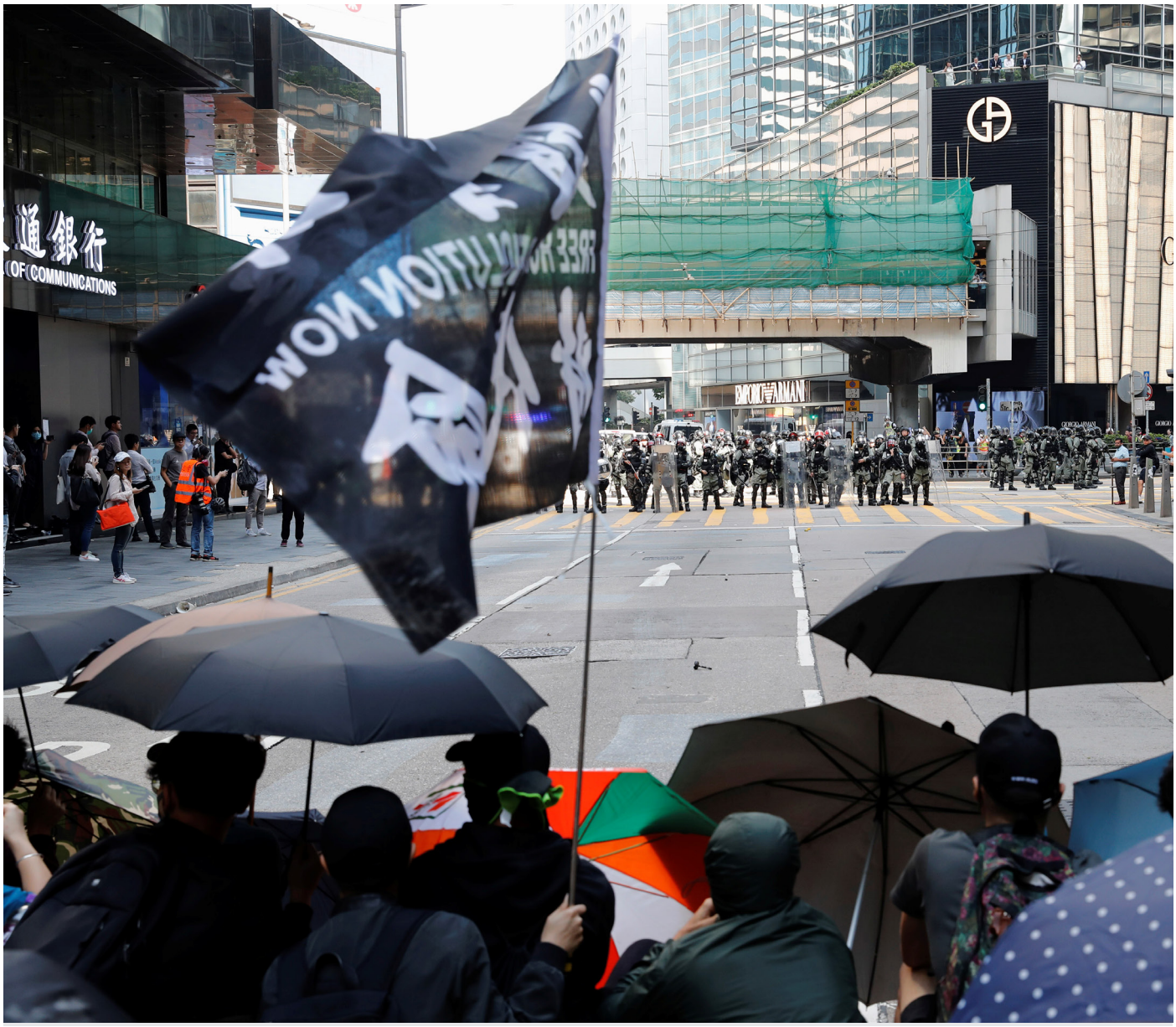


People protest with umbrellas, as riot police block a junction, in Central, Hong Kong, China. REUTERS/Tyrone Siu

The China Effect

BY KEITH ZHAI, TOM LASSETER, FARAH MASTER, CLARE JIM AND STEVE STECKLOW

SEPTEMBER 13 – DECEMBER 12 SINGAPORE/HONG KONG/LONDON

China prods state firms to boost investment in crisis-hit Hong Kong – sources

BY KEITH ZHAI

SEPTEMBER 13 SINGAPORE

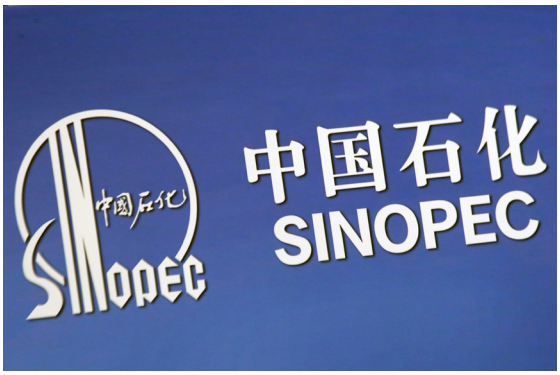
China has called on its biggest state firms to take a more active role in Hong Kong, including stepping up investment and asserting more control of companies in the financial hub, executives familiar with the matter said, as Beijing attempts to calm months of unrest in the city.

At a meeting this week in Shenzhen, the city bordering Hong Kong, senior representatives from nearly 100 of China's largest state-run companies were urged to do their part to help cool China's biggest political crisis in years, three executives, including one who was present, told Reuters.

At the meeting, the SOEs pledged to invest more in key Hong Kong industries including real estate and tourism in a bid to create jobs for local citizens and stabilise financial markets, two of the executives said, speaking on condition of anonymity to discuss internal deliberations. No specific investments were discussed or agreed upon, they said.

The state-owned enterprises (SOEs) in attendance included oil giant Sinopec and conglomerate China Merchants Group, one of the sources said.

