charge to one located in the Himalayas, because it is part of the responsibilities of the state-owned company.

Newsstand is the other major distribution channel. Between 2008 and 2011, about 10,000 of the newsstands of China Post (the state's postal service and traditional magazine and newspaper distributor) were shut down for the purpose of "city beautification". This trend has continued since. Nationwide, there were 28,000 newsstands in total by the end of 2014, down more than 3,800 from 2013.

The revenue churn of print circulation has two main causes. Firstly, the average cover price is too low to make an attractive profit. Most bestsellers are only sold at US$0.15—0.25 an issue, including Global Times and Beijing Youth Daily. Although a few financial newspapers raised their price in 2013 to around US$0.80 an issue, it was not easy to sell to readers who are used to spending tiny amounts on newspapers. And as low as the price of a single copy can be, the subscription price is even lower. Beijing Evening News, one of the most circulated newspapers in the city, only charges US$56 (US$44.7 for existing subscribers) for a year's subscription in 2016. Commercial newspapers, with a relatively higher degree of freedom and less government support, are in competition for market share.

Secondly, because almost all the articles in any traditional newspaper are also available on the newspaper's Website and news portals, or mobile platform, there is insufficient reason for readers to pay for the digital subscription; similarly, if everything is available free online, there is less reason for readers to pay for a print edition. Financial newspapers and newspapers in English, like the Economic Observer and Shanghai Daily (English version), are the driving force in operating paywalls, although the impact on the whole industry is limited. A 12-month subscription to Shanghai Daily (English version) online costs US$85 and purchasing an issue from the official app costs US$0.99.

In contrast, the full PDF version of People's Daily has become available to read and download at no cost, after it unsuccessfully tried to implement a paywall in 2010. Only paid-for readers have full access to the newspaper archives, however. In 2015 Subaonet.com, the Website run by Suzhou Daily News Group, announced it would stop publishing the contents from Suzhou Daily, Gusu Evening News and City Business News for free on the Website, due to complaints from subscribers.

The popularity of mobile Internet also accounted for the decline of traditional newspapers. According to China Internet Network Information Center (CNNIC), the total number of Chinese who read news on their mobile devices reached 415mn by end-2014.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Newspaper publishing in China (US dollar millions)** | | | | | | | | | | | |
| Newspaper publishing advertising | 7,502 | 7,362 | 7,263 | 6,671 | 5,547 | 4,919 | 4,483 | 4,191 | 4,008 | 3,899 | -6.81 |
| Newspaper publishing circulation | 4,517 | 5,069 | 5,577 | 6,059 | 6,507 | 6,904 | 7,225 | 7,459 | 7,597 | 7,634 | 3.245 |
| **Total Newspaper publishing in China** | **12,019** | **12,431** | **12,840** | **12,729** | **12,055** | **11,823** | **11,708** | **11,651** | **11,605** | **11,533** | **-0.881** |

Sources: PwC/Ovum/Informa Telecoms & Media/World Association of Newspapers and News Publishers/The Advertising Association of Thailand

1

# Advertising

In 2015 newspaper advertising suffered the most when industries like real estate, commercial retail, automobile, leisure and entertainment, telecommunications and financial services — collectively seen as the driving force of newspaper advertising revenue — all reduced their budgets by varying degrees, between 10% and 30%, compared with 2014. Even so, Evergrande Real Estate Group, Shanghai Volkswagen, China Mobile, Gree Electric, Gome and Sunning were still among the top advertisers.

As a consequence of the drop in revenue, 2013—2015 saw the merger of some newspaper groups, while others ceased publication. Shanghai Evening Post (Xinwen Wanbao), once with a daily circulation of 750,000, as well as News Times (Tiantian Xinbao) and The First (Jing Bao) all ceased publication in 2014. In October 2015 the 30-year-old Shanghai Business (Shanghai Shangbao) from Shanghai, ChangZhuTan Today (Changzhutan Bao) from Hunan Province and Life News (Shenghuo Xinbao) from Yunnan Province, all suspended publication. In the coming years, more newspapers are expected to cease publication due to revenue pressure.

But it is worth noting that newer industries, like e-commerce, have been showing increasing interest and confidence in conventional media. Alibaba's advertising spend on newspaper has grown more than eightfold in the past two years, and its ambition also stretches beyond advertising. The company invested in Beijing Youth Community Daily on its OKJia app in May 2015; co-established The Cover.cn, a mobile media platform, with Sichuan Daily Group in October 2015; and announced the purchase of the Hong Kong-based newspaper South China Morning Post in December 2015. The growth of e-commerce is related to China's economy being increasingly driven by domestic consumption and services. In the first half of 2015 domestic consumption contributed 60% of economic growth, at a year-on-year rate of 5.7%. It is anticipated that e-commerce's spend on newspaper advertising will continue to grow in 2016—2020.

Digital newspaper advertising revenue will rise from US$684mn in 2015 to US$1.23bn in 2020, a CAGR of 12.5%. Online advertising has become mature. To advertise on the homepage banner at Chinadaily.com, the Website of China's most widely circulated English-language newspaper, costs US$12,400 a day. People.cn, the Website of China's most circulated newspaper People's Daily, offers a multimedia interactive online advertising service, targeting important clients from finance, automobile, real estate, fast-moving consumer goods, health and tourism.

Many major newspapers launched stand-alone news apps in 2014, including People's Daily and Shanghai Dongfang. By the end of 2015 total downloads of the People's Daily app reached 100mn. The competition between aggregator news apps run by Internet companies was fierce: NetEase, Toutiao.com, Tencent and Sohu dominated over 70% of the total downloads on both iOS and Android operating systems in 2015.

By virtue of Tencent's popular WeChat app, a mobile text and voice-messaging communication and social networking service, its news app was ranked top in 2015, with average daily views of more than 2bn. The Sohu Mobile News app has brought together almost 10,000 newspaper brands, online media and government information channels into a single platform, letting readers choose from a variety of news content and subscribe without charge. By the end of June 2015, Sohu had more than 250mn subscriptions and 88mn active users. All the apps are free to download without extra charges for content. "Free ad-supported" is the most prevalent business model, and both the app operators and the newspapers can benefit from such advertising income.

Most newspapers are also venturing into existing social media: almost all major media have official Weibo accounts. People's Daily registered a Weibo account in July 2012 and had 41.7mn followers by the end of 2015 on Sina's platform alone. The total views of People's Daily's Weibo topic "2015 China Victory Day Parade" hit 720mn.

With 600mn active users, Tencent's WeChat has become the most popular mobile app in China. Newspapers are competing against each other, as well as independent media, or self-media, in the total subscription of their official WeChat channels and page-views per article. Weibo and WeChat are now the major source for younger Chinese to get news, which also creates a new platform for traditional media to generate advertising revenue beyond the print newspapers. For most newspapers, "2 We+1 App" (WeChat+Weibo+Official App) is the strategy on mobile.

Another important trend over the forecast period is that revenue sources will keep expanding vertically and horizontally. Many newspaper companies have founded subsidiary companies in areas like exhibitions, e-commerce, art investment or finance. For example, in 2015 Yijia Wentou, an art investment company under Jiangsu Modern Express, organised art exhibitions and art auctions, while Nandu Daily launched the "Douhuilai" O2O (online to offline) real estate app and WeChat channel in Guangzhou to bring together the local real estate resources. The proportion of revenue created by non-news business will continue to rise to 2020.

# *Out-of-home advertising*

# 08

China is currently the world's third-largest out-of-home (OOH) advertising market, with revenue of US$5.83bn in 2015, an increase of over 30% since 2011. This rapid growth will see China replace Japan as the world's second-largest OOH market in 2016, behind only the US. China is the fastest growing of the world's major OOH markets, with revenue increasing by some US$526mn in 2015 alone, far more than any other market.

This impressive growth is forecast to continue throughout the forecast period at a 9.3% CAGR to reach US$9.07bn in 2020. While this will still be some distance behind the US (US$10.94bn), if current trends continue China is almost certain to become the world's largest OOH market at some point in the next decade.

