Weibo IPO papers littered with China censorship warnings

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Weibo Corp., a subsidiary of Chinese Internet behemoth Sina, has filed for a $500 million stock offer in the United States, the ultimate exercise in capitalism, a s it seeks funds to grow users in the face of pressure from newer competitors.

But Chinese authorities maintain a vast censorship machine to delete content considered objectionable while at the same time manning the so-called Great Firewall of China to block access to sensitive outside sites.

Banned services include Twitter, Facebook and YouTube, which enable individuals to communicate with each other on a mass scale.

Weibo's listing contains a 40-page section on "Risk Factors", and another 16 pages on the effects of laws and rules in the People's Republic of China.

"Regulation and censorship of information disseminated over the Internet in China may adversely affect our business and subject us to liability for information displayed on our platform," it said.

Banned content includes anything that "impairs the national dignity" of China, "disturbs social order or disrupts social stability", is reactionary, obscene, superstitious, fraudulent or defamatory, among other categories, it explained.

On page 138, Weibo Corp. admits to censoring posts to conform to Chinese law.

"We have adopted internal procedures to monitor content displayed on our platform, including a team of employees dedicated to screening and monitoring content uploaded on our platform and removing inappropriate or infringing content," it said.

It is required to verify the identities of all those who post on its platforms, it added, and may have to register its encryption software with Chinese authorities.

People sit around laptop computers at a cafe in Beijing, May 29, 2013

"Western (Internet) companies, part of their image and reputation, lies on the fact that they are bastions of freedom of expression," said Jason Q. Ng, a research fellow at the University of Toronto's Citizen Lab and author of "Blocked on Weibo".

"That Weibo disclosed the fact that they censor... speaks to the reality of the facts on the ground—disclosing to their potential investors that this stuff is a risk."

Government crackdown

In contrast Twitter, which Weibo is often compared to, was hailed as a tool of free expression during the Arab Spring.

Twitter—whose CEO is currently in China on what the firm called a private visit—has long proclaimed itself a defender of freedom of speech, although it too has faced controversy over censorship after announcing it can block tweets on a country-by-country basis if legally required to do so.

But analysts said such issues might not matter to investors, saying the success of the Weibo share offer will hinge on buyers wanting a stake in a technology play in a country with more than 600 million Internet users.

Its parent Sina Corp.—which holds just over two-thirds stake in Weibo before the share offer—is already listed on the technology-heavy Nasdaq market with a market value of $4.5 billion.

"Content censorship and related regulations have been the norm for China's Internet industry through its development the past 20 years. It's not a fresh issue," said Hu Yanping of independent research institute DCCI.

"The capital market will be focused on the company's operations, its ability to generate income and profits," he said.

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Zhuo Saijun of consultancy Analysys International, added: "I think there will still be fervent interest from investors," citing Weibo's value to companies for marketing.

Nonetheless analysts say a government crackdown on content and "verified" Sina Weibo users, the thought leaders of Chinese cyberspace, has hurt microblogs—which other companies also offer—along with the rapid rise of instant messaging platform WeChat, which has accumulated more than 300 million users.

Last year, Chinese-American investor Charles Xue, who had around 12 million followers on his Sina microblog which was heavily critical of the government, was arrested on charges of soliciting prostitutes and paraded on state television.

In 2012, Sina disabled the comment feature on the Weibo platform for three days following rumours of a coup after the dismissal of high-flying politician Bo Xilai, and shut down specific accounts which carried the speculation.

Weibo Corp. said in the listing filing it had more than 129 million monthly active users and more than 61 million daily active users in December, both rising steadily since 2012. It recorded a net loss of $38.1 million in 2013, narrowing from $102.5 million a year earlier.

But the government-linked China Internet Network Information Center estimates that microblog users fell nine percent to 281 million last year.

One foreign fund manager, who declined to be named, said: "It just does not have that dynamism compared to messaging."

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