The meeting was organised by the State-owned Assets Supervision and Administration Commission (SASAC), the powerful central body that oversees China's sprawling state sector, which includes some of the world's biggest companies in industries such as steel, energy, shipping and telecoms.



The company logo of China's Sinopec Corp at a news conference in Hong Kong, China. REUTERS/Bobby Yip

SASAC did not respond to a faxed request for comment from Reuters. Officials at Sinopec and China Merchants Group did not respond to emailed requests for comment and calls to the two companies went unanswered.

Instead of simply holding stakes in Hong Kong companies, the Chinese SOEs were also urged to look to control companies and have decision-making power in them, one of the people familiar with the meeting said.

"The business elites in Hong Kong are certainly not doing enough. Most of them are just not one of us," the SOE executive who was at the meeting told Reuters.

SASAC's Communist Party chief, Hao Peng, appeared in Hong Kong on Wednesday at a

A junk boat passes the Hong Kong skyline as seen from the Tsim Sha Tsui waterfront. REUTERS/Kai Pfaffenbach

forum for the Belt and Road infrastructure initiative and said that SOEs were looking for ways to cooperate in major projects in the city, according to a SASAC news release.

Hao, who was accompanied by a group of SOE executives, also met with Carrie Lam, the city's chief executive.

NATIONAL SERVICE

While China's big state firms are for-profit enterprises and many are publicly traded, they have long been expected to do national service, including maintaining high levels of employment and helping Beijing execute initiatives such as its big Belt & Road infrastructure plan.

Months of huge and often-violent protests in Hong Kong were triggered by planned legislation that would have allowed suspects to be extradited to mainland courts. The protests have been fuelled by what is seen by many in Hong Kong as creeping Chinese influence that is eroding the "one country, two system" model under which China has ruled Hong Kong since its handover from the United Kingdom in 1997.

> The business elites in Hong Kong are certainly not doing enough. Most of them are just not one of us.
>
> **Anonymous executive,** of a Chinese state-owned enterprise (SOE), who attended a meeting in Shenzhen.

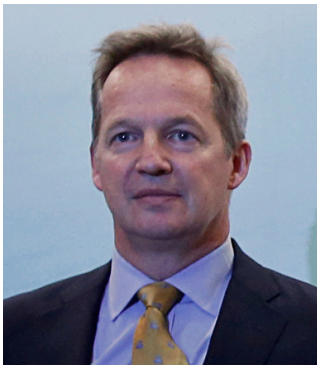
Widening mainland influence in Hong Kong has included the purchase of corporate assets and real estate.

The Hong Kong economy was once

Shenzhen River, the border river that divides Hong Kong (left) and Shenzhen is seen from Shenzhen, China. REUTERS/ Tyrone Siu

dominated by British trading houses with roots in the 19th century. Local tycoons started to take over many of the businesses in the latter part of the 20th century, creating huge conglomerates such as Li Ka-shing's CK Hutchison Holdings.

Beijing has been willing to put pressure on Hong Kong businesses to be more patriotic, expressing unhappiness during an August meeting with the city's business elites that they weren't doing enough to quiet the protests, according to a report at the time by the state-run Xinhua news agency.



Former Cathay Pacific Group Chief Executive Officer Rupert Hogg, in March 2018. REUTERS/ Bobby Yip

In the meeting last month with about 500 business leaders and pro-Beijing politicians from Hong Kong, Chinese authorities urged that they should "have no fears and stand up" to stop violence in the city, Xinhua reported.

Cathay Pacific Airways Ltd, a legacy of Hong Kong's colonial era, has become the biggest corporate casualty of the protests after Beijing demanded it suspend staff who support the demonstrations. Its chairman announced plans to step down in November, less than three weeks after CEO Rupert Hogg left amid mounting regulatory scrutiny.

Hong Kong subway operator MTR Corp also bowed to pressure in August to get tough on anti-government protesters after Chinese state media expressed dismay at the firm for its perceived facilitation of the spread of violence by protesters. ®

Reporting by **Keith Zhai.** Editing by **Tony Munroe** and **Philip McClellan.**

How Hong Kong's greatest tycoon went from friend of China to punching bag

BY TOM LASSETER, FARAH MASTER, CLARE JIM AND KEITH ZHAI

NOVEMBER 27 HONG KONG

In January of 1993, an ambitious Chinese Communist Party boss, a 39-year-old official with chubby cheeks and a mop of black hair, visited Hong Kong. He was seeking out the city's rich among the shimmering skyscrapers, hoping to secure investment in Fuzhou, the second-tier city he ran in mainland China. His name was Xi Jinping.

That August, Xi received a guest back home. Hong Kong's most famous tycoon, Li Ka-shing, known locally as "superman" for his business acumen, had come to town. A photograph from the event shows Xi grinning as he walked beside Li, who held a bouquet of flowers in his hand. In the background, a long banner hung with the message to "warmly welcome" Li Ka-shing.