All three of the major global OOH providers — JCDecaux, Clear Channel and Outfront Media — have a presence in the Chinese market, although Chinese foreign investment rules require these companies to work with local partners. The most important of these is STDecaux, JCDecaux's joint venture with the Shanghai Advertising Company.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Out-of-home advertising in China (US dollar millions)** | | | | | | | | | | | |
| Digital out-of-home advertising | 1,100 | 1,219 | 1,380 | 1,625 | 1,911 | 2,243 | 2,625 | 3,042 | 3,492 | 3,970 | 15.752 |
| Physical out-of-home advertising | 3,361 | 3,353 | 3,435 | 3,676 | 3,916 | 4,204 | 4,475 | 4,713 | 4,923 | 5,101 | 5.426 |
| **Total Out-of-home advertising in China** | **4,461** | **4,572** | **4,815** | **5,301** | **5,827** | **6,447** | **7,100** | **7,755** | **8,416** | **9,071** | **9.255** |

Sources: PwC/Ovum/Informa Telecoms & Media

## 1 Construction boom

The remarkable growth of China's OOH market has been driven by the strong historic performance of the Chinese economy, even if this growth came into question in 2015. It has resulted in huge increases in consumer and advertising spending in recent years. The most important aspect of this growth for the OOH industry, however, has been China's continuing construction boom.

This has benefitted OOH quite directly in the creation of huge amounts of new OOH space, as well as more indirectly as increasing urbanisation grows the addressable market for OOH advertising. China's urban population has increased by over 200mn in the last decade and 54% of China's population now live in cities, according to the World Bank.

Meanwhile, rising disposable incomes have resulted in the creation of many new high-value advertising environments such as shopping malls and railway stations. Shanghai and Beijing are now home to the world's two largest metro networks after rapid expansion in recent years — 75% of Beijing's network opened since 2002. Both networks have large riderships of over 10mn a day, due in part to low, subsidised fares.

STDecaux won a lucrative eight-year contract to operate advertising on the Shanghai metro in 2013. As well as posters and floor and pillar wraps, this also includes a network of 20,000 17-inch screens in trains and 3,000 42-inch screens on platforms, covering a total of nearly 38,000 media displays in 290 stations on 12 Shanghai metro lines, illustrating the reach of digital OOH (DOOH) formats in China.

China's massive expansion of its aviation capacity is also a huge boon for the OOH industry. Airports are among the best locations for OOH advertisers because they enjoy a relatively captive audience of generally higher-income viewers. With over 80 new airports planned or under construction, China is set to increase the number of its airports by almost 50% and total passenger capacity by more than double.

2

# DOOH gaining ground

The rise of smaller screens in high-traffic locations like shopping malls, metro stations and airports is one of the factors driving the growth of DOOH formats in China. Smaller displays are far cheaper to digitise than billboards and they present both fewer difficulties and more opportunities.

Digital billboards have run into regulatory difficulties in many countries due to aesthetic objections and, especially, the fear that they will distract drivers. The Chinese authorities haven't yet imposed any such restrictions but the possibility of regulations being tightened as digital billboards gain popularity is a concern for any operator, given the substantial costs of digitisation.

As well as avoiding these difficulties, smaller displays also have the advantage of allowing users to approach and interact with them. Using features such as quick response (QR) codes and, increasingly, near-field communication (NFC) means that offers, coupons or games can be delivered to viewers through their mobile devices. With digital displays being concentrated in locations frequented by higher-income consumers more likely to own mobile devices, this is potentially a very attractive proposition for advertisers.

NFC payments launched in China in 2013 as payments provider China UnionPay and telecoms operator China Mobile rolled out their joint network across 14 Chinese cities. Other services have followed, potentially including Apple Pay in the near future — Apple and China UnionPay are negotiating a deal to launch the service in China. This has opened up the possibility of DOOH installations leveraging NFC payments to act as points of sale.

These factors have helped China's DOOH grow to US$1.91bn in 2015, an increase of over 70% since just 2011. A forecast of 15.8% CAGR will see DOOH revenue reach US$3.97bn by 2020. While the vast majority of actual OOH displays will still be non-digital, DOOH displays generate far more revenue because — as well as being more vivid and eye-catching — they allow for better targeting of consumers by rotating different advertisements through the day or week.

# Radio

# 09

As the world's third-largest radio market after the US and Germany, China's total radio revenue was US$2.33bn in 2015.

China's economy has been changing gears — from a double-digit growth rate before the Olympics to a significantly lower rate of growth. The economy is shifting from an investment- and export-led economy towards a domestic consumption and services-driven one. Last year was the connecting year of the "12th Five-Year Plan (FYP) for 2010—2015" and the "13th Five-Year Plan for 2016—2020", China's social and economic development blueprint. According to President Xi Jinping's statement, China's GDP annual growth rate in 2016—2020 "must be at least 6.5%".

Although China's economy has slowed down, the emerging middle class has been leading China towards a more organic economy. In addition, taking the newly approved two-child policy into account, the advertising industry will benefit from the increasing consumption of the Chinese middle class in the next five years. The automobile industry will still be the pillar of radio advertising, but e-commerce, tourism and healthcare will become the new drivers of growth. Further steady growth is anticipated and total radio revenue will reach US$2.92bn in 2020, at a 4.6% CAGR.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Radio in China (US dollar millions)** | | | | | | | | | | | |
| Radio advertising | 1,648 | 1,791 | 1,945 | 2,280 | 2,335 | 2,479 | 2,613 | 2,734 | 2,838 | 2,924 | 4.606 |
| Public radio licence fees | - | - | - | - | - | - | - | - | - | - | - |
| Satellite radio | - | - | - | - | - | - | - | - | - | - | - |
| **Total Radio in China** | **1,648** | **1,791** | **1,945** | **2,280** | **2,335** | **2,479** | **2,613** | **2,734** | **2,838** | **2,924** | **4.606** |

Sources: Informa Telecoms & Media/PwC/Ovum/The Advertising Association of Thailand/Telecom Regulatory Authority of India

## 1 Radio market

There were around 600mn radio listeners in China in 2015, two-thirds of them residing in urban areas. According to China's National Bureau of Statistics, radio programmes reached 98.0% of the total population by the end of 2014, an increase of 1.2% from 2013. Prefectural and county-level radio still accounted for more than half of the market, while the rest was shared between China National Radio (CNR) at around 10% and provincial radio at around 35%. Travel/traffic channels, music channels and news channels were the most popular, accounting for over 70% of the total market. Geographically, CNR had the least influence in East China and South China, with a share of less than 5%, where prefectural and county-level radio dominated the market. The most popular radio channels were concentrated in economically developed regions: Beijing (19 channels), Jiangsu Province (12) and Guangdong Province (11) accounted for many of China's top 100 radio channels by the end of 2014.

## 2 Advertising

Radio's top advertisers in China come from the automobile, finance and insurance, telecommunications, healthcare, and food and beverage industries. Thanks to a favourable government policy in e-commerce, the radio advertising sector, particularly in Beijing and Shanghai, witnessed a sharp increase of advertising spend by Internet companies in 2015 — a model named O2O (from "on-air to online"). CNR's five-second "adwords" advertising became very popular among e-commerce advertisers, which encouraged listeners to use their mobile devices to search the adwords they had just heard on the radio.

GPS apps, ride-hailing service apps and food apps have been becoming important advertisers in music and travel/traffic channels. In the first half of 2015, Internet companies spent 72% more on radio advertising in Shanghai than in the same period the previous year. Internet companies — including the most well known, Tmall.com, JD.com and 58.com — took to radio as one of their prime advertising resources mainly for two reasons. Firstly, traditional media is still regarded as authoritative and authentic, which is of great value to Internet companies looking to build their credibility. Secondly, and more importantly, radio could offer more accurate demographic information about the audience. Given traffic congestion and the high quality of the in-car radio audience, advertisers from the real estate, automobile, retail, tourism and entertainment industries are keen to invest heavily in in-car radio, spotting a good opportunity to convert a young, affluent audience into consumers.

