

Robert Chua

Chairman & CEO

China Entertainment Television Broadcast Ltd.

Robert Chua speaks from experience and observation in Asia. Singaporean Chinese by birth, he has spent 35 years in the television industry, all but four of them in Hong Kong and China. He pioneered Hong Kong's first terrestrial station in 1967, simultaneously launching Asia's longest-running variety programme.

In 1974 he started his own production and programming company, which, in 1979, was the first to enter the China market. That same year, this same company, acting as exclusive advertising sales agent, delivered China's first million Hong Kong dollars in advertising revenue.

Robert Chua and his company went on to secure and contribute millions more in foreign advertising dollars to China's fledging television industry, producing much of it, along with educational programming, while also distributing foreign TV programmes and films.

In July, 1989, he was the first media person to visit China, just one month after the June 4th events in Tiananmen Square. While the West boycotted, he was rebuilding bridges in Shanghai at the invitation of the Minister of The Film and TV Bureau for that city.

In 1994, Robert Chua founded China Entertainment Broadcast Ltd. (CETV), a Chinese family entertainment station, satcast throughout Asia.

Since then he has been honored as the only Hong Kong TV executive ever to be invited to attend The 6th Congress of The China Federation of Literary and Art Circles... opened in Beijing, December, 1996 which was opened by Chinese President Jiang Zhemín. And just days before the 1997 handover of Hong Kong, he was again honored with the title of Guest Professor of the Department of Mass Communications at Nanjing University, one of China's top three institutes of higher learning.

Robert Chua is one of the most respected of Asia's TV producers, broadcasters and entrepreneurs. As is his Shanghainese wife, the quiet "woman behind this successful man".

Now, after nearly twenty years of business with, and service to China Robert Chua is encountering problems in that market which threaten the survival of his CETV Family Channel.

In his typically unassuming, but forthright style, he will share with you his thoughts on these distressing circumstances, and his recipe or "RCP" for overcoming them.

Presented by

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to

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Ladies and gentlemen...

Looking closely at the recent history of Asia's satcast television industry, you'd be right in thinking it is not yet a very good business prospect.

And there are reasons behind that unfortunate circumstance, which I intend to discuss with you here.

The record of failure is stark and compelling. In just the past two years, seven satellite channels in Asia, owned by multinationals, have closed down, merged, or have been forced to sell their interests. I stand here before you today, as an Asian satcaster, on the brink of joining them.

I have already managed to keep my own satellite channel, CETV, on-air on a month-to-month basis, since I first announced our intended closure last January. I could fight my way through July, and even August. But that is not the solution I seek.

Unless CETV can form a perfect partnership, giving us solid financial stability and the appropriate commercial connections in China, we will not be able to restructure and set a more definite course for the future. If that is the case, I will likely cease operations at the end of this month or offer 100% of CETV to someone who, like I, can see its huge potential.

Prior to the handover of Hong Kong, CETV was regarded as the young channel destined to succeed in China. In the cover story of the October issue of "Asian Business", we featured prominently among other media companies. Many other cover and feature stories pitted us against the giants, but all demonstrated high hopes for our success.

I ask myself, "What has changed?" Is it the balance of power between China and Hong Kong since the handover? Are words speaking louder than actions, in our case, our good deeds. Or is money speaking louder than words, in our case, promises made to us.

Whatever it is I seem to be missing, I have decided only my own recipe, or "R-C-P" for success will anchor our hopes for the future. And I will explain that in a few minutes.

For the moment, let's ask ourselves how this state of failed affairs came about? How could these seven experienced broadcasters - financially and professionally competent - all fail to meet their own expectations? How could they not make a business success of such promising beginnings?

For the record:

-- Chinese Television Network's two channels, one carrying news, the other entertainment, were sold to a Taiwanese company by their Hong Kong founder, more than a year ago.

-- A Singaporean channel featuring "karaoke", admittently, but pointedly, a mainly Asian phenomenon, has ceased operation.

-- So has Hong Kong's "MGM Gold Movie Channel", owned by MGM and Encore

International.

-- Two business news channels, CNBC and "Asian Business News" merged this year rather than compete.

-- And Hong Kong-based "NBC Asia" will move to Singapore with "National Geographic Channel", and begin broadcasting next month.

There are more than one reason for these failures. But there is one main one: Even if a channel is providing the kind of programming China says it wants and / or the programming the Chinese public clearly want, China's state TV Broadcasting Policy simply does not allow foreign satellite signals to land in China other than at "international" hotels and in expatriate residential compounds.