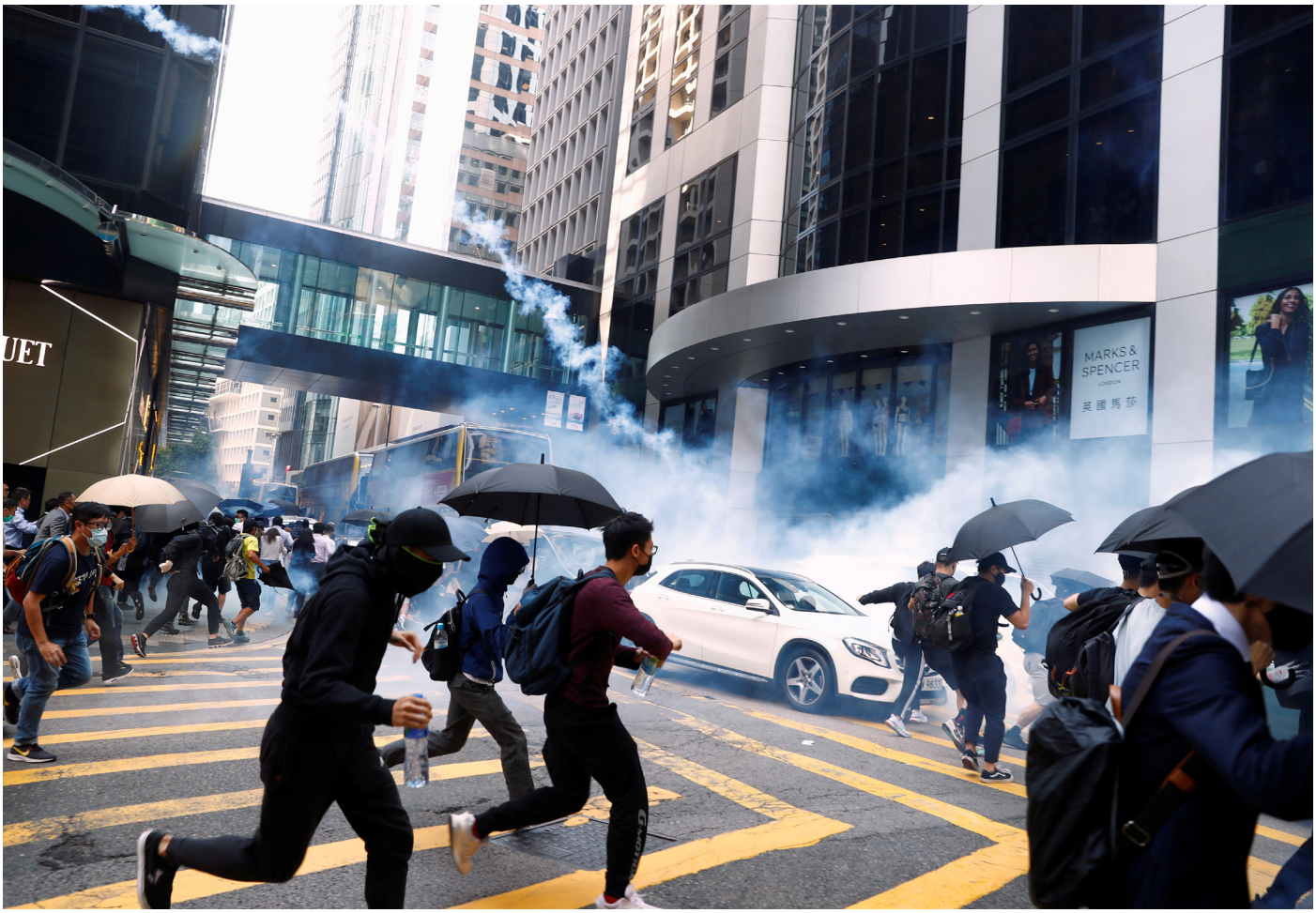
During those days, in the aftermath of the 1989 Tiananmen crackdown, Beijing was desperate to fire up a languishing economy. National leaders and provincial potentates were courting Li for his cash and the star power his name brought to development projects on the mainland. That time has passed.

Xi is now the strongman leader of a rich and rising power that controls Hong Kong. Instead of feting the 91-year-old businessman, Beijing has harangued him for failing to deliver in the rebellious city. When the Party was looking for a chorus of influential voices to counter the protests that began this summer, Li offered only even-handed pleas for restraint. In an online video of comments he made at a monastery, Li asked that the leadership show "humanity" when dealing with young protesters.

Li Ka-shing's calls for both the authorities and the protesters to show restraint in Hong Kong did not go down well in Beijing. REUTERS/Bobby Yip

The response was brutal. The Party's central legal affairs commission in Beijing publicly accused Li of "harbouring criminality" and "watching Hong Kong slip into the abyss." A pro-Beijing trade union leader in Hong Kong posted a Facebook item mocking him as the "king of cockroaches" with an image that pasted Li's head atop a picture of a fat insect.

"In the world of social media, some people



People run as riot police fire tear gas in Central, Hong Kong, China. REUTERS/ Thomas Peter

are hard at work in sowing toxic doubts and disinformation to undermine trust," Li said in a written response to questions from Reuters. "It is hard not to be drawn into controversies [in] these times."

As the Beijing-backed government of Hong Kong cracks down on the demonstrators in the streets, there is another tightening of the leash happening, mostly behind the scenes: China's efforts to throttle the power of Hong Kong's tycoons.

Li and other tycoons have long held dominion over Hong Kong, tracing its post-World War II economic rise through manufacturing, real estate and finance. But the ascent of Xi Jinping, who became General Secretary of the Chinese Communist Party in 2012, has fundamentally altered the status quo.

Xi is a leader who "thinks that he is like the emperor," said Willy Lam Wo-lap, a veteran observer of elite Beijing politics at the Chinese University of Hong Kong. "So, he thinks that Hong Kong business people should definitely profess undying loyalty to the emperor, to Xi Jinping."

The vilification of the city's preeminent capitalist was a rare public display of the new power dynamic, businessmen and analysts say. It sent a clear message that Li and his fellow Hong Kong tycoons must toe the line and unequivocally condemn the protests, which present the most serious challenge to Communist Party rule since Tiananmen.

The now-scrapped legislation that sparked the recent unrest would have allowed for

extraditions from Hong Kong to mainland China. It also provided an avenue for the seizure of assets, according to a statement by the Hong Kong Bar Association. That could have exposed the city's tycoons to the same fate as wealthy mainlanders who have been stripped of assets in Xi's anti-corruption drive.

Shortly after protests over the bill escalated in early June, some wealthy Hong Kongers began moving money outside of the region or setting up accounts that would allow them to do so, according to six private bankers whose institutions collectively handle hundreds of billions of dollars in assets.

Reuters spoke with half a dozen people, including current Li executives, who have had personal relationships with the property mogul or worked alongside him over his career. Li stepped down last year and was succeeded by his eldest son as chairman of his two main companies but remains the biggest shareholder.

