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Hot News

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A Sober Observation on Prospect of Animation Industry

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In the wake of the promulgation of the Several Opinions on Promoting the Development of the Animation Industry and the follow-up actions in supportive policies and fund input by local governments, the animation industry in which few people took interest in the 1990s in China became popular and was crowned with the title "sunrise industry" by many media. Several years later, the animation industry sees rapid growth in number of both companies and works. However, few animation works have high market recognition and great influences. The growth rate of "output value" is far behind that of "output". It keeps investors away from investment to some degree. Compared with industries enjoying both supportive policies and favor of investors, the animation industry has very few investment and M&A cases.

Until 2009, the animation works "*Happy Sheep and Grey Wolf*" attracted the attentions of both animators and investors at first, and then Guangdong Alpha Animation and Culture Co., Ltd. was listed on Shenzhen ChiNext market as the first animation company. Plus the successive issuance of supportive policies aiming to promote the development of the industry, many investors went into action without delay and itched to have a go.

Whether the success of individual cases means that the problems puzzling the animation industry have been solved? Does the animation investment boom really set off?

Policy Perspective --Strive for Both Prosperity and Standard Development Simultaneously

In April 2006, the State Council of the People's Republic of China forwarded the *Several Opinions on Promoting the Development of the Animation Industry* jointly promulgated by 10 ministries and commissions including the Ministry of Finance and put forward that China would become one of the biggest and strongest animation powers in the world in field of animation creation and development as well as production capability. Local governments answered the call and issued relevant policies to promote the development of the industry and devote major efforts to build regional animation industrial bases. For a period of time, with the surge in number of animation companies, a mixture of both the good and bad emerged, and the confused situation of the industry needed to be straightened out.

Thereafter, in December 2008, the Ministry of Culture, Ministry of Finance and State Administration of Taxation of China promulgated the *Rules on Certifying Cartoon and Animation Companies (Tentative)* to set the uniform standard and issue certificate to the certified companies. Finally, in late December 2009, the list of the first batch of one hundred certified cartoon and animation companies was posted up. In accordance with the *Circular on Issues Concerning Tax Policies for Supporting the Development of the Animation Industry* issued by the Ministry of Finance and State Administration of Taxation, only the certified cartoon and animation companies can enjoy preferential treatment in respect of taxation. Furthermore, the provincial-level certification organs shall carry out annual review on the cartoon and animation companies certified last year annually. Such cartoon and animation companies as no longer confirm with the certification standards will be disqualified. This is to say, at time of making up minds to promote the development of the animation industry, relevant departments have also made efforts to optimize industrial structure, regulate enterprise operation and support and develop high quality cartoon and animation companies.

Meanwhile, the animation-related industries also begin to strengthening the supports for the animation industry. In March 2010, the People's Bank of China, together with 9 ministries and commissions, issued the *Guiding Opinion on Financial Support for Rejuvenation and Prosperity of Culture Industry*, which clearly put forward the ideas on promoting the development of culture industry in various aspects including credit issue, credit manner, capital market, industrial insurance market and auxiliary mechanism for the development of culture industry. Furthermore, in March 2010, the working conference on restructuring and listing of cultural enterprises was held by Shanghai Stock Exchange in Shanghai. All units participating in the conference expressed that they would take measures to support the listing of cultural enterprises and positively promote the enterprise to develop bigger and stronger.

Industrial Perspective -- Mix Trend Prevails in Industrial Chain and Earning Mode Is Unclear

Can strong policy and market supports and high-speed economic growth guarantee a carefree future of the animation industry?

The industrial chain of animation industry seems simple and is composed of the following links including creation, production and distribution of animation works and development, production and sales of derivative products. Every link is far-reaching. Compared with the established complete industrial chain and profit mode in the United States and Japan, domestic enterprises are still exploring a suitable road and attempt different "portfolios" in this aspect. Some attempt to create and distribute animation works

Table 1 Relevant Measures of Related Departments on Supporting Animation Industry

Name of Document	Issuing Unit	Issuing Time	Main Content
Several Opinions on Promoting the Development of the Animation Industry	General Office of the State Council	25-Apr-06	Make clear the basic thoughts, development goals and concrete measure to promote the development of animation industry
Circular of the State Administration of Radio Film and Television on Strengthening the Administration of TV Animation Broadcasting	State Administration of Radio Film and Television	14-Feb-08	Make strict provisions on broadcasting time and proportion of overseas animation programs on local TV stations, CCTV Cartoon Children's Channels
Rules on Certifying Cartoon and Animation Companies (Tentative)	Ministry of Culture, Ministry of Finance and State Administration of Taxation	18-Dec-08	Make clear the certification standards and procedure of cartoon and animation companies
Circular on Issues Concerning Tax Policies for Promoting the Development of the Animation Industry	Ministry of Finance and State Administration of Taxation	17-Jul-09	Certified cartoon and animation companies can enjoy preferential treatment in aspects of value added tax, business income tax, turnover tax, import duty and value-added tax on imports
Catalogue of Animation Works under Key Protection (First batch)	Ministry of Culture	Sep-09	Strengthen the protection for key animation w orks; the first batch of 7 animation publication and derivative products is listed on the catalogue
Circular on Issues Concerning Income Tax Policy for Newly-built Cultural Enterprises	State Administration of Taxation	2-Mar-10	Such cultural enterprises as established before the date of December 31, 2008 and encouraged by the government are exempt from three-year enterprise income tax.
Guiding Opinion on Financial Support for Rejuvenation and Prosperity of Culture Industry	Publicity Department of the Communist Party of China Central Committee, People's Bank of China, Ministry of Finance, Ministry of Culture, State Administration of Radio Film and Television, General Administration of Press and Publication of the People's Republic of China, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission	19-Mar-10	Promote the development of culture industry in various aspects including credit issue, credit manner, capital market, industrial insurance market and auxiliary mechanism for the development of culture industry