Because of air pollution and traffic congestion, the Chinese government has launched policies at various administrative levels to restrain the growth of vehicle ownership, including a licence plate lottery system and road space rationing. Nevertheless, the total number of vehicles in China had reached 154.5mn by the end of 2014, with the ownership of privately owned vehicles at 125.8mn, which was 15.5% higher than in 2013. Although the rapid growth of the in-car radio audience fostered the advertising growth of radio channels, it is also worth noting that over the past two

years more and more taxi drivers have given up their in-car radio in order to focus on their business through Didi Dache or Kuaidi Dache (two prominent taxi apps in China). But taxis only accounted for a small fraction of privately owned vehicles.

With around a 70% market share in the capital, Radio Beijing Corporation's advertising revenue reached US$131.33mn in 2014 and was maintained at the same level in 2015. Shanghai Media Group (East Radio) had 13 channels in Shanghai, with over 90% market share, and by October 2015 advertising revenue was US$108.1mn.

3

# Radio apps and social media

With mobile Internet subscribers rising to an estimated 846.7mn in 2015, the further development of Wi-Fi and 4G boosted the market of streaming radio apps. The majority of radio channels or stations have launched stand-alone apps and joined integrated radio content platform apps, such as Qingting FM, Koala FM and Ximalaya FM. Qingting FM, which offers audio streaming from over 3,000 radio networks and radio stations in China and worldwide, as well as 3mn hours of on-demand content, has achieved more than 200mn downloads. The total number of users of such mobile radio apps was estimated to be over 250mn nationwide. None of the integrated apps mentioned offer a paid version, so they depend largely upon advertising revenue, although too many ads might lead to an increasing uninstall rate.

Such apps are expected to make a significant impact in the vehicles market in the coming years. Internet radio apps have been exploring the possibility of a more in-depth collaboration with automobile brands, such as in-vehicle multimedia software. Koala FM worked with Chinese automobile manufacturer BYD once again in 2015 on its newly launched SUV. So far, Koala FM has worked with almost 50 automobile brands on in-vehicle multimedia software, including Ford, Volkswagen, Nissan and GM.

Data consumption has been a barrier for mobile radio users. For example, in 2014 every minute of iFeng FM's audio streaming cost 0.46MB of data. Internet radio operators have been working with the three telecoms operators — China Mobile, China Unicom and China Telecom — to offer an exclusive data package for radio apps.

Social media has already become an extended platform for radio advertising. Almost all radio channels or stations have set up Weibo and WeChat accounts, which were included in their advertising packages in 2015. The success of WeChat's "shake TV", a real-time interactive function connecting WeChat users with a TV screen, also reached the radio advertising market in 2015. "Shake Radio", a similar function empowered by Unitrue, a Chinese technology company, has enabled Chinese radio channels to interact with their listeners through mobile screens. In the next five years, multiscreen advertising will be a growing trend in radio advertising.

# Music

# 10

China's music market was worth US$865mn in 2015, up 10.27% on the previous year and considerably ahead of the US$638mn revenue reported in 2011. Total music revenue is forecast to rise at a 9.6% CAGR to US$1.37bn in 2020.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Music in China (US dollar millions)** | | | | | | | | | | | |
| Live music | 162 | 174 | 187 | 200 | 215 | 231 | 248 | 266 | 285 | 304 | 7.114 |
| Recorded music | 476 | 501 | 529 | 584 | 650 | 726 | 809 | 898 | 986 | 1,064 | 10.347 |
| **Total Music in China** | **638** | **675** | **716** | **785** | **865** | **957** | **1,057** | **1,164** | **1,271** | **1,367** | **9.578** |

Sources: Ovum/Informa Telecoms & Media/PwC

# 1 Huge potential

China's music market is potentially massive but that potential has yet to be fulfilled. The recorded music industry in the world's most populous nation has historically been hindered by piracy and restrictive practice. Lobby associations and investors are confident that the legitimate music market has taken strides in recent years in a climate of technology advancements, foreign investment and joint-venture partnerships.

The music market surged from 2011 to 2015 because both key revenue streams — recorded music and live music — generated growth. Total recorded music revenue grew to US$650mn in 2015, up 11.2% on 2014 and almost US$175mn more than the corresponding sum reported for 2011. By 2020 recorded music revenue is forecast to reach US$1.06bn, increasing at a 10.3% CAGR. For a country with around 1.4bn inhabitants (and further population growth on the horizon due to the relaxing of the one-child policy), the legitimate market thus far has been one of resounding promise. Australia, with a population of just 24mn, currently has a greater music market in terms of total revenue. For China, the trend is upward. In the ten-year span to 2020, China's music market is forecast to more than double in value.

Some of the biggest brands in music entered the Chinese marketplace in 2015, none bigger than Apple Music. Apple's streaming service launched at a cost of RMB10 a month, or only US$1.50, a price that is competitive with others operators, including the most popular paid-for tier Green Diamond, owned by Tencent, with an estimated subscription base of 3mn-plus. Other music competitors in China include services operated by Netease and Baidu.

Three major Internet companies — Alibaba, CMC and Tencent — have made plays to dominate the field of digital distribution. Alibaba recently announced it would combine two of its music properties, Tiantian and Xiami, into a music service. Observers say developments such as this will make entry into the market even tougher. Spotify, the leading brand in streaming music worldwide, has yet to launch in China.

## 2 Action on piracy

China announced it would get tough on piracy with the launch of its Sword Net 2015 initiative, which had given music services in the country a deadline of 31 July to clear their catalogues of infringing songs. By early August the copyright watchdog National Copyright Administration of China (NCAC) announced 2.2mn copyright-infringing works had been removed from the country's most popular digital listening outlets. In October 2015 the NCAC issued new guidance for website service providers, requiring them to be proactive in removing copyright-infringing music identified by the authority.

Although no reliable data exists, it has been suggested that Chinese-language music accounts for around 80% of the legal market, K-Pop/J-Pop accounts for 10% of content and a similar figure applies to international repertoire.

## 3 International attention

International record companies have established a footprint in the market. Warner Music Group led the push in 2014 with its acquisition of Gold Typhoon Group, a China-based entertainment company with one of the largest and best-known independent record labels and a catalogue of over 600,000 songs. This purchase remains one of the strongest signals of international ownership and investment in local music.

The US music industry's "bible" Billboard launched Billboard Radio China in 2015, through a partnership with media and technology holding company Tork Limited, to become the first Billboard-branded Internet radio station in Asia. Billboard also launched the first-ever "user-generated" chart in China through a partnership with YinYueTai (YYT).

Meanwhile, the co-organised International Music Summit (IMS) China conference and the Budweiser Storm Festival took place in October 2015 in Shanghai. The IMS event was the first electronic music conference in China and will return in September 2016.

Artists will have another avenue into the Chinese market in 2016 with the launch of Cantara TV. The dedicated TV channel is an initiative of Cantara Global, a digital media firm that streamed a series of concerts into China in 2015 through a partnership with Tencent.

Industry trade association the IFPI is optimistic that China will join the 140-plus countries that have full performance rights. A proposal in its final draft of the amendment of the law by the NCAC remains "under consideration" by the Legislative Affairs Office of the State Council. It is hoped it will be enacted in 2016, the IFPI notes. Another untapped stream of revenue is performing rights royalties from karaoke bars, which industry experts are hopeful could present rich rewards in years to come.

## 4 Digital is dominant

If there is money to be made from music in China, digital platforms will generate it. Physical product is almost obsolete, representing just 3% of the market, or US$16.4mn. China's online user base has advanced past 650mn, according to the IFPI, although a growing number of illegitimate digital services are stunting the pace of growth.

Digital platforms facilitated US$634mn in sales in 2015, up from US$444mn in 2011. The sum is expected to leap to US$1.06bn in 2020 with growth driven by streaming services and mobile sales.