> It was like a Buddha came to town to build a temple. Officials thought he could do magic here and change the city in a dramatic way.
>
> **Architecture professor Ruan Yisan**, on Li Ka-shing's 1993 visit to Fuzhou, the provincial city then run by Xi Jinping.

China's foreign ministry declined to answer questions from Reuters. The Hong Kong and Macau Affairs Office did not respond to a request for comment.

RISK OF OFFENDING

For all the vitriol aimed at Li in recent months, this was not a sudden split. Before protests convulsed Hong Kong, he was already loosening his economic ties to China.

At the start of this century, his flagship Hutchison Whampoa Ltd got much of its money from Hong Kong and the mainland: 56% of earnings before interest and taxes. Last year that figure at his current flagship firm was 14%. Since 2015, Li's corporate empire has been involved with more than $70 billion in acquisitions globally. Less than $1 billion of that was in Hong Kong and mainland China, according to a Reuters analysis of Li's deals worth $500 million or more.

Asked about those numbers, a spokesperson for Li said that as Hutchison Whampoa sought large acquisitions overseas in the late 1990s and early 2000s, "the diversification changed the geographical proportions, but we are nevertheless growing in the mainland and in Hong Kong." In addition, the spokesperson said, a 2015 reorganisation of the group brought down the proportion of earnings from the region for the current flagship.

Shifting large business interests out of China's immediate orbit carries the risk of offending mainland officials, especially as Beijing exerts greater control of Hong Kong, said Simon Murray, a former managing director at Li's sprawling corporate operation who has known the billionaire for decades.

"Everybody who is anybody at all in Hong Kong has got one eye on how the mainland sees that," he said. "And you've got to build your bridges with them, otherwise they could confiscate."

For Li, a billionaire in his autumnal years, the tensions with Beijing mark a dramatic turn. For decades, he enjoyed a position of eminence under Deng Xiaoping and then Jiang Zemin – the two men who led China from the late 1970s to the early 2000s. Li was on committees that drafted Hong Kong's Basic Law, the mini-constitution governing the city since it was handed to Beijing by the British, and on a body that selected its first government.

Li's entire life has been framed by the swings of history in Hong Kong and, looming on its edge, mainland China. He was born in 1928 in the river city of Chaozhou, a place known for its local Chinese opera and

embroidery work. When he was a child, the southern Chinese city was a target for Japanese bombing runs. He quit school as a 12-year-old boy and his family fled south down the coast to Hong Kong, then a British colony.

Hong Kong fell to the Japanese in 1941. During that occupation, there were food shortages, malnutrition and disease. Li's father died from tuberculosis not long after they arrived. His company biography describes what came next: "Before he was 15, Mr. Li had to shoulder the responsibility of providing for his family and found a job in a plastics trading company where he laboured 16 hours a day."

During a 1998 interview with public broadcaster Radio Television Hong Kong, Li spoke of his mixed feelings when he went back to the mainland in 1978 for the first time in decades. He'd made a fortune in Hong Kong building his way from manufacturing to real estate to finance. The next year, he became the first Hong Kong Chinese investor to take control of one of the British "hongs," the great trading houses that accompanied colonial rule from the 19th century.

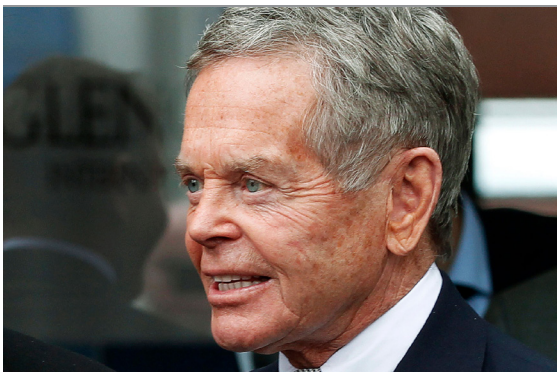
But looking at his motherland, newly emerged from the chaos of Mao Zedong's rule, Li said he hesitated to invest. "I was afraid that people might say Li had come to exploit," he said in the interview.

Li's doubts about mainland control of Hong Kong appear to be longstanding. Britain's conversation with China about the future handover of Hong Kong began heating up in the 1980s. Even back then, Murray said, Li discussed his anxiety about the financial future of his corporate empire.

Murray said that Li asked him to "go over to the UK and find a nice company for us to put some money in."

That led to Li buying up a stake of more than 4% in Pearson Plc, a British conglomerate, in an early foray into Western markets that brought wider attention. Murray recalled: "It was on the front page of every bloody newspaper."

Asked about the tycoon's concerns at the time, Li's spokesperson said: "Anyone, especially if one is leading a company with other shareholders, has to have a degree of paranoia as it is part of responsible leadership. The Chinese [have] a traditional saying: 'strive in hard times, perish in contentment.' A certain degree of paranoia prevents the reverse case happening."



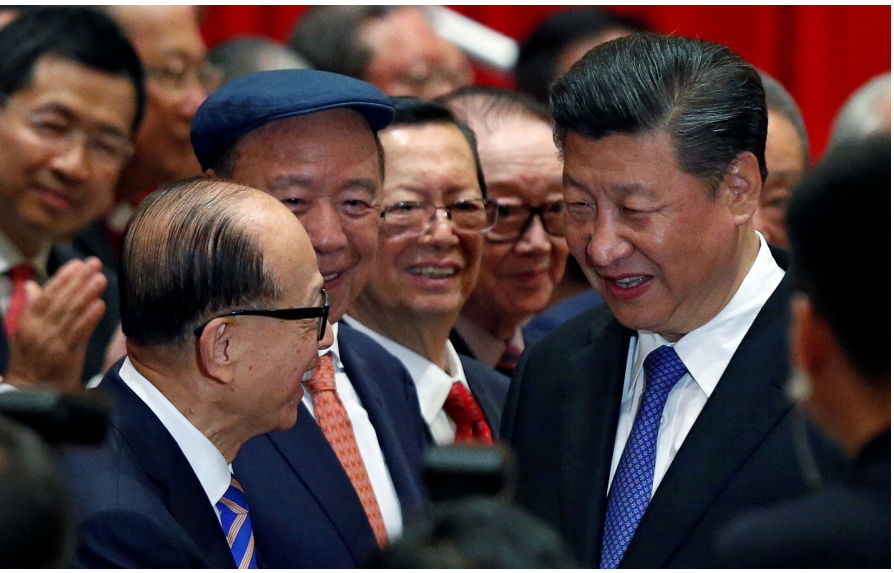
Simon Murray, a former managing director at Li's group of companies, seen here in 2012, was sent by Li to the UK in the 1980s to look for investments as discussions about the handover of Hong Kong to China gained momentum. REUTERS/Arnd Wiegmann