Source: Zero2IPO Research Center

at first, and then launch derivative products according to market reaction; some attempt to pay equal attention to both animation works and derivative products and pave the way for derivative products early in creation link to make and launch derivative products in synchronism with animation works. In comparison of the said two attempts, the former needs relatively small investment in early stage and faces low risks in late stage. The reason is that derivative products are developed on the basis of feedback of target group to ensure minimum risks at the cost of a prolonged investment pay-back period. By contrast, the latter needs relative large investment in early stage and faces high risks in late stage accordingly. However, the investment pay-back period is short. Furthermore, launching derivative products in synchronism with animation works reduces the risks of losing initiative opportunities for copyright piracy.

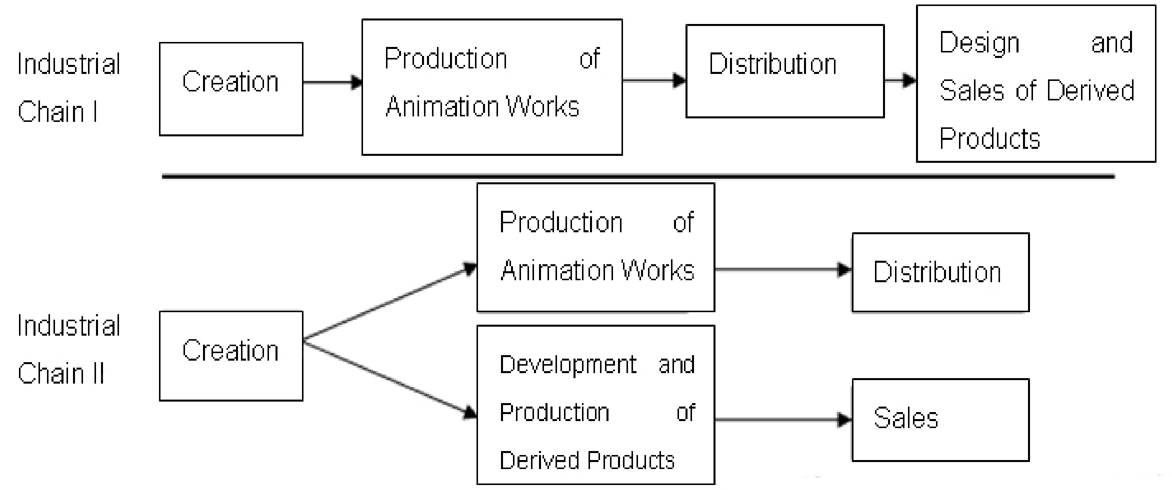
It is more complex to elaborate each link. Take production as an example. The static animation works can take the print media such as books or newspaper and periodicals as carriers and follow the sales line of publication distribution. The dynamic animation works can be screened on TV stations or in cinemas, or distributed and sold as AV products. The mode of expression, choice of carriers and order of launch decide launch channel and strategy of related products and affect recognition and acceptance of consumers.

Presently, Chinese animation industry lacks harmony among links and fails to establish sound win-win mode among them. The decisions of upstream links fail to get coordination in downstream links. Therefore, a mature industrial chain shall be built, the exchanges and cooperation among the enterprises of each links shall be promoted and efforts shall be made to perfect the industrial chain in order to develop animation industry.

I. Attach Importance on Contents and Focus on Creation

The popular works show that creation is the source of industrial chain and serves as the basis of all downstream links. However, Chinese animation industry is weak in creation presently. Recently, Metersbonwe has cooperated with animation industry to forge its MTee series. Compared with American animation works "*Kong Fu Panda*" and "*Shrek*", the masterpieces of Chinese animation works are still the works made in the 1980s or earlier, including the "*Black Cat Police*", "*Monkey King*" and "*Nezha*". Except "*Happy Sheep and Grey Wolf*", the Chinese animation companies are inadequate in creating new animation images. In respect of subjects, the animation works with Chinese characteristics still tell the well-known classical novels and historical stories. The Chinese fantastic animation works are often seen the influences of Japanese and American works and difficult to compete against foreign works. Sustainably developing the new from the old and making the local animation works with Chinese characteristics are conducive to

Table 2 Industrial Chain of Chinese Animation Industry



Source: Zero2IPO Research Center

the long-term development of Chinese animation industry.