They should be clear, cut-and-dried. But it isn't

There are grey areas, areas left open for a variety of interpretations, or areas seemingly beyond Beijing's awareness or control.

This means that an operator prepared to spend unlimited amounts of money can usually get things done with the help of connections (or "Guanxi" as they are called in China). These Chinese connections successfully press the operator's cause by lobbying or other less orthodox means. This is unlike the situation in the West or in other developed countries like Singapore, where the rules are in black-and-white and apply to all, fairly.

Do not mis-infer anything from this explanation. There is nothing wrong or evil about the Asian tradition of "Guanxi", or beneficial connections. To the contrary, it is a Confucian ideal, value, even a duty to loyally help one's family, extended family and friends. All from your private purse, if necessary. All without the expectation of any reward other than simple, mutual support.

Nor is the implementation of connections in any way exclusive to Asia. They have been lawfully, legally exploited the world over, for centuries.

But where there are grey areas, corruption thrives.

When connections draw from the public's purse, or the state's treasury, or the decision to "help" is based solely on greed for unlawful personal gain, that is another matter entirely.

That is wrong. But that is sadly often the case in emerging Asia.

Are our lack of connections and China's TV Broadcasting Policy the reasons why CETV is failing?

You be the judge.

All I can say with certainty is this: Despite China's ban on foreign satellite TV signals, in 1994 I went ahead with launching CETV because I was optimistic about its future. It was formed from a simple, singular vision of wholesomeness, one which would reinforce both universal family entertainment standards and Chinese values and culture.

I hope it would also improve the Chinese people's lifestyle and knowledge, by providing quality infotainment and edutainment programs.

And, at the time of launch, I was looking forward a few years, to the time when Hong Kong would be returned to China... would become part of China. Then the CETV signal would no longer be a foreign signal. When China opened its skies in this way, I sincerely thought CETV would be the first to be officially accepted.

This hope was further supported when I was also given assurances by the "Minister of Radio, Film and Television, in Beijing that CETV would receive the same treatment as that given our competitor. The reasons for this were to me obvious at the time: CETV's programming policies have never conflicted with China's own, in fact we have been the only so-called foreign signal to-date to have fully complied with their guidelines; and last, to keep this list short, CETV was developed, and is owned by indisputably patriotic overseas Chinese, who have contributed to China's television industry consistently over the past twenty years... in all sincerity and without any ulterior motive of personal financial gain.

Because of this history of support I have given Chinese TV, some people are led to believe that I am too strongly pro-Beijing. But what I am is pro-Chinese values and culture, which to a great extent, are naturally my own. And I do agree with some of China's broadcast policies. But I am my own man, very outspoken at times, particularly on the subject of freedom of expression. If I were "China's man" I would not have been so disadvantaged by some of their officials, and I certainly would not dare speak openly to you today about the problems they have caused me.

And just because I have not broadcast the news in the past does not mean I am practising self-censorship for the sake of China. That was a programming and financial decision. The CETV footprint covers a great deal of Asia, thousands of cities in many different countries. How could I feasibly deliver a quality news service to them all?... How could I compete with their own terrestrial stations?... without becoming a 24-hour news channel. And as a start-up venture at the time of that decision, how could I afford even partial competitive coverage? In any case, we now do carry news, but only local Hong Kong news. That I can afford and it is of interest to Mainland viewers who are fascinated by Hong Kong.

Nevertheless, I ask you, what respectable media, print or electronic, does not edit out what they feel is unsuitable for their audiences? Four-letter-words are bleeped, nudity is fuzzed over, overly-graphic violence is cut. Compare a great deal of inflight film projection with the original versions. Compare adult pay-TV with day-to-day free-to-air. Compare the newscasts of two stations, on the same day, here in the U.S. In every case, operators will have "self-censored" to suit their audience, to attract the viewers they seek, or to best use limited space or air-time, as they see fit.

Only that is what we have done. And we've done it with Asian values and culture in mind. We match the sensitivities of our viewers... not the specific sensitivity of Beijing, though obviously they share a majority of our viewer's feelings.

We simply try to live up to the moral and cultural responsibility we have as an Asian broadcaster.

For that, and the many other reasons I have given, I genuinely expected, though perhaps naively, that CETV would be given the same fair treatment accorded to the Phoenix Channel of STAR TV, owned by Mr. Rupert Murdoch's NewsCorp.