'LIKE A BUDDHA'

After Xi Jinping's visit to Hong Kong in 1993, Li was given the celebrity welcome in Fuzhou, the provincial city Xi then oversaw. The billionaire, who was involved in a redevelopment project there, attended a groundbreaking ceremony with Xi where they laid a foundation stone, according to local media reports.

"It was like a Buddha came to town to build a temple," said Ruan Yisan, an architecture professor in Shanghai acclaimed for his historical preservation projects who opposed the development. "Officials thought he could do magic here and change the city in a dramatic way."

At the time, Li had outsized impact in China. In September of 1997, about two months after the handover of Hong Kong, China was on the verge of its largest-ever stock offering, a state-owned telecommunications company preparing to list on the Hong Kong



Chinese President Xi Jinping greets Li Ka-shing during a visit to Hong Kong in 2017. After Xi came to power, Beijing's attitude toward the city hardened. REUTERS/Bobby Yip

and New York exchanges. At the last minute, a group of Hong Kong tycoons backing the listing of China Telecom got spooked by a financial crisis roiling the region. They said they wanted to renegotiate an agreement that required them to hold their stakes for a year, or drop out completely. It was just weeks before the listing went to market.

Li beckoned a group of Chinese bureaucrats and bankers to his Hong Kong office. He told them that he had signed a contract and would abide by it, according to a banker who was in the room. Then, the Chinese banker said, the billionaire went one step further: He offered to buy a larger stake if necessary. Li helped salvage the deal, which became a template for a flood of state-owned Chinese companies raising billions of dollars through public listings. It was the sort of moment that made Li, with his trademark large black-framed glasses, Hong Kong's most fabled businessman.

"Mr Li is not a man to break an agreement easily," the spokesperson for the billionaire said.

Inside China, though, even Li found that the opaque nature of doing business could mean problems, according to those who have worked with him and his own public remarks.

In the public broadcaster interview, Li detailed his frustrations with building Oriental Plaza. A sprawling development in the heart of Beijing, the project faced political wrangling and loud public disagreement about its size as it went up in the 1990s. His Chinese partners, he said, gained a 40% share of the project, up from an initial 10% or so. Li said he had learned a lesson.

"In a political and cultural centre like Beijing, one has to put business and economics in a lesser position," he said. "Although I've run into all sorts of trouble, I now have a better understanding of China."

XI'S MESSAGE

After Xi took power, Beijing adopted a harder line toward Hong Kong. In a 2014 white paper, Beijing said the autonomy the city enjoys was not a given but, instead, contingent on the permission of the central leadership. And Li himself began facing criticism from Chinese state media.

During late 2014 and early 2015, Li folded his Hong Kong-registered Hutchison Whampoa and another company into firms incorporated in the Cayman Islands. Li's team says the changes were part of a "streamlining and succession plan."

In September 2015, in the wake of reports of those moves, Li was excoriated by mainland media outlets as insufficiently patriotic. The People's Daily, the main mouthpiece of the Communist Party, posted a commentary on social media saying that Li was happy to "enjoy the benefits when things are good" but couldn't be counted on in tough times.

Li released a statement affirming his support of Beijing's leadership, adding: "The Company, as always, will continue to look for investment opportunities around the world, including mainland China."

In that period, though, companies under Li's control were plowing billions of dollars into stakes of firms abroad while pulling back in Hong Kong and on the mainland. That trend hasn't slowed.

Since 2015, Li's companies have been involved in acquisitions abroad worth more

than $70 billion, in places like Canada, Italy and Australia. In that same period, he participated in just one acquisition in mainland China and Hong Kong worth $500 million or more – an $848 million stake in a Hong Kong-based shipping firm that he purchased with two other investors.

And in those same years, Li divested from four companies in Hong Kong and the mainland, totalling more than $11 billion. Reuters calculated these tallies using figures from Dealogic, a financial data provider, involving deals by Li's companies worth $500 million or more, including debt.

"We have many projects in China," Li's spokesperson said, without disputing the deal figures. Among Hong Kong companies, he added, Li's group "is the largest investor in the mainland and is thriving in numerous industries."

Beyond investments, the Communist Party has other demands of Hong Kong's tycoons. Xi Jinping's directive was unambiguous at a 2017 meeting between the Chinese leader and the city's elite, said a senior executive at a major Chinese state-owned enterprise in Hong Kong. Li was in attendance.

"Xi's message was very clear – that the business community and the tycoons need to uphold social responsibility, and to help the central government maintain the social stability of Hong Kong," said the executive.

'VERBAL AND TEXT PUNCHES'

That expectation grew more urgent as the protests shook Hong Kong.

Chinese officials have come to think the city's concentration of wealth is a major source of the discontent, said Allan Zeman, a prominent businessman and economic adviser to Hong Kong's Beijing-backed leader, Carrie Lam. A system of land auctions, which extend back to British rule, allowed a small set of people to corner the market, Zeman said, pushing prices up to a point where no one else could bid. That dynamic leaves housing so expensive that families are crammed into tiny dwellings and upward mobility is limited.

"It made 'five families' very, very rich," said Zeman, referring to the city's biggest developers.