II. Business Expansion Needs Stable Brand

When and how to follow up derivative products? For example, in the wake of great efforts in supporting animation industry by the state, many places have started to build their own animation theme parks. However, the theme parks belong to downstream products. It is likely to put the cart before a horse, if popular and impressive local works and animation images are absent. It is believed that the theme parks would bring in foreign animation images to enrich themselves in the future. On the one hand, it is difficult to compete with famous animation theme parks including Disneyland and Warner Bros Movie World; on the other hand, it is also hard to highlight the features of domestic animation industry. If the theme parks finally degraded to common amusement parks, it would lose the significance of promoting the development of domestic animation industry. Therefore, before the exploration of new business, companies shall enrich their brand contents and lay a firm foundation for stable and long-term development.

III. Market Expansion Needs New Ideas

Animation works attract not only children. In recent years, more and more animators have recognized the adults' enthusiasm for animation works. Presently, Chinese animation works mainly focus on children. So its contents are childish, and derivative products are also limited to stationery, toy and clothing. Compared with children, adults have regular income and strong consuming independence, which provides a huge potential market. However, because part of companies fails to shatter the fetter of "animation belonging to children", the adult market develops slowly. The animators need broaden their thoughts, enlarge the target group and fully release the market potential to find the new profitable offering.

IV. Copyright Is Imperative in Industrial Protection

The Chinese animators always face a tough reality. They can only obtain very limited return from the broadcasting market, while there are also serious problems of piracy in production of relevant books, AV products and derivative products. Meanwhile, some companies often give up safeguarding their legal rights in consideration of high cost of piracy attack. Therefore, although the derivative products serve as the most important source of profits in the industry, many companies lack the drive to develop the business and are also unwilling to make additional efforts to improve their ability of developing derivative products. Furthermore, another part of companies are forced to compete against copyright piracy. One of competition methods is to lower the royalty to deliver derivative products to large manufacturers in order to reduce cost and selling price and deprive pirated products of price advantage. However, it is not a long-term policy. If China wants to promote the sound development of the industry, it can stimulate the animators to improve their professional qualities and provide them with power to create better works by enhancing the protection of intellectual property rights, controlling piracy and returning profit to animators.

In addition, when making efforts to improve and extend industrial chain, the animators also attempt to broaden the chain. Recently, many animation companies actively develop cross-industry cooperation and create new profit growth points. Nowadays, "*Mung Bean Frog*" and "*Tuzki*" are no longer the expression of chat tools. The former is active on the screen as a leading role of public-interest cartoon, while the latter finds favor with the advertising circle and get Motorola endorsing. Moreover, Daodao Dog, Boxy Zhang and Fat Rabbit--Zhouzhou cooperate with Zhou Xun, a Chinese film star, to promote environmental protection. Chinese animation industry has limitless likelihood to explore. The companies and investors can realize real win-win cooperation only by identifying opportunities and risks calmly, never following or copying blindly and aiming at the long-term development. ■

CCB International Injects RMB100M into Lerentang

Jul. 8, 2010, Zero2ipo News

Lerentang Pharmaceutical Co., Ltd. (Lerentang) recently got a capital injection of RMB100M from CCB Healthcare Investment Management (Tianjin) Limited (CCBI Healthcare Fund), a fund launched by CCB International (Holdings) Limited (CCBI).

Lerentang emerges as the second pharmaceutical distributor invested by CCBI Healthcare Fund recently. Just a few days ago, CCBI Healthcare Fund officially announced its RMB150M investment in another pharmaceutical company Luyan (Fujian) Group pharmaceutical distribution company in Hebei Province. It mainly runs wholesale of Western medicines, Chinese herbal medicines and ready-made Chinese herbal medicines. The pharmaceutical distribution involves wholesale, logistics, distribution, retail chains, etc.

China's First Aviation Industry Fund Established with Plans to Raise RMB20B

Jul. 7, 2010, Shanghai Securities News, Yu Xiangming

On Jul. 6, the Ceremony on the Establishment of AVIC Fund of China and its Signing of Strategic Partnership with Tianjin Municipality was held in Tianjin. It is said that the industry fund plans to raise up to RMB20B. It emerges as the first aviation industry fund in China, and also the largest industry fund in the country.

Jointly launched by China Aviation Industry Corporation and China Construction Bank Co., AVIC Fund of China is the country's first industry investment fund targeting aviation industry and relevant application fields. AVIC Fund of China will be managed by Tianjin Yufeng Equity Investment Management Co. Bank Co.

According to General Manager of Tianjin Yufeng Equity Investment Management, AVIC Fund of China is an incorporated RMB-denominated equity investment fund that plans to raise up to RMB5B in its first stage. It has already successfully raised RMB1B in the first phase and locked in its investment targets. The fundraising of the second phase is estimated at RMB1.5B-RMB2.5B and is under way, with Tianjin Municipal Government committing to invest RMB500M to RMB1B.

3g.cn Gets Tens of Millions of Dollars Investment; Edward Tian Appointed As Director

Jul. 6, 2010, Tech.sina.com.cn, Meng Hong

3g.cn held a news conference in Beijing on Jul. 6, officially announcing its "platform" strategy. Meanwhile, 3g.cn announced that it