Mobile is big business in China. China Mobile is the world's largest carrier by subscribers and the world's largest telco by far with a market value estimated at a staggering US$280bn. China is the world's leading smartphone market. Although analysts suggest the smartphone penetration rate in China is slowing, few would argue against the mobile phone remaining as China's music-delivery device of choice. Mobile music revenue has the largest slice by far of digital recorded music revenue, at US$505mn in 2015, a share of 80%, and this is forecast to rise at a 3.2% CAGR to US$592mn in 2020, when it will account for 56% of total digital recorded music revenue.

## 5 Streaming and downloads

Streaming services are proving a substantial alternative to piracy in some markets. China's streaming market, although still in its infancy, has made great steps forwards in recent years, from a revenue base of just US$27mn in 2011 to US$119mn in 2015. Shifting market conditions should open up the streaming business, and the market for music streaming is forecast to generate revenue of US$460mn in 2020, increasing at a 31% CAGR. "The hope is for further growth in the years ahead as labels and services roll out initiatives to establish a paid model for music," the IFPI notes.

Digital music downloading revenue remains a negligible format. In 2011 digital music downloading revenue was US$8.1mn, a figure that had grown to US$9.6mn in 2015 and is expected to trend upwards until 2016. By 2020 digital music downloading revenue in China is forecast to drop to a ten-year low of less than US$6mn, falling at a -9.0% CAGR.

Piracy is still the big issue. A report from the Office of the US Trade Representative in 2012 noted that 99% of music downloads in China were infringing copyright. The IFPI blames "an undeveloped culture of paying for music and a history of piracy" for slowing progress.

6

# Live in China

Growth in China's total live music market has been slow, but the trend is positive. Live music revenue was US$215mn in 2015, and should reach US$304mn by 2020, rising at a CAGR of 7.1%. The country's live market is receptive to top-level international rock and pop bands. When Michael Buble opened his Asia tour in Shanghai in January 2015 he was also launching a new touring venture in the region from an Australian impresario.

# TV advertising

# 11

China's total TV advertising revenue reached US$15.66bn in 2015, with terrestrial TV advertising revenue accounting for 95.8% of that total.

China's economy has been changing gears — from a double-digit growth rate before the Olympics to a significantly lower rate of growth. Between 2015 and 2020, total TV advertising revenue will rise to US$19.40bn at a 4.4% CAGR.

China Central Television (CCTV) has the highest population penetration and it remained the number one player in the TV advertising market with over 30% of the national audience share. In the first quarter of 2015 there were six CCTV channels among the ten most-watched TV channels in China, including CCTV1 (general channel), CCTV3 (art channel), CCTV6 (movie channel), CCTV News, CCTV4 (international channel) and CCTV8 (TV series channel). But the provincial satellite channels, especially Hunan Television (Hunan TV), Zhejiang TV, Jiangsu TV, Beijing TV and Dragon TV (Shanghai), have become increasingly competitive.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **TV advertising in China (US dollar millions)** | | | | | | | | | | | |
| Television broadcast advertising | | | | | | | | | | | |
| - Multichannel television | 534 | 591 | 647 | 703 | 638 | 638 | 676 | 715 | 755 | 794 | 4.479 |
| - Terrestrial Television | 14,483 | 14,906 | 15,329 | 15,752 | 15,001 | 15,001 | 15,874 | 16,747 | 17,626 | 18,508 | 4.291 |
| **Total** | **15,018** | **15,497** | **15,976** | **16,456** | **15,639** | **15,639** | **16,551** | **17,463** | **18,381** | **19,302** | **4.299** |
| Online television advertising | - | - | - | 11 | 20 | 20 | 47 | 66 | 85 | 101 | 38.893 |
| **Total TV advertising in China** | **15,018** | **15,497** | **15,976** | **16,456** | **15,639** | **15,639** | **16,551** | **17,463** | **18,381** | **19,302** | **4.299** |

Sources: Ovum/Informa Telecoms & Media/PwC

## 1 CCTV

For more than 20 years, CCTV's prime time advertising auction has been seen as a barometer of China's economic vitality. Since 2014, CCTV has not disclosed the actual amount of next year's advertising sales, and the major sales channel since then has become pre-auction private sales, accounting for about two-thirds of advertising revenue. CCTV's once absolute advantage has been challenged by Internet media. In 2013 the advertising revenue of Baidu (China's equivalence of Google) surpassed CCTV for the first time.

According to CCTV, the total sales were slightly higher than the previous year. The most attractive advertising resources in 2016 include Xinwen Lianbo (the evening news with an average 10%-plus viewing rate — one of the world's most watched programmes), the exclusive broadcasting rights to the Rio 2016 Olympic Games and the 2016 UEFA European Championship football competition, and CCTV's New Year Gala celebrations. Food and beverages, home appliances, household cleaning products, automobiles and financial services remained the top advertising sectors. Wanglaoji, a Chinese herbal tea brand, once again became the bidder of Xinwen Lianbo's ten-second prime time advertising spot at US$14.89mn, with a 19% increase from the previous year. Chinese dairy companies Yili Group and Bright Dairy & Food bought the exclusive naming rights to two key programmes during the Rio 2016 Olympics at US$27mn and US$21mn respectively. Midea Group, a Chinese manufacturer of electrical appliances, paid US$9.58mn for the mobile interactive advertising opportunity presented by one of CCTV's UEFA European Championship's special programmes in 2016. Changan Ford Mazda spent US$46.27mn for the exclusive naming rights to Challenge the Impossible, a reality show encouraging people to compete in various tasks found in the Guinness Book of World Records. SAIC Motor's Roewe 360 got the naming rights to Infinite Challenge, a format variety show from MBC in Korea, for US$31mn.

With government policy favouring the development of e-commerce, there has been a significant growth in TV advertising from e-commerce companies, Internet finance (in particular, peer-to-peer lending) and technology companies. LeTV, one of the largest online video companies in China, purchased the golden 30-second advertising slot during CCTV's New Year Gala 2016 for US$10.8mn. Eloan, a peer-to-peer (P2P) financial lending platform, became the leading bidder — at US$57mn in total — on CCTV's auction day. National TV channels, like CCTV, are considered "authoritative" and "authentic", and thus a boost to credibility for e-commerce and privately owned companies. But so-called white-spirit companies, which contributed 31.4% of the total revenue in CCTV's prime time ad

auction in 2012, continued to be low-key. The central government's anti-corruption campaign of 2013, especially the "Eight-Point Code" to curb official "ostentation and sumptuary", has affected such companies. China's TV regulator also ordered all radio and TV channels to cut advertisements suggesting gift-giving.

Although TV has made many efforts in the past to become interactive with audiences, such as through QR codes and the telephone, Chinese TV finally became interactive in a real sense in February 2015 at CCTV's New Year Gala. Tencent partnered its WeChat app, the most popular mobile app with 600mn active users, with CCTV's New Year Gala and introduced the WeChat "red envelope shake". By shaking one's smartphone according to the on-screen guide, the user would have a chance to win "red envelopes" — mobile money. During the gala, 1.2bn red envelopes — worth over US$83mn — were sent out, achieving a total frequency of 11bn and a peak of 810mn a minute. The event successfully helped CCTV to attract the younger generation in the TV audience, for whom mobile is the predominant media; it also helped WeChat to gain tens of millions new users overnight. At the 2016 advertising auction, CCTV launched a "TV+new media" strategy to enhance its advantage on mobile screens, and for the first time it promoted its new media advertising resources on a large scale with a total pre-sale estimate of US$92.55mn.

## 2 Provincial satellite channels

A few key provincial satellite channels, especially Hunan TV, Zhejiang TV, Jiangsu TV, Beijing TV and Dragon TV (Shanghai), have witnessed significant increases in advertising revenue in the past years; while other provincial satellite channels or local TV channels from tier-two or tier-three provinces/cities suffered severely from a decrease in revenue. In recent years, advertisers from the pharmaceutical industry have shifted their focus onto provincial satellite channels because of their strong influence over the local population. Pharmaceutical companies have been expanding their ad spend dramatically in China due to the ageing population, the two-child policy and environmental issues. For example, Beijing TV's advertising revenue for 2016 saw the contribution from pharmaceutical companies increase by 437%. But the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) supervises this sector closely and banned over 30 healthcare-related advertisers in 2015.