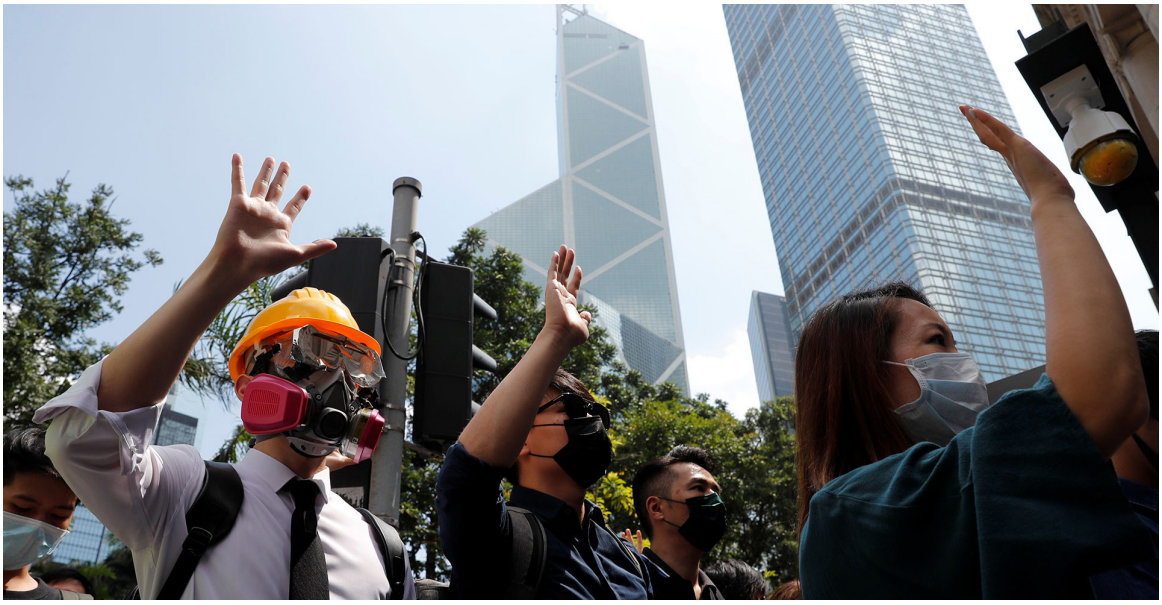
The developers, Zeman said, now understand. He noted that in September a Hong Kong company, New World Development Co Ltd, announced it was setting aside three million square feet of its land holdings for low-income housing. Asked whether the decision was the result of pressure from Beijing, New World said it hoped "to inspire more people to generate creative approaches to solve Hong Kong's housing challenge."

Meanwhile, in early September, China's State-owned Assets Supervision and Administration Commission (SASAC) gathered executives from the nation's largest state-owned firms in the nearby mainland city of Shenzhen. According to an executive familiar with the meeting, SASAC officials gave clear marching orders to the Chinese managers: take more control of Hong Kong firms and seek decision-making power within them. SASAC did not respond to questions from Reuters.

When Britain returned Hong Kong to China in 1997, the two sides agreed the city would enjoy a high degree of autonomy under its own governing charter, for half a century. Businesspeople here say that until very recently, 2047 – the date China is set to impose full control – seemed distant.

To be sure, said the head of a private banking operation in the city, most of Hong Kong's prominent families have been diversifying their personal wealth overseas for many years. The executive works at one of the

> [Li's] attitude to China is one of fear: These guys can take everything I've got.
>
> **Simon Murray**, Li's longtime corporate lieutenant, who left the Li group in 2017.



Demonstrators attend a lunchtime protest in early October near the Cheung Kong Center building (right) where Li Ka-shing has his headquarters. REUTERS/Tyrone Siu

five largest private banks in the Asia-Pacific region, which handles more than $200 billion in assets.

"For some of these tycoons, 2047 was not a very major consideration," he said.

That changed as Beijing began to flex its muscles. One event that caught the tycoons' attention, he said, was the 2017 disappearance of China-born billionaire Xiao Jianhua. Xiao was last seen leaving a luxury Hong Kong hotel in a wheelchair with his head covered, accompanied by unknown men. In its annual human rights report, the U.S. State Department said that "multiple press reports stated he was likely abducted by state security agents from the mainland."

Xiao's whereabouts are unknown. No Hong Kong billionaire has suffered a similar fate. China's Ministry of Foreign Affairs declined to answer questions about Xiao.

Private bankers say the extradition bill dealt a fresh shock. One financial adviser told Reuters he was involved in a transaction in which a Hong Kong tycoon shifted assets of more than $100 million, between June and August, from a local Citibank account to one in Singapore.

"The extradition bill was the spark, but the fears are much more deeper and broader than that," the financial adviser said. "I think what we've seen is a structural shift away from Hong Kong as a place of relative safety."

Today, interviews with people who know Li well point to a man anxious about Hong Kong's future under tighter mainland Chinese rule.

"His attitude to China is one of fear: These guys can take everything I've got," said Murray, his longtime corporate lieutenant, who left the Li group in 2017.

"Simon has his own interpretations but they are not necessarily Mr Li's," the billionaire's spokesperson said, responding to Murray's remarks. "The central government has reiterated many times that it is committed to openness and reforms."

Still, as the pressure from Beijing mounts, Li has not humbled himself before the Communist Party.

"When you are my age, you will know how to cut through the noise," Li said in his letter to Reuters. "I don't know if it is a concerted effort, but I am getting used to all the unfounded verbal and text punches." Ⓡ

Reporting by **Tom Lasseter, Farah Master, Clare Jim** and **Keith Zhai**. Additional reporting by **Sumeet Chatterjee, Greg Torode** and **Anne Marie Roantree** in Hong Kong. Editing by **Peter Hirschberg**.

Refinitiv created filter to block Reuters stories amid Hong Kong protests

BY STEVE STECKLOW

DECEMBER 12 LONDON

As anti-government demonstrations engulfed Hong Kong in August, Reuters broke a sensitive story: Beijing had rejected a secret proposal by city leader Carrie Lam to meet several of the protesters' demands in a bid to defuse the unrest.