But it was somehow not to be, and anyone in the world can now question why I was unfairly blocked from landing the CETV signal on Guangdong Province's Cable Network by the local authorities there. This despite CETV's excellent track record and impeccable programme content, instead we are now unofficially viewed via the closed circuit TV systems of Chinese Work Units, or "Danwei" across China. That means we have millions and millions of Chinese viewers, but still not enough to really compete.

CETV also reaches hotels and foreign residential compounds. They take mainly the many free-to-air channels of Asiasat 1, including Phoenix. But we satcast from Apstar 1, as it's only free-to-air channel. We are very lonely up there... and a lot less attractive to receive and sponsor, as Apstar 1 otherwise carries only encrypted, pay-to-view signals. Imagine how much more successful CETV would be if we were on a satellite with more free-to-air channels.

Perhaps most importantly, failure and close-down loom for us because CETV has been unable to attract Chinese advertising dollars. And I see two reasons for this.

The first is the ridicule heaped upon us for our now-famous "Three No's": No sex, no violence, no news. This stance, though not unique, drew scorn from The West, and here I mean Western advertising agents and advertisers. Their lack of understanding of the Chinese market led to their lack of understanding of our stance. Indeed, they added two more no's no viewers and no revenue.

Yet these same industry groups readily support channels such as Disney, National Geographic, Discovery and The Travel Channel.... all of them running "no sex, no violence, no news" formats.

Why, one has to ask, was CETV singled out as laughably unworkable? Because we were too up-front about our policy? Because we more boldly "told it like it is" and achieved so much attention with that simple "No, No, No" statement. I say "no" again. The only real answer can be sheer ignorance on the part of our critics. We have totally disproved their "no viewers" prediction... though I must concede their correctness to date on "no revenue".

Which brings me to my second, more critical reason why we have seen no significant adspend on CETV. And here we return to the subject of "Guanxi" or connections. And I admit the ignorance in this case was mine.

At the outset, with the connections I already had, I did not foresee the need for a full Chinese partner, from China. I now realize that is a prerequisite to securing a level playing field there, for both attracting ad revenue, and gaining unofficial approval for access to local distribution

via Government cable networks.

All of this can not be said of our main competitor, Mr. Murdoch's Phoenix Channel, which is a joint venture with two Chinese companies.

Phoenix is on cable in Guangdong, though unofficially, through connections.

Phoenix, as one channel of STAR TV, which Mr. Murdoch's NewsCorp purchased, has been on Asiasat I since it was launched.

And Phoenix has, again through its Chinese partner's connections, secured many advertising dollars amounting to over US\$30 million last year.

But this comparison has a longer story behind it.

In early 1997, I attempted to get access to an Asiasat I transponder. I was shut out by a contractual veto exercised by Mr. Murdoch's STAR TV, and that veto was only lifted, too late, when I was already hoping to conclude the sale of CETV.

I do not deny that this veto blockage was legal, and business as usual for Mr. Murdoch. But as an Asian broadcaster, serving Asian viewers, I was very disappointed to be denied access to one of the most useful satellites in Asia's skies.

The West claims to seek "free market conditions" in the East. In this case it seems the definition of those conditions is "a market free of competition" with the West.

But even in dealing with other Asians, there are similar problems where strong-arm connections come into play.

When we protested the rejection of our signal landing, the Guangdong Radio and TV Bureau told us that Phoenix was a Chinese-controlled company and we were not. They claimed this in the face of the facts that I am a Singaporean of Chinese blood, resident in the Hong Kong SAR of China for 31 years... and that my wife, partner and co-owner of CETV, was herself born in Shanghai.

We still wonder how they see the two of us in comparison to the naturalised American-Australian Mr. Murdoch, who holds 45% of Phoenix Channels.

Regardless, we manoeuvred. And, as a way to access provincial and city cable networks, offered a majority 80% controlling interest in our company to Chinese partners: Five Chinese-owned companies, whose major shareholders are Beijing-based.

I agreed to deliver a debt-free operation.

A memorandum of understanding was drawn up and signed. Then it was altered and signed again. All leading to a further set of signatures on a final Sales Purchase Agreement signed in Beijing, late last October.

As an aside, I should explain that the universally accepted procedure of negotiating all points before contract-signing is not applicable in China. There, the contracted parties will often start negotiating again after a contract is sealed. In fact, supposedly final contracts are just another form of Understanding in Chinese eyes, entitling them to re-negotiate to their advantage at any time.

