

Report on the Chinese Creative Industry 2014

China Publishing & Media Journal, in conjunction with Frankfurter Buchmesse (**Frankfurt Book Fair**) have since 2013, held a public service nomination event - the "China Creative Industry Innovation Award" - that is based in China with a view towards the global market, the purpose of which was to encourage innovation in the Chinese creative industry so as promote complementarity and joint development with the international creative industry.

Selection for the first "China Creative Industry Innovation Award" was completed at the end of 2013, and an award presentation was held at the Beijing Book Fair on 7 January 2014, with the *Report on Chinese Creative Industry 2012-2013* issued at the same time (see <http://buchmesse.de/de/international/auslandsbueros/peking/> for the English version). The 2014 "Second China Creative Industry Innovation Award" includes six major categories, comprising new products, new marketing, new technology, new business model, new management model and newcomer, have been selected. All aspects of the cultural and creative industry are involved, including publishing, film and television, new media, art, sports, travel, animation, and gaming.

The Frankfurt Book Fair has always placed great emphasis on integrating the creative industry with the traditional publishing industry. The Chinese creative industry innovation award and the release of the main report will help enable more enterprises in the Chinese creative industry to make their debut at the Frankfurt Book Fair, creating more "going out" opportunities for the industry. This will also allow the world to better understand the innovation and development of the Chinese creative industry.

Development of the Chinese cultural and creative industry in 2014

2014 was a "policy year" for the creative and innovation industry, which saw the introduction of a slew of policies concerned with system reform, tax preferences and industry integration. These have contributed to the release of positive energy in the industry. 2014 was also a "year of integration" for the industry. The central government proposed the idea of leveraging the internet to drive the integrated development of both traditional and emerging media. Meanwhile, the integration of the cultural and innovation industry with the design services and financial sectors has also entered an implementation phase, continually driving the expansion of the size of the industry and an upgrading of the mode of operation. 2014 was also the "year of the internet" for the cultural and innovation industry, with cross-boundary penetration of the internet accelerating the transformation of traditional industries. Not only is the cultural and innovation industry integrating with the internet at the technology level, it is also leveraging the internet to carry out reform to its business models. Meanwhile, internet enterprises BAT (Baidu, Alibaba and Tencent, collectively termed "BAT") are also actively laying out plans for the cultural industry.

Against 2013, China's cultural and innovation industry growth exhibited the following five fundamental characteristics in 2014:

1. Investment grew by close to 20% led by the news and publishing sectors

Results from the *Communiqué on Major Data of the Third National Economic Census of China* by the National Bureau of Statistics revealed that as of the end of 2013, the number of legal entities in China's "cultural, sports and entertainment industries" stood at 230,000, with 172,000 registered self-employed entities; the number of practitioners totaled 3.09 million and 736,000 persons, respectively. At the same time, the latest statistical data from the National Bureau of Statistics indicated that between January and November 2014, China's total fixed asset investment in the "cultural, sports and entertainment"

industries rose by 17.5% year-on-year to Rmb 550.5 billion, higher than the overall 15.8% for the whole nation. In particular, private sector fixed asset investment increased by 20.7% year-on-year to Rmb 306.6 billion, with monthly growth rates generally higher than total national investment levels. Cumulative fixed asset investment of the "cultural and arts industry" for the first 10 months of the year stood at Rmb 219,056,000, up 13.1% year-on-year. The "entertainment, sports, cultural goods and services" consumer price index (CPI) for the first 11 months of 2014 rose by approximately 2% year-on-year. High investment commitment indicates that the market has positive expectations for this industry, not only for the cultural industry per se, but capital from other industries such as real estate, tourism, and manufacturing have 'all placed their bets on the cultural industry.