Big TV advertisers are becoming more and more interested in buying big brand TV programmes rather than traditional advertising time slots, believing that an exclusive naming right has the most powerful and sustainable impact. JDB, another Chinese herbal tea brand, has spent more than US$120mn on exclusive naming rights to the past four seasons of Zhejiang TV's The Voice of China. XIN.com, an online used-car marketplace, advertised for 60 seconds — at a cost of US$4.63mn — just before the final announcement of the winner of The Voice of China in 2015. OPPO, a Dongguan-based Chinese electronics manufacturer, and Vivo, another Dongguan-based smartphone manufacturer, bought the exclusive naming rights in 2016 to Hunan TV's variety show Happy Camp at US$108mn and the reality show Idol Up at US$77mn, respectively. Although Hunan TV is better known than most for its variety shows and TV dramas, none of the important provincial satellite channels are dominant. Chinese dairy giant Yili Group bid US$170mn for the exclusive naming rights in 2016 to Hunan TV's most popular reality shows — I Am a Singer and Where Are We Going, Dad? — and it bought the exclusive naming rights to Zhejiang TV's reality show Running Man for US$77mn. Apart from exclusive naming rights, automobile companies have showed great interest in placing their products in reality shows. TV dramas have been criticised for embedding too many product-placement ads. Swan Dive for Love, a 40-episode TV drama broadcast on Beijing TV and Zhejiang TV in 2015, contained countless product-placement ads, from express delivery to milk. The popularity of product placement has been attributed to SAPPRFT's curbs since 2011 on the length and frequency of commercials during prime time. Compared with 2013, product placement has been evolving from a quantity-oriented towards a quality-oriented placement.

Another big event in the TV advertising industry during 2015 was Tmall Double-11 Night Carnival, which aired on Hunan TV. It was the first collaboration between an e-commerce company and traditional TV to reach such a level and scale. By means of an interactive model of "multiscreen shopping + entertainment", the audience were able, instantly, to buy everything that they saw on Hunan TV through Alibaba's Tmall platform on their mobile devices. This four-hour-long TV gala, which featured a lot of celebrities, like Daniel Craig and TFBoys, was full of advertisements from the beginning to the end, and it achieved a 20%-plus viewing rate during the period. The event also helped this e-commerce giant to top US$1.6bn in the first 13 minutes of Singles Day, setting a new record. It also changed the audience's attitude to TV advertising by converting the audience into consumers, and it brought e-commerce users back to the TV screen. Considering the success of such a media event in the Internet age, it is estimated this advertising model will be further developed in the forecast period.

3

# Online and mobile

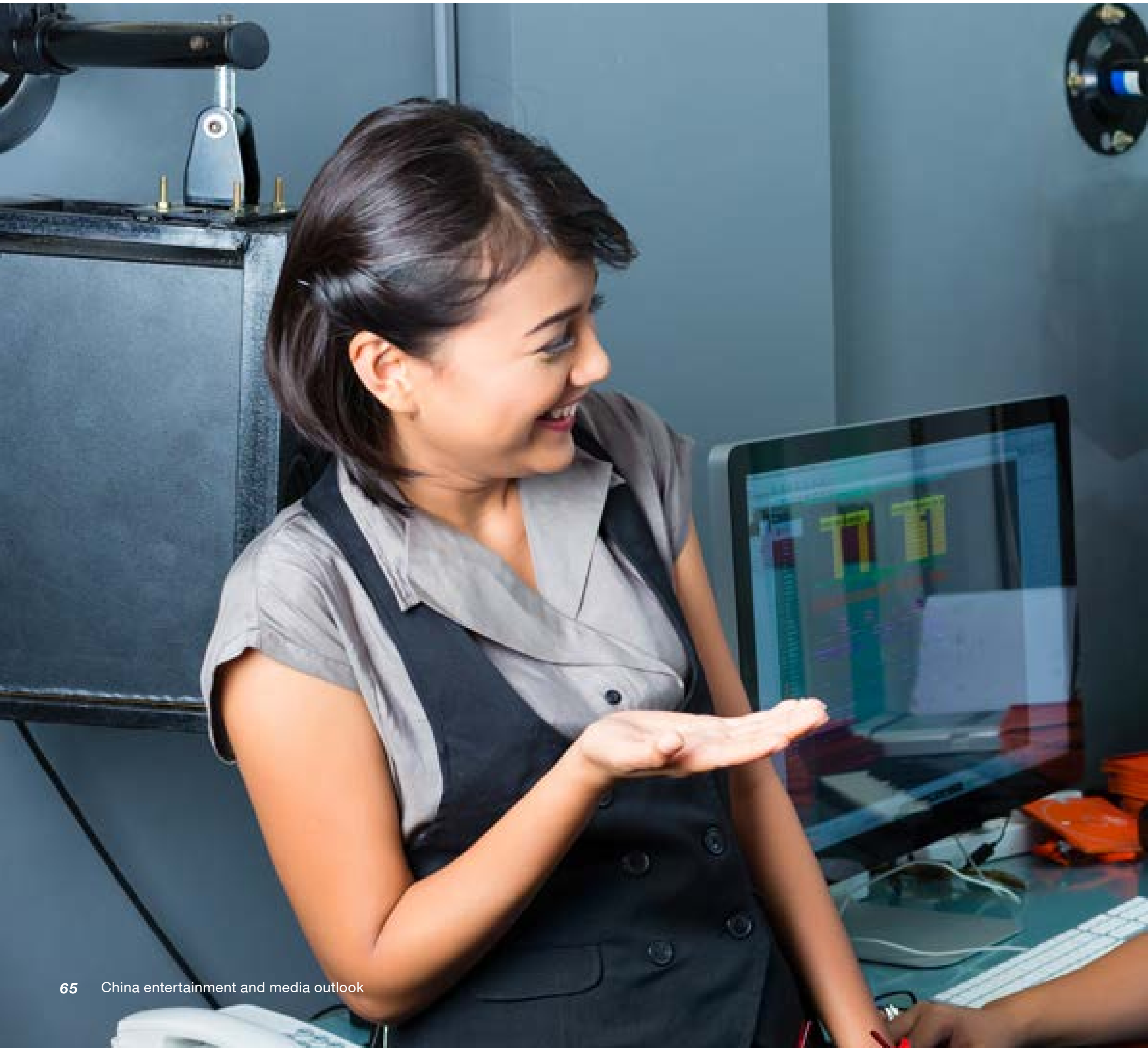
TV broadcasters' own online platforms generate very little advertising revenue compared with traditional TV advertising revenue. China Network Television (CNTV), established at the end of 2009, is the largest online TV platform owned by CCTV. As of 2013, CNTV integrates the live streaming of 150 TV channels and 1,933 sources of on-demand content. Most of the provincial satellite TV networks have also launched their own online TV platforms in the past five years. But TV content is not widely viewed through the TV broadcasters' own online platforms, but rather with online video operators like Youku Tudou, Sohu, Sina, QQ and iQiyi. As a result, the vast majority of advertising revenue from broadcasting TV content online was recorded as Internet advertising revenue. Only a few TV broadcasters' own online platforms made ends meet. Nonetheless, online TV advertising revenue, although estimated at US$20mn in 2015, is forecast to rise at a 38.9% CAGR to US$101mn in 2020.

At the same time, online video operators competed against each other to purchase the broadcast rights of reality shows, TV dramas, variety shows and other content from traditional TV broadcasters, meaning that online video operators generated additional profits for traditional TV broadcasters. For example, iQiyi paid US$32.5mn to Hunan TV for the exclusive online streaming rights to Where Are We Going, Dad? and three other programmes in 2013. The trend of online video operators increasing investment on content produced in-house should also not be ignored, which will gradually lead to online video websites becoming more independent from traditional TV.