The story buttressed a main claim of the protesters, that Beijing is intervening deeply in the affairs of the semi-autonomous city. A state-run newspaper denounced the story as "fake" and "shameful." The article soon became unavailable in mainland China.

It wasn't the Chinese government that blocked the story. The article was removed by Refinitiv, the financial information provider that distributes Reuters news to investors around the world on Eikon, a trading and analytics platform. The article was one of a growing number of stories that Refinitiv – which until last year was owned by Reuters' parent company, Thomson Reuters Corp – has censored in mainland China under pressure from the central government.

Since August, Refinitiv has blocked more than 200 stories about the Hong Kong protests plus numerous other Reuters articles that could cast Beijing in an unfavourable light. Internal Refinitiv documents show that over the summer, the company installed an automated filtering system to facilitate the censoring. The system included the creation of a new code to attach to some China stories, called "Restricted News."

An advertisement for Refinitiv is seen on a screen in London's Canary Wharf financial centre. REUTERS/Russell Boyce

As a result, Refinitiv's customers in China have been denied access to coverage of one of the biggest news events of the year, including two Reuters reports on downgrades of Hong Kong by credit-rating agencies. Nearly 100 other news providers available on Eikon in China have also been affected by the filtering.

Censorship in China has been intensifying in recent years under President Xi Jinping, and Western businesses have come under rising pressure to block news, speech and products that Beijing sees as politically dangerous. Refinitiv generates tens of millions of dollars of annual revenue in China. As Reuters reported

Hong Kong braces for "emergency" protest call for autonomy
Hong Kong police fire tear gas to break up park protests
Hong Kong protesters trash Xinhua agency office in night of violence
Hong Kong protesters crowd out malls in clashes with police
Hong Kong police fire tear gas in standoff with protesters
Hong Kong braces for protests as two critical after weekend clashes
Scores injured, one critical in chaotic weekend of Hong Kong protests
China to "perfect" choosing Hong Kong leader as Guy Fawkes protesters rally
Hong Kong police fire water cannon at Guy Fawkes protesters
Effort in U.S. Congress to rein in China on Hong Kong protests faces obstacles
Hong Kong bourse logs biggest quarterly profit fall in 3 years on protests
Tod's 9-month sales slip; hit by Italy weakness, Hong Kong protests
Masked Hong Kong students chant protest slogans at graduation
Singapore police investigate Hong Kong protest bar meeting
Hong Kong girds for more protests; student in critical condition

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(Left): This illustration of Refinitiv's Eikon platform shows the headlines of a sampling of Hong Kong protest stories that Reuters published recently.

(Right): This illustration of Refinitiv's Eikon platform shows the message seen by users within mainland China, after Hong Kong protest stories that Reuters published recently were blocked from the platform by Refinitiv.

in June, citing three people familiar with the matter, Refinitiv began the censorship effort earlier this year after a regulator threatened to suspend its Chinese operation.

Refinitiv has joined a lengthening list of companies complying with Chinese demands. They include hotel giant Marriott International Inc, which last year temporarily shut down its Chinese websites and apologised for, among other things, listing Taiwan as a separate country in a customer questionnaire. Several U.S. airlines also stopped describing Taiwan as non-Chinese territory on their websites. Beijing considers the self-governed island part of China. The companies have defended their actions.

The censorship has angered the top news and business executives of Reuters and the directors of the Thomson Reuters Founders Share Co Ltd, an independent body tasked with preserving the news agency's independence.

Speaking to Reuters journalists on a visit to the Singapore newsroom in October, Kim Williams, the Australian media executive who chairs the body, lashed out at Refinitiv, calling its actions "reprehensible" and a capitulation to "naked political aggression" from Beijing. Editor-in-Chief Stephen J. Adler told Reuters journalists in London in November that the censorship was "damaging" the brand. "I don't approve of it," he said.

Refinitiv chief executive David Craig and Thomson Reuters CEO Jim Smith have held multiple talks, as recently as this week, in an effort to resolve the issue, said people familiar with the matter. Smith "was very concerned" upon learning about Craig's decision to impose the filtering, said a senior Thomson Reuters official. It is not clear how close the two are to reaching a solution both sides find agreeable, one of the people said.

"We recognise that the processes that were put in place earlier this year need to be improved and are actively working on enhancements," Refinitiv spokesman Patrick Meyer said of the filtering system in a statement. "As a global business, Refinitiv must comply with the laws and regulations of the countries in which we operate. This is a challenge that not just Refinitiv faces, but also other companies and distributors of financial market information."

Refinitiv was formed last year when a consortium led by private equity giant Blackstone purchased a 55% stake in Thomson Reuters' Financial & Risk business, which included the Eikon terminal business, for about $20 billion and rebranded it.

Refinitiv and Thomson Reuters remain close: Reuters sells news to Eikon, and Thomson Reuters retains a 45% stake in Refinitiv. Refinitiv is by far Reuters' largest client, providing nearly half its revenue. As part of the spin-off deal, Refinitiv agreed to

make inflation-adjusted annual payments of $325 million to Reuters over 30 years for news – a reliable income stream that is rare in the media business.

The Founders Share directors are particularly incensed. They have complained to Thomson Reuters CEO Smith that by suppressing stories, Refinitiv is violating the terms of the deal. They also say they fear that Refinitiv, having given in to China's demands, might start blocking stories in other countries.

Prior to the Blackstone deal, when Thomson Reuters controlled the Eikon business, Reuters stories were not blocked in China on Eikon. The Chinese government itself has been blocking access in China to the Reuters website for general readers, Reuters.com, for years, as well as the sites of many other foreign news organisations.

I don't approve of it.

Steve Adler
Reuters Editor-in-Chief, about the censorship.