This springs from the fact that Mainland Chinese companies are cash-poor and will sign a contract, knowing they cannot honor or fulfil all its provisions at that time. This is most often true when a large sum of money is involved, and they cannot raise it without the signed contract as a form of collateral. If, in the end they fail to secure their share of the financing, they will ask for an extension... or simply walk away.

That is exactly what happened to us. Our Chinese partners acted as if our signed contract never existed. They would not acknowledge our overtures, making it clear they had no intention of entering into any discussions on the disputed matter.

It's maddening, but that is often the Mainland way.

So what is my position now?

I intend to sell 80% of my debt-free company to develop the right partnership. If I do not find the right partners by the end of this month, I will close CETV and proceed with legal action against the five companies in default over the contract signed with them.

If CETV should close, it will still close with pride. We know we have succeeded thus far against all odds, remaining on-air while many other better-backed international channels have failed before us. But nevertheless we will be sad that CETV's goodwill and programming success built over three and a half years, will be lost overnight... and that our current, very loyal viewers all over Asia will suffer if we disappear.

We have formed a unique bond with them that no other channel, East or West can claim. So strong a bond in fact, that we have received thousands of messages of support and suggestions on how to save the station during our regular live "Heart-to-Heart" phone-in programme... many of them very emotional and touching. To-date we have received over 2,900 viewer-paid calls from all over Asia, mainly from China. We have also received pledges and actual cash donations. Even children have sent in their pocket money to help keep CETV afloat. I know of nothing like that ever having happened in this sometimes far too cynical industry of ours.

So let us, once and for all, lay to rest that "no viewers" prediction from our critics. We have viewers... in 33 million households, 95% of them in China. And they are the most loyal viewers anywhere. That's also proof positive that we are on track with our program content. We have simply not been able to translate our programming success into financial success. In failing to make the right connections, we suffered from weak air-time marketing, and as a result, failed to make a profit.

Is there still hope for CETV?

I may be laughed at again, but that has never bothered me. So the answer is yes, there is hope, if only in my heart, my wife's, and in the hearts of our viewers and remaining staffers.

Which leads me to the recipe, or R-C-P, I mentioned earlier. It's no coincidence that those letters also are the initials of one of my other companies: Robert Chua Productions, which is a twenty-five-year old household name in Hong Kong. Joksters may rearrange those letters to

CPR, and I will agree and laugh along with them; this is emergency treatment for our channel. But I'd also point out, in yet another order the same letters become PRC... as in The People's Republic of China. And no one laughs at the world's largest potential consumer market.

And the truth is, I have too much of myself, my time and my money, already invested. I will not give up now.

R-C-P stands for Resources, Connections and Professionalism. Let's take them one at a time. By resources, I obviously mean money new backing, new investment in CETV. That will come if and when I find the right financing partner or new shareholders. And as I stated earlier, I am prepared to release a debt-free 80% controlling interest in CETV in order to obtain the resources that are the first of the three necessities for our survival.

Is the timing right for this? Is the money out there? I think so, and my main competitor does, too.

Only two satellite channels broadcasting from the new Chinese SAR of Hong Kong, or anywhere in the world, are unofficially received domestically, 24 hours a day in China: My own, and Mr. Murdoch's Phoenix Channel... which, as reported last week, will go public next year.

If Mr. Murdoch thinks there is money to be had, who am I to argue?

Particularly, as three merchant banks are already advising on plans to float phoenix, and one institution in the United States, un-named in the report, has put on US\$775 million (HK\$6 billion) valuation on the company... despite its current lack of official landing rights, and current revenue just over US\$30 million (HK\$232 million).

In the face of that, all I seek is a million US dollars a month... less than the interest on a US\$150 million film budget... our basic operating cost. And that investment will only be necessary until such time as CETV becomes financially self-sustaining.

Do not misunderstand this as a bridge loan. The shares I am offering are not collateral. They will belong, permanently, to the right partner who delivers the "R" or resources we need.

Once our finance partner (or partners) is found, together we will seek out the all-important "C" in my R-C-P recipe: Connections... Chinese connections or "Guanxi". This partner will no doubt be Chinese, from China... and will at the same time understand both the Western and the Chinese way of business and marketing.

You may ask why I, with twenty years of China business experience and a solid reputation in the industry, do not have connections. My answer is that I do. But my Guanxi are of the personal, traditional style... guided by traditional Asian values, centered on loyalty and support of family and friendship.