With 56.2% of mobile Internet users watching video content with their mobile devices, the total number of Chinese mobile video users had reached 313mn by the end of 2014, according to CNNIC. In 2015 CCTV upgraded its mobile app CBox, the largest video-streaming mobile platform in China, to gain more users on mobile devices. By the end of September, total downloads of CBox had reached 420mn. China Mobile, the biggest provider of 4G networks in China, also signed a strategic cooperation framework agreement with CCTV to develop the largest new media platform with more than 1,000 streaming channels in three to five years.

Although QR code remains as a way to connect traditional TV screens with mobile devices, Tencent's WeChat app's "Shake TV", a real-time interactive function, has become very popular among the main TV broadcasters, including Zhejiang TV, Hunan TV and Jiangsu TV. Social media has also become an extended platform for TV advertising. Almost all TV broadcasters have set up Weibo and WeChat accounts, which were included in their advertising packages in 2015. In the next five years, multiscreen advertising will be a trend for most traditional TV broadcasters in China.

# *TV and video*



# 12

China's total TV and video revenue grew 18.6% in 2015 to US$17.55bn and is forecast to reach US$26.84bn in 2020, a CAGR of 8.9% over the forecast period.

China has the largest number of subscription TV households in the world, at 254mn in 2015. This figure is forecast to rise to 299mn in 2020. Over 90% of China's subscription TV households in 2015 came from cable, with the rest from IPTV.

Total electronic home video OTT/streaming revenue reached US$650mn in 2015. The regulator's policy against the development of OTT in China will inhibit the market to some degree, but it retains much potential.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **TV and video in China (US dollar millions)** | | | | | | | | | | | |
| **Home video in China** | | | | | | | | | | | |
| - Electronic home video | 92 | 140 | 222 | 368 | 797 | 1,130 | 1,526 | 2,038 | 2,556 | 3,113 | 31.312 |
| - Physical home video | 291 | 277 | 264 | 251 | 239 | 226 | 214 | 202 | 191 | 180 | -5.518 |
| **Total** | **383** | **417** | **486** | **619** | **1,036** | **1,356** | **1,740** | **2,240** | **2,747** | **3,292** | **26.021** |
| Public TV licence fees | - | - | - | - | - | - | - | - | - | - | - |
| Television subscriptions | 8,467 | 9,980 | 11,881 | 14,302 | 16,661 | 17,979 | 19,498 | 21,080 | 22,384 | 23,771 | 7.367 |
| **Total TV and video in China** | **8,795** | **10,315** | **12,261** | **14,793** | **17,549** | **19,165** | **21,045** | **23,114** | **24,912** | **26,835** | **8.865** |

Sources: Ovum/Informa Telecoms & Media/PwC/European Audio Visual Observatory Yearbook

1

## A new Five-Year Plan

Last year was the transitional year between China's 12th and 13th Five-Year Plans (FYP, the "12th Five-Year Plan for 2010–2015" and "13th Five-Year Plan for 2016–2020"), which constitute the country's social and economic development blueprint. According to President Xi Jinping's statement, China's GDP annual growth rate during the 2016–2020 period "must be at least 6.5%". Although the 13th FYP is only in its initial stage, the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) and the Ministry of Industry and Information Technology (MIIT) have announced their main guidelines for the next five years. In general, SAPPRFT will focus on digitising the TV industry from device to network; at the same time, it will also tighten control over all content, which will have a noticeable impact on the home video sector (Internet TV in particular). MIIT will focus on improving broadband connection, boosting Internet speed and reducing prices, which will foster the development of IPTV in the next few years.

## 2 Internet TV

An element of tension between SAPPRFT and Internet TV exists because OTT may increase the churn rate of traditional TV subscription and advertising revenue, and because the authorities do not wish to lose control of content censorship.

## 3 Licensed providers

Since the second half of 2014, SAPPRFT has posed challenges for the key players in China's Internet TV industry. Seven licensed providers are approved to offer online content through Internet TV: China Network Television, Shanghai Media Group, Wasu Group, Southern Media Corp, Hunan Television, China Radio International and China National Radio.

After removing the catch-up and installed-app functions from OTT boxes, SAPPRFT asked the seven providers to shut down content from commercial video websites and remove unauthorised foreign movies, short movies and other video products in order to comply with state media guidelines. In September 2015 SAPPRFT co-issued a document detailing law enforcement over illegal OTT devices and applications. In particular, the two main focusses have been the inclusion of a USB port or an app store.

In November 2015 SAPPRFT issued a blacklist of 81 third-party applications to be uninstalled from OTT products, including video-streaming apps Fengyun Live and 1KXun. All parties, including the device manufacturers, the seven licensed providers and application developers, are required to go through "Purity Verification" by SAPPRFT. As a result, OTT boxes, including e-commerce giant Alibaba's Tmall box and its counterpart boxes using Alibaba's Yun OS operating system, which accounted for about 70% of the OTT box market, were forced to upgrade and block the applications. From a user's perspective, the advantage of an OTT box is its ability to turn any screen into a video-streaming and game-playing smart TV via a HDMI plug, or even Wi-Fi, at the one-off cost of around US$30–60. The regulator's expanding control over the OTT box has gradually taken away such an advantage.

## 4 DVB and OTT

The seven licensed providers might be short-term beneficiaries of those users willing to pay for copyrighted, hi-res quality and all-round services. For example, in 2015 BesTV (in Shanghai Media Group) enhanced the model of digital video broadcasting (DVB) plus OTT together with Gehua CATV Network, the dominant player in Beijing, by providing the 4K Gehua Smart TV sets, which pre-installed 175 TV channels, over 200 games, educational content, TV shopping and exclusive content like the English Premier League. A 55" Gehua Smart TV is sold at US$953 and the annual subscription fee of a 4K Internet TV is around US$65. But China's first smart TV developed by a traditional cable network operator is much more expensive than those by the most popular brands, such as LeTV's 4K Super TV at US$625. The total subscription of BesTV's three partner cable networks has reached 18.5mn, comprising Gehua CATV Network's 5.5mn, Shanghai Oriental Cable Network's 6.7mn and the state-owned China Broadcasting Network's 6.28mn. It means BesTV will have the potential to turn at least 18mn households into DVB and OTT subscribers in the near future, as a result becoming the leading player in the field.

## 5 TBO

In June 2015 Alibaba announced it will be launching a Netflix-like service in the country, called Tmall Box Office (TBO). This project has the backing of the state and regional cable opcos, which poses a challenge to Netflix's plans to launch in the country. Alibaba has already partnered with TV-makers such as TCL, Hisense and Haier. The OTT–SVOD service is likely to be on a freemium model, with 10% of content free and the rest accessible through a subscription.

TBO's owners have also stated their ambition to bring onboard more than 30 major cable operators in China, which would give them the clout to negotiate deals with suppliers of movies and video entertainment, including Hollywood studios.

Tech company Tencent has video-streaming services in China and already has a partnership with HBO. Other online companies such as Youku Tudou, Baidu's iQiyi, and Sohu have also been buying Hollywood studio content. Looking ahead, success might well be dictated by which online streaming service can negotiate the best deals with the American studios.

Chinese OTT players LeTV and PPTV broadcast English Premier League football, with more exclusive matches than traditional broadcast channels. The shift of viewing sports from free-to-air to OTT platforms is significant. This trend is expected to grow, fuelling advertising opportunities on online platforms.

Electronic home video OTT/streaming–SVOD revenue in China is forecast to rise from US$508mn in 2015 to US$2.34bn in 2020, a CAGR of 35.7%.