State-owned enterprises in the cultural and creative industry have had a positive impact on the industry in terms of leadership. According to the State-owned cultural enterprise development report (2014), state-owned enterprises have maintained a sound growth momentum. As of the end of 2013, state-owned cultural enterprises nationwide totalled 12,159 (based on independent legal persons), rising by 12% year-on-year, employing 1,205,000 people (+5.9% year-on-year). Total assets stood at Rmb 2,242.02 billion (+23.1% year-on-year). Total revenue increased by 18.8% year-on-year to Rmb 1,071.57 billion, while total profit grew by 23.2% year-on-year to Rmb 108.12 billion, and net profit, by 22.3% year-on-year to Rmb 94.64 billion. Of the various major categories of state-owned cultural enterprises, the size and output of the news, publishing and distribution services sector enjoyed distinct advantages. As of the end of 2013, total assets of the news, publishing and distribution services sector stood at Rmb 606.7 billion with total revenue at Rmb 231.32 billion, accounting for 27% and 21.6%, respectively, of state-owned cultural enterprises.

2. Capital in pursuit of culture, with film the most popular of the lot

2014 saw a deluge of mergers and acquisitions ("M&As") in the cultural and creative industry, with cross-boundary integration a common sight. Statistics from Wind revealed that as of the end of 2014, domestic companies in the cultural and media industry witnessed a total of 169 M&As, including film and television, gaming, advertising, publishing and other sub-sectors, involving capital of more than Rmb 160 billion. In particular, 61 or close to one-third of the total pertained to film and television.

The entry of ex-industry capital has meant the film and television sector has undergone a re-shuffle. BAT, the internet leaders, are in the midst of changing the ecology of the film, television and audio sectors. Huayi Brothers have, by way of a private placement of shares worth Rmb 3.6 billion, brought in three major strategic investors - Alibaba, Tencent and Ping An Insurance of China, with Alibaba and Tencent each holding shareholding interests of 8.08%, becoming the second largest shareholders in Huayi Brothers. Huace Film & TV has placed shares with Baidu and Xiao Mi worth Rmb 2 billion, with subscription by the former amounting to Rmb 1 billion, representing 50% of the total. It is forecast that an oligopoly will emerge in the film industry in the future. Approximately 80% of the US film market is dominated by Hollywood's six major film studios. Going forward, whether China's film market will develop in this direction is worth the wait.

Feverish investment has also accompanied super high growth. The State Administration of Press, Publication, Radio, Film and Television ("SARFT") announced in early 2015 that 618 feature films were produced in China in 2014, 20 less than a year ago. Total box office nationwide rose by 36.15% year-on-year to Rmb 29,639,000,000. A total of 66 films saw full-year box office takings of more than Rmb 100 million. Export sales revenue of domestically produced films increased by 32.25% year-on-year to Rmb 1.87 billion. Full-year urban cinema attendance rose by 34.52% year-on-year to 830 million persons. The film industry experienced rapid growth in terms of overall size, average benefit, level of export, size of audience and other areas.

At the same time however, one should also calmly view inherent issues: Since the third quarter of 2014, companies such as Taiya and Panda Fireworks have terminated acquisitions concerning film and television enterprises. Listing plans of H&R Century Pictures, Hua Hai Era and other film and

television companies have also been suspended. In 2014, the number of M&As in the A-share market that concerned the film and entertainment industry exceeded 50, with more than half of that yet to be completed. The magnitude of M&As in the cultural and creative industry is very large but there are fewer cases of enterprises being able to leverage M&As to carry out structural transformation and increase their value chain. One needs to remain prudent about the M&A bubble. Meanwhile, the 2012-2014 average annual growth rate in the number of screens (42.8%) far exceeds the growth rates of box office takings (28.9%) and feature films (6.9%), while that for average attendance was only 15%.

3. Engulfed by the internet thinking, as the IP mode held sway

Since the SARFT reform leadership team approved the issuance of the Guidance Opinion on Promoting the Integrated Development of Traditional Media and Emerging Media, "integration" and "internet thinking" have become the hottest terms in the cultural industry. In the film industry for instance, Jiang Wen's latest work *Yi Bu Zhi Yao* (English: *Gone With The Bullets*) actively used fans as a means of marketing; its advanced box office sales have already exceeded Rmb 100 million a full month before its official screening. In the animation sector, output of China's new media animation expanded by 23.1% year-on-year to Rmb 7,185 million in 2013. New media animation, represented by online animation and mobile animation have shown strong development and growth potential, and has become a new growth area for China's animation industry. Engulfed by the internet, online gaming enterprises have moved their focus from product to customer, and have maximized the value of user experience. This is more directly reflected in internet enterprises' analysis and utilization of big data.