What CETV needs is Guanxi, born of the major economic transformation China has undergone in just the past few years. These connections are based on the newer commercial Asian values, which center around personal material gain. In the case of CETV, honest, legal



personal gain. I have never considered myself a "China Expert" in this newer sense. I am simply an experienced Asian television entrepreneur.

And so, as for the last letter in my recipe, that "P" stands for professionalism... not imported, but local, on-the-ground TV professionalism. In a sense, creative professionalism in programming and production. That is something I myself will supply in this new partnership. I am confident I can do it, because I have done it before. This is not my first station start-up. The Hong Kong TV station (Hong Kong Broadcast Ltd, or TVB) I was instrumental in launching over thirty-one years ago is still on-air, and is today Hong Kong's most popular station.

But is China different? Of course it is. Do I know the market? Yes.

This is why CETV broadcasts invariably use the simplified Chinese characters that are standard across China. Our competitor does not.

This is why we do not broadcast unhealthy adult chatline commercials. Our competitor has. This is why we have such high viewership loyalty, because of the very personal and proper family programming package I myself put together.

And this is why we are altering that package, dropping one of our famous "no's", and now broadcasting Hong Kong news... to better compete, and to better meet one of any reputable broadcaster's goals, which is "to inform".

Our brand name is very well established and ours is a good product. Good in the sense that it is wholesome, still without the sex and violence our competitor carries; and good also in terms of high consumer acceptance.

Because of all this, I believe that, as and when the higher authorities, the leaders in the Chinese Central Government learn the truth about the Guangdong Authorities handling of CETV, they will set straight the damage caused.

These days China's broadcast media are no longer used merely for propaganda purposes. They are becoming more and more commercial. 1997 saw US\$3.7 billion dollars spent on advertising in China. And more and more China television will open up, yielding to the people's demand for good entertainment, good education, good information; all of which we supply.

This is borne out by the fact that we have been accepted by thousands of "Work Units" and "hotels". Their decision to carry CETV was a commercial one. To the contrary, the rejection of our signal by Guangdong's Government cable operators was labelled by them as a policy decision... which is wrong!

To them I say, "Please explain the difference". Because simultaneously certain quarters claim the reverse; they state this is a commercial matter, in order to avoid the scrutiny of Central policy-makers.

At the same time, I am saying to the Central Government, "Are you fully aware of this?" because I do not think they know of our unfair treatment. I do not think they would agree

with those who say one thing but report another. And I intend to get the CETV case file directly, and at the same time through some of my personal connections, to President Jiang Zheming and Premier Zhu Rongji.

I know I will have to be patient. There are so many bureaucratic levels to work through. And those at the lower end of the chain could be persuaded by others to stall. Even close personal assistants may not realize the importance of our case, or the harm that ignoring it could do to the credibility of China's stated goal of opening up. But I will continue to press on with confidence... confidence of CETV becoming the undisputed number one family channel in China... if only the painful hinderance in distribution we now suffer is lifted.

How long will this process take? Everyone seems to be a China expert these days, but no one has the answer. What I believe is that under the new leadership of President Jiang and Premier Zhu, the pace of television reforms will speed up.

And I dearly want CETV to be there as that happens, with some form of amends made for all we have been through.

If that is to happen, my R-C-P recipe must work. I must find partners with resources and connections to match the professionalism that has alone sustained us thus far.

While my talk today on doing business in China has been a fairly specific case history, my R-C-P applies to any business entering the Mainland. High hopes and standard Western approaches will not work.

And while my case history talk has not been very positive, I must tell you I have great faith in the changes ahead that the Central Authorities will make as they themselves grow in understanding. Understanding not just of my situation, but of the fact that many other foreign businesses, indeed whole industries, are in the same situation as I am.

Whether or not our hoped-for partners, with deep pockets and Chinese connections, appear in time, is yet to be seen. Very likely it will be two "White Knights" who come to our rescue, one to invest, another to connect. Perhaps one of them is even in this very audience.

Nevertheless, two new partners will still match the R-C-P I have given you today.

To close, let me say that regardless of the downside of all I have spoken of today, I know one major victory will always remain mine. Regardless of whether my R-C-P recipe works for CETV, I will have spread the word of that recipe for success in China. Regardless of my own fate, I know I will have forged a way for other honest professionals to follow in the future.

With that alone, I am satisfied.

Thank you.