## 6 TVOS 1.0

In June 2014 SAPPRFT issued a notice asking all cable companies to pre-install their connected TVs with – and only with – TVOS 1.0, China's first home-developed smart-TV operating system for Internet TV. The trial started with 500,000 boxes with Jiangsu Cable and Shanghai Oriental Cable Network, but SAPPRFT wishes to further implement the TVOS trial in the coming years to regain control over content. Whether TVOS could replace the existing Android-based system depends on the reaction of the seven licensed providers and big players like Xiaomi, LeTV and Alibaba. But SAPPRFT has included the promotion of TVOS into the proposal of China's 13th FYP. In the fierce competition against OTT boxes developed by technology companies, cable network operators are supportive of this government-backed operating system; for example, Shanghai Oriental Cable Network plans to sell 1.5mn TVOS TV boxes in 2016, reaching 4mn in 2018.

By limiting content and OS choices, SAPPRFT is running the risk that Chinese users will just bypass the TV screen, and instead consume all video content online and through smartphones. With 56.2% of mobile Internet users watching video content on their mobile devices, the total number of Chinese mobile video users reached 313mn by the end of 2014, according to China Internet Network Information Center (CNNIC).

## 7 Cable

Growth in the cable TV market has slowed, with advertising becoming the main revenue driver. Among China's cable TV households, the switchover from analogue to digital continues. The country's rural market will have continuous growth in digital switchover over the next few years; the urban market is expected to become fully digital sooner than that.

China's "Village Connected" and "Household Connected" projects will continue to increase TV penetration in remote and less-developed areas. By the end of 2014 a TV signal reached 98.6% of the population. Satellite TV is still illegal for most Chinese TV viewers.

## 8
# IPTV

It has been just over a decade since China's first IPTV trial and it is now the largest such market in the world with 17mn IPTV households in 2015. The majority of IPTV households are in eastern China, which accounts for almost 60%. The IPTV market is expected to rise to 32mn IPTV households in 2020, a CAGR of 13.8%.

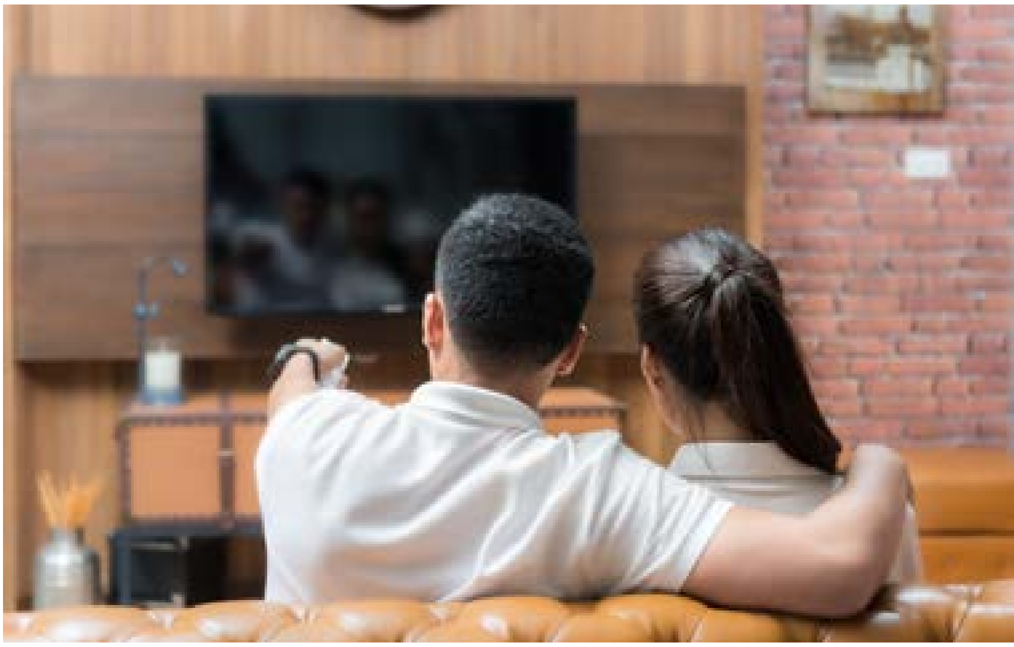
SAPPRFT's pressure on the unregulated OTT box market might be an advantage to IPTV; for example, China Telecom (Guangdong) used the word "Legal" as one of its unique selling points in 2015. But OTT's position does not necessarily guarantee users will instead turn to IPTV. China Telecom collaborated in 2013 with Aishang TV (a joint venture of China's largest IPTV platform CNTV and BesTV, the only centralised broadcasting and controlling IPTV platform across China) to launch the YueMe TV Box, which aims to blur the lines between OTT and IPTV by providing live TV streaming, over 20,000 hours of VOD content and catch-up. But in October 2014 the launch was postponed for the second time, because of the conflict of interest between the telecoms operator and the traditional broadcast media. YueMe TV Box was finally launched in 2015, but only in seven tier-three trial cities, without Beijing, Shanghai or Guangzhou.

The MIIT launched "Broadband China Strategy 2013–2020" in 2015, which has set detailed goals – including creating another 5mn IPTV users. The strategy will no doubt foster IPTV development over the forecast period.

## 9
# China Mobile

The MIIT issued a licence to China Mobile in December 2013 to let it offer fixed-line broadband with the aim of stimulating the IPTV market. But China Mobile has not made much impact on the fixed broadband and IPTV market shares of China Telecom in southern China or China Unicom in northern China.

In November 2015 China Mobile announced the acquisition of China Railcom, including its national backbone network and 24.7mn IPv4 addresses, for about US$5bn. We forecast that China Mobile will play a more active role in the IPTV market over the next five years.



# *Video games*

# 13

According to the Chinese Game Publishing Committee (GPC), the total number of video gamers in China reached 534mn in 2015, 3.3% up on 2014. Total video games revenue was US$8.98bn in 2015, and is forecast to grow by a 7.4% CAGR to reach US$12.85bn in 2020. China overtook the UK to move into third place globally in 2011 and was still in the same position in 2015, after the US and Japan.

Total video games consumer revenue hit US$8.7bn in 2015, up from US$8.1bn in 2014; the total would be bigger if “grey market” console revenues were taken into consideration, with the ban on the console market only fully lifted in July 2015. Total video games consumer revenue will rise to US$12.4bn in 2020, at a 7.3% CAGR over the forecast period.

In 2015, 68.2% of total video games revenue was generated by traditional gaming revenue, while 29.1% came from social/casual gaming revenue. Video games advertising revenue contributed the remainder at US$239mn. Video games advertising revenue will witness double-digit annual growth, resulting in an 11.5% CAGR to reach US$413mn in 2020. Over the forecast period, the revenue structure will remain almost the same, but slightly skew towards social/casual gaming and advertising.

In 2015, the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) approved the publication of about 750 video games, including PC games (11.2%), browser games (32.8%), mobile games (49.7%) and TV games (6.3%). Shanghai, Beijing and Guangdong were the hubs of video games publication.

According to the SAPPRFT, the goal of the Chinese video games industry is to double revenue by 2020, transiting China from a video games-consuming nation to one of innovation, as well as further expanding in the overseas market. In addition, the State Council's nationwide "mass entrepreneurship" strategy and the Ministry of Industry and Information Technology's investment in improving broadband and 4G connection will foster development over the next five years.

By the end of June 2015, the number of Chinese online gamers reached 380mn. In particular, mobile gamers reached 267mn, an increase of 18.8mn from the same period last year. Twenty-eight of the top 100 Internet service companies developed or operated video games as their main business in 2015, and eight of the top ten companies — Alibaba, Tencent, Baidu, JD, 360, NetEase, Sohu, and Sina — had online games businesses. Domestically, Tencent, NetEase and Perfect World were the top three online games companies, while internationally Chinese companies have been expanding their presence in the global gaming market, with Tencent holding large stakes in big foreign players such as Activision Blizzard (a 12% stake by December 2015), Glu Mobile (a 16% stake by December 2015) and Riot Games (full ownership by December 2015).