Internet enterprises are the most active practitioners that have capitalized on internet thinking and industry integration. In particular, the "IP model (IntellectualProperty)" is the most popular. "IP model" refers to very popular works, and online literature, games, animation, film, television programs, television dramas and other cultural products developed based on image. The "IP model" can be further developed around content and fans, maximizing economic benefit. The four major business platforms under the Tencent's Interactive Entertainment Group - Tencent Games, Tencent Comic, Tencent Literature and "Tencent Movie Plus" - have created a complete closed loop on its existing marketing and video platforms.

Chen Shaofeng, the Vice President of the Institute for Cultural Industries at Peking University has expressed that enormous changes have taken place in the cultural enterprise structure in China. Many traditional cultural industries are migrating, or have already migrated on to the internet. Internet enterprises are dominating cultural industry M&As and resource consolidation.

4. Repeated launches of cultural financial products, to meet the demand of cultural enterprises

In March 2014, the Ministry of Culture, Ministry of Finance, and the People's Bank of China jointly issued the *Opinion on Further Advancing the Integration of Culture and Finance*, providing a framework for culture and finance to work together. Intensifying the cooperation between culture and finance has become an important breakthrough in a new stage of developing the cultural industry. In 2013, the Ministry of Culture and the Ministry of Finance launched a major project - "The Program to Support the Cultural and Financial Industries" - under the central government financed special cultural industry development fund, providing interest subsidy of Rmb 461 million for 92 cultural industry credit projects, raising more than Rmb 70 billion in credit for investment purposes.

Financial enterprises are also actively innovating financial products at this time, and arranging structural and credit appraisal mechanisms to connect with cultural enterprises. For instance, China Development Bank has supported the construction of a large number of cultural infrastructure; Exim Bank of China has provided a variety of financial services to cultural enterprises for overseas investment and M&As; Industrial & Commercial Bank of China has provided loans and underwritten the first cultural enterprise privately raised debt for the filming of more than 40 television dramas; PICC Property and Casualty Company has developed insurance products that are dedicated to the cultural

industry; Bank of China, Minsheng Banking Corp, Bank of Beijing and China Merchants Bank have actively explored culture related intangible asset financing and collateral; Minsheng Banking Corp and Ping An Bank have set up a new cultural industry financing business division, carrying out innovation at the system and mechanism levels. Bank of Beijing plans to provide not less than Rmb 80 billion in letters of intent for credit to cultural enterprises in Beijing.

5. Tax subsidies of more than Rmb 10 billion with small, medium-sized and micro enterprises the biggest beneficiaries

In addition to financial measures, the introduction of many fiscal subsidies and preferential tax policies has also injected a positive dose in the development of cultural enterprises. In accordance to the spirit of "continuing to implement policies that would complement cultural system reform, and to extend policies that would support state-owned cultural entities involved in enterprise restructuring for an additional five years" in the *Decision on Various Major Issues Concerning the Promotion of Strong Growth and Prosperity of Socialist Culture through Intensifying Cultural System Reform* at the 6th Plenary Session of the 17th CPC Central Committee, a series of positive tax policies will be extended. Details of a series of policies pertaining to the reform and development of cultural activities covering value-added tax, sales tax, income tax, land use tax, real estate tax and export tax preferences have been introduced. Elsewhere, the central government also disbursed Rmb 5 billion worth of special funds for cultural industry development, and Rmb 4.5 billion worth of special funds for rural cultural development, as well as special funds worth Rmb 2.36 billion to subsidize the development of cultural, sports and media activities. Experts have indicated that the government has now entered the "nanny" phase as regards the cultural industry, using various tax and financial policies to protect the development of the industry.

On the whole, compared to a year ago, on the back of external stimulus and organic demand, the unique potential of the creative industry became more prominent in 2014 with frequent introduction of policies, surging capital, and industry boundaries gradually being broken. The entire industry is advancing in a passionate, agitated and confused manner. Not only are new policies, new modes of operation for the industry, new products and new models highly anticipated, more importantly, it is new ideas. "Capital", "integration", "internet thinking", and "digitization" continually assault the senses of industry practitioners.

The creative industry continued to face many challenges in 2014: (1) Total M&A value in the film and television industry was more than four times that of creative industry M&As, and investment into big productions has increased. Nonetheless, industry players were still at the stage of staking their respective territories; the time for intensive and meticulous development is still a long way off. (2) Under pressure, traditional businesses in the publishing arena rapidly restructured and upgraded. Digitization remained in the deep development stage with much listing and M&A activities; cross-medium development became a foregone conclusion. (3) In the publishing industry, O2O, 3.5-generation mega bookstores, diversified management and other new models helped transform the industry. (4) The three internet giants BAT entered the digital reading segment with plans to reconstruct the digital landscape. (5) Digital printing, green printing, and demand based printing prospered. (6) The animation sector entered a period of correction after having experienced a capital heat wave and after subsidies were cut off. A period of intense development is the only way to success. (7) In the gaming arena, the outlook for mobile gaming looked positive but homogenization remains a concern.

List of Winners of the "Second China Creative Industry Innovation Award"

The "Second China Creative Industry Innovation Award" has set up six awards, namely, new product, new marketing, new technology, new business model, new management model and newcomer. Three gold awards and a number of nomination awards are set up under each award category. The list of gold award winners in each award category is set out below.

New Product Award

Chinese Translation of World Academic Classics KINDLE online

Award winning entity: Commercial Press

Reason for the award: Launched jointly by Commercial Press and Amazon of the USA

An electronic version of large-scale academic translation work "Chinese Translation of World Academic Classics Series"; the first 200 types will go online en masse on Kindle. With this as foundation, both parties have achieved a synchronized print-and-electronic strategic partnership; Commercial Press marked the beginning for all media.

Combined publishing.

www.icourses.cn

Award winning entity: Higher Education Press

Reason for the award: Catering to teachers and students of higher education institutions and the general public, it provides sharing of quality education resources and customized teaching resource services, showcasing "China University MOOC", "Video Open Courses" and "Resource Sharing Course", among others.

China Jindun Network Television Station

Award winning entity: Jindun Publishing House

Reason for the award: China Jindun Network Television Station founded by Jindun Publishing House commenced broadcasting in August 2013. It is a network audio-visual public service platform with an all media and total coverage broadcasting system.

New Marketing Award

Sanlian Taofen 24-Hour Bookstore

Award winning entity: SDX Joint Publishing Company

Reason for the award: The company commenced operations while physical bookstores were generally facing difficult operating conditions, providing readers an open-at-all-hours "late night bookstore". Not only was this an extension and lengthening of operating hours, it was also an opportunity for the enterprise to upgrade, replace and reform structurally.

A secret lunch appointment with Zhou Hongyi

Award winning entity: CITIC Press Group

Reason for the award: With crowdfunding exceeding Rmb 16 billion, this became the top crowdfunding published material in 2014. With activities relevant to books and authors as links, CITIC Press used a

series of key resources to provide access to a series of resources comprising authors, publishers, channels and the media, a pre-marketing exploratory path.

"Education Grants · Building Dreams" - Enjoy the start of the academic year with FLTRP tutoring

Award winning entity: Foreign Language Teaching and Research Press ("FLTRP")

Reason for the award: 120 employees from different job posts spent 20 days in 320 counties and cities to embark on a school campus campaign by residing and inspecting local bookstores. This led to sales of 100,000 books, and transformed "strong relationships" to "strong customers", and "strong markets" to "strong products", resulting in "strong product" and "strong R&D" thinking.

New Technology Award

"Language Cloud" platform

Award winning entity: China Translation & Publishing Corporation ("CTPC")

Reason for the award: By bring together three major cloud platforms, and covering two major resource database, CTPC introduced world leading technology into language services. By using innovative technology, language services were completely re-defined. The company has become the first in the world to build a "cloud services platform" with "language" as the core - "Language Cloud".