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2015-2020 CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Video games in China (US dollar millions)** | | | | | | | | | | | |
| Video games advertising | 134 | 159 | 183 | 208 | 239 | 274 | 313 | 357 | 392 | 413 | 11.53 |
| Video games consumer | | | | | | | | | | | |
| - Social/casual gaming revenue | 1,656 | 1,891 | 2,130 | 2,367 | 2,613 | 2,871 | 3,148 | 3,455 | 3,703 | 3,872 | 8.187 |
| - Traditional gaming revenue | 3,681 | 4,295 | 5,013 | 5,702 | 6,128 | 6,521 | 6,893 | 7,290 | 7,838 | 8,566 | 6.928 |
| **Total** | **5,337** | **6,186** | **7,143** | **8,069** | **8,741** | **9,392** | **10,041** | **10,744** | **11,541** | **12,438** | **7.31** |
| Total Video games in China | 5,472 | 6,345 | 7,326 | 8,276 | 8,980 | 9,666 | 10,354 | 11,101 | 11,933 | 12,851 | 7.432 |

Sources: Ovum/Informa Telecoms & Media/PwC/Korea Creative Content Agency (South Korea)

# 1 PC games

Although PC games have the largest market share in China, the sub-segment has undergone slow growth since 2010. The major producers of PC games generated profits by relying on their existing key titles, through in-depth monetisation and by maintaining gamers through a strategy of pricing and an enhanced user experience. But due to increasing R&D costs, PC games companies have tended to reduce the amount and frequency of new product launches.

More PC games have launched mobile versions, and 2015 witnessed a boom in that trend, including Tencent and Giant's collaborative mobile game The Legend of MIR 2, and NetEase's Fantasy Westward Journey Mobile. Building on the success of the PC version of Fantasy Westward Journey, with over 300mn registered users in the past decade, the mobile version created a record of over 20mn online users just two months after the full release of the game in the iOS App Store in 2015.

In 2016 NetEase will continue to bring already successful PC hits to mobile gamers; new mobile titles are expected to include Handsome Siblings and The Legend of The Flying Swordsman. The trend has made the PC game industry rethink the value and potential of PC games given that app-based games are gaining more market share. At the same time, both browser-based games and mobile games have become "pan-PC-games", with high-quality visual presentation and complete storylines.

The overseas market of China-made video games increased year-on-year by more than 70% in 2015, according to GPC. Tencent's PC game Moonlight Blade (Tianya Mingyue Dao), a massively multiplayer online role-playing game (MMORPG) that was developed in-house, officially entered the South Korean market through a collaboration with NEXON in 2015. Chinese developer Youzu's browser-based RPG League of Angels and Snail's mobile RPG Taichi Panda were both among the best games in Google Play.

2

# Video game streaming and e-sports

Chinese video game streaming and e-sports competitions grew rapidly in 2015. National and international e-sports competitions have been held in China every year since 2010, but it was not until 2015, with the further development of video game streaming platforms, that e-sports competitions became large events. At the moment there are fewer than ten leading streaming platforms, including Zhanqi TV, Panda TV, Douyu TV, Longzhu TV and Huya. The total audience in China for e-sports events on streaming platforms was around 100mn.

Although mobile e-sports gaming may well prove to be the largest trend in the long run, they have not yet been able to satisfy the young, male, "hardcore" Chinese gamers, who are much more drawn by PC games like League of Legends and Defense of the Ancients 2. The growth of video game streaming and e-sports competitions will enhance gamers' stickiness — or attachment — to PC games as well as spur the further development of mobile games, increase advertising revenue and enlarge the "fan economy" (such as selling products through the star broadcasters of video game streaming platforms) over the forecast period.

3

# App-based gaming

Although 2014 was a strong year for app-based social/casual gaming revenue, with total revenue of US$2.37bn, the growth slightly slowed in 2015 (at US$2.61bn). Such a slowdown was a reflection of the mobile games sector entering a stage of maturity. After a series of mergers and acquisitions in the Chinese mobile gaming sector during 2013—2014, the two largest players — NetEase and Tencent — dominated the market. Thanks to widespread and free Wi-Fi coverage available in China, more than 50% of mobile gamers played them in a free Wi-Fi environment and over 70% of mobile gamers downloaded app-based games via Wi-Fi. The majority of mobile gamers were non-hardcore gamers; as a result, the most popular type of mobile game was the board game/card game, followed by the parkour game (running and negotiating obstacles). But the average time gamers spent on mobile games increased in 2015, indicating the gradual transition from light to hardcore gamers. It also means that over the next few years the proportion of mobile games that will be developed based upon proven IPs and already successful PC games will increase as a response to the needs of hardcore gamers. The emerging Chinese mobile e-sports market will also strengthen such a trend.

With more than 600mn active users, Tencent's mobile text and voice-messaging communication and social networking service WeChat has been the most popular mobile app in China. Most of the mobile games on the WeChat platform were among the top ten in terms of users. More than 25% of mobile gamers downloaded games directly through WeChat. The success of WeChat has proved the importance of game distribution channels, and to this extent the competition of mobile games has become the competition of distribution channels. Apart from Tencent, 360, Baidu, Xiaomi and UC were the leaders in this field.

Around 15% of mobile gamers paid for games during 2015. "Free-to-play plus in-game items" is still the most popular business model for mobile games, with Chinese gamers more likely to pay for "value" rather than for access, even if it is access to an ad-free premium game.

## 4
# Browser-based games

Since 2014, browser-based games have started to witness a slowdown in subscription growth and revenue. By the end of 2015 there were 373mn browser gamers, and the figure will remain at the same level over the forecast period. The low growth rate is due to strong competition and an approaching maturity. Most of the producers of browser-based gaming have already moved to the mobile gaming sector or started exploring overseas markets. For example, 37wan, the leader in the browser-based games sector, operated over 300 browser games as well as more than 100 mobile games in 2015. Among browser games, RPGs took more than 70% of the market, followed by war strategy games (15%). Browser-based game developers and operators must work to increase gamer stickiness and ensure an adequate game experience given the bandwidth in China.

## 5
# Physical PC games

Unlike online games or mobile games, physical PC games are much more vulnerable to piracy and decryption. Under Chinese regulations, foreign physical PC games can only enter the market through a partnership with a Chinese company. In addition, the government has applied censorship on most game contents. As a result, Chinese gamers turned to online decryption communities, which provided a wider range of Chinese-translated, free decrypted versions of physical PC games with no time delay. Because of the obvious price difference between the original and the pirated version, piracy rates were significant. Although the Ministry of Culture announced that local regulators shall decide whether to approve a censorship application within 20 working days after accepting such an application from July 2015, it will have a limited impact on the declining trend of physical PC games, whose sell-through revenue will decrease at a -5.9% CAGR between 2015 and 2020.

## 6
# Lifting of the console ban

Without taking the grey market into consideration, China's total console games revenue grew from almost nothing to US$5mn in 2015. The Ministry of Culture and seven other ministries had banned consoles in China since 2000. But products such as the PlayStation 3 (PS3), Xbox 360 and Wii were sold on the grey market, and physical and digital consoles made by Chinese copycat companies filled the gap in supply. In January 2014, China's state council temporarily lifted the 14-year ban on the sale of foreign games consoles in the Shanghai Free Trade Zone, paving the way for companies such as Sony, Microsoft and Nintendo to enter the video game market. As a result, Microsoft's Xbox One launched in September 2014 and Sony announced its plan to launch the PS4 in 2015.

With the success of such a pilot in Shanghai, the Ministry of Culture finally applied the rule to enable all foreign and domestic console makers to manufacture and sell anywhere in the country from July 2015. Although the change will spur a growth in console sales in the coming years, the missed 15 years has already put consoles manufacturers in a disadvantageous position. Foreign game console manufacturers must incorporate a business model that is resistant to physical and digital piracy as well as able to cope with tight content censorship. In addition, console manufacturers have to compete in a price-sensitive market against the OTT box and smart TV, which are already embedded with gaming functionality.

# Contact us

If you'd like to discuss what's happening in E&M market or how PwC might be able to help your company meets its challenges, please reach out to one of the E&M industry leaders listed here.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