AR series of books

Award winning entity: China Children's Press & Publication Group

Reason for the award: With the help of this app, by tapping on one's mobile phone or Pad, a book would turn into a botanic farm, where plants would shoot bullets. Each page of the physical book is a pleasant surprise, a perfect union between the real and virtual worlds.

CEBX - a new generation version of document technology

Award winning entity: Beijing Apabi Technology Limited

Reason for the award: CBEX is a new generation universal document technology that allows a document to simultaneously support PCs, mobile phones, tablet computers, electronic readers and other terminals for reading purposes, realizing a one-time production for multiple usage by multiple platforms.

New Business Model Award

Global demand based printing platform

Award winning entity: China National Publications Import and Export (Group) Corporation

Reason for the award: Based on "CNPeReading", the company was able to work with numerous large digital publishers and integrators. It also cooperated with domestic publishing entities to bring together works with clear copyright, comprising 200,000 types of quality e-books, four large databases and 10,000 hours of audio books.

All-round upgrading and restructuring

Award winning entity: Trend Media Group

Reason for the award: By classifying its business segments into media, education, investment, and

industry integrated design, and leveraging its core media business, as well as its influence, the company expanded into the education, investment and industry sectors, resulting in

the development of a full service business.

Second Poetry China Tournament

Award winning entity: Zhonghua Book Company

Reason for the award: "High standards, large-scale and all media" were the three features of the tournament. Dissemination measures which combined books, newspapers, magazines and other traditional media with clients, short message, website, official weibo and weixin, as well as other emerging media saw outstanding results.

New Management Model Award

RongBaoZhai brand management

Entity: RongBaoZhai

Reason for the award: RongBaoZhai is China's oldest existing ethnic and cultural brand. Since the "11th Five-Year Plan", RongBaoZhai has put its brand strategy in place, focused on its core business, and intensified the enhancement of its brand value chain, realizing a relatively large increase in brand value and enterprise returns.

Outstanding results for sustained "go abroad" measures

Award winning entity: Xinzhi Group

Reason for the award: Continued expansion of service network has meant that its chain of bookstores are now present in Yunnan, Sichuan, Guizhou, Hunan and other provinces and cities, as well as Phnom Penh in Cambodia, Vientiane in Laos, Kuala Lumpur in Malaysia, Mandalay in Myanmar, and Colombo in Sri Lanka, among others.

Overseas M&As and cross-border business management

Award winning entity: Guangxi Normal University Press

Reason for the award: The company acquired Australia Images Publishing Group with plans to leverage its brand value and fixed overseas sales channels. The focus will be on disseminating Chinese traditional architectural culture and showcasing the latest in China's current architecture within a global context.

Newcomer Award

Launched *Chinese Theater Resource Database* and theater production *Yi Qi Yi Hui* (or ichi-go ichi-e)

Award winning entity: China Renmin University Press ("CRUP")

Reason for the award: To date, CRUP's *Chinese Theater Resource Database* has recorded close to 100 published theater images and interviewed nearly 300 artists. CRUP invested in the creation of the original theatrical work *Yi Qi Yi Hui* in 2014. The production was shortlisted for

the "young talents program R.A.W.!" at the China Shanghai International Arts Festival, and was invited to take part in the 2015 Hong Kong Arts Festival and Japan's Osaka Shiki Theatre for exchange and performance.

www.caicai.cc

Award winning entity: Hebei Xinhua Bookstore Company Limited

Reason for the award: As an agricultural product e-commerce website, caicai.cc was jointly created by Hebei Xinhua and MIH Print Media Holdings for a total investment of Rmb 16 million. Its going online is a brand new attempt at carrying out cross-boundary capital and brand partnership by a traditional enterprise.

Establish a cloud printing platform with Taiwan's Gain How Printing

Award winning entity: Masterwork Machinery Co., Ltd.

Reason for the award: By using the various professional software developed for printing by Masterwork Machinery and Gain How, built a cloud platform to provide convenient and quick cloud services for printing enterprise partners thereby sharply increasing the production efficiency of partners.