"Let the Chinese decide if they ban something," said Pascal Lamy, a Founders Share director and former head of the World Trade Organization. "But this is not Refinitiv's or Reuters' decision." Lamy said the directors believe the terms of the deal require Refinitiv to adhere to Reuters ethical rules on editorial integrity and independence, known as the Trust Principles, which "prevent you from accepting self-censorship."

In response, Refinitiv said it is "complying with our obligations with respect to the Trust Principles." It argues that in filtering out political stories for its own customers in China, it is following local laws and regulations as required by its operating license.

Smith, who sits on the boards of both Thomson Reuters and Refinitiv, did not respond to requests for comment.

The London Stock Exchange has agreed to buy Refinitiv for $27 billion in a deal that's expected to close in the second half of next year. It declined to comment.

TIANANMEN TABOO

Reuters reported in June that Refinitiv had blocked several Reuters stories under government pressure. The articles were about the 30th anniversary of the bloody suppression of pro-democracy demonstrations in Beijing's Tiananmen Square. According to the people with knowledge of the matter, Refinitiv acted after the Cyberspace Administration of China, or CAC, which controls online speech, threatened to suspend the company's service in China if it didn't comply.

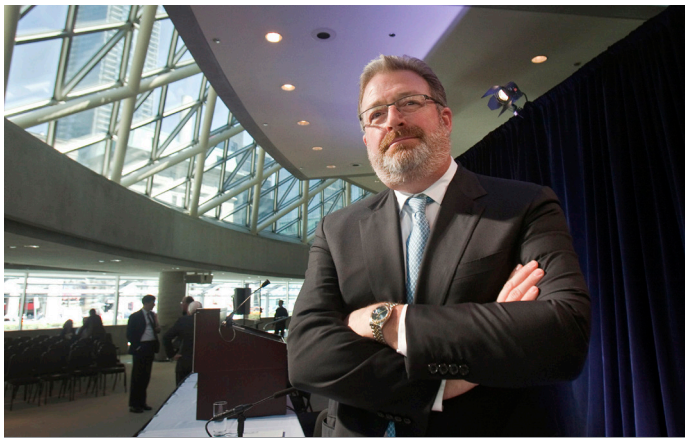
The CAC did not respond to questions about this article. China's Foreign Ministry had no immediate comment.

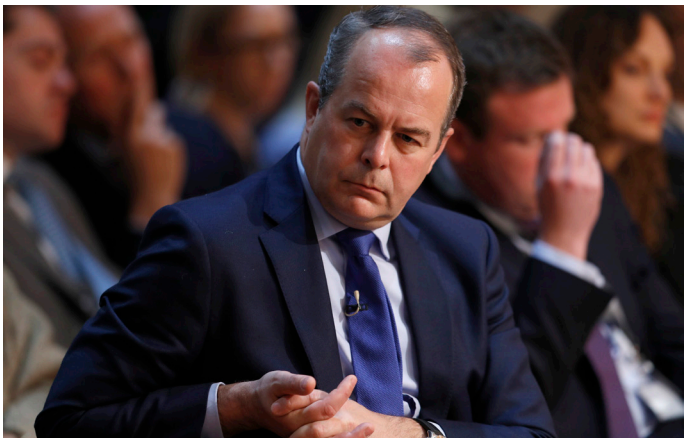
On June 3, Reuters editor Adler and Michael Friedenberg, president of Reuters, emailed the staff saying they'd expressed concern to Refinitiv.

Refinitiv promised it would alert the newsroom when it came under pressure from Chinese regulators about Reuters coverage. The news agency, as it does when it receives any complaint from individuals and institutions it covers, then would determine if there was any reason to correct a published story.

In late July, Refinitiv asked Reuters to review an article that detailed how a Chinese government representative in Hong Kong had urged local residents to drive off protesters, just a week before a violent clash broke out between pro- and anti-government crowds in the area. That story, too, was touchy because it showed Beijing intervening in the internal affairs of Hong Kong.

Despite assurances from Reuters that the story was accurate, Refinitiv removed the headline of the story from Eikon in China, making the item difficult for users to find and





(Top left): President and Chief Executive Officer of Thomson Reuters Jim Smith is seen at the company's annual general meeting in Toronto. REUTERS/Fred Thornhill

(Top right): David Craig is seen at a Reuters Newsmaker event in London, Britain. REUTERS/Peter Nicholls

(Bottom): Anti-government protesters throw Molotov cocktails towards police vehicles during clashes, outside Hong Kong Polytechnic University (PolyU) in Hong Kong, China. REUTERS/Tyrone Siu

view. On Aug. 2, Reuters published a story about the blocking of this article as well.

'STRATEGIC CHINA FILTER'

Refinitiv began ramping up its efforts to purge offending China coverage. Internal Refinitiv documents and emails describe how the company over the summer created an automated filtering system – referred to as the "Strategic China filter" – to block certain stories to Eikon users in mainland China.

In July, Refinitiv's news platform architecture director requested that a new code be created, called "Restricted News," that could be added to articles. He asked that it "should be hidden for all users (internal and external)," according to notes of a conference call on July 17 where the code was discussed. One reason was that Refinitiv didn't want to give its mainland China customers the ability to disable the filtering.

In an email to colleagues, the platform director explained the code: "The flag is to highlight news that requires additional

Former World Trade Organization Director-General Pascal Lamy speaks during a news conference at the European Commission in Brussels. REUTERS/ Laurent Dubrule

processing, due to Chinese govt restrictions, prior to consumption in China."

The filtering system is designed to block stories for readers in mainland China but allow them to be accessed in other markets. It looks for restricted keywords in headlines, such as "Hong Kong" and "protest," according to a person familiar with the matter.

Refinitiv employees also discussed by email whether the "Restricted News" code should be China-specific or "generic," so it could be used to block stories in other countries in the future. The email exchange indicates they opted for a generic code. Reuters found no evidence that Refinitiv has deployed the filtering system in other nations. Refinitiv didn't comment on whether it plans to use the restriction code elsewhere.

Eikon users outside mainland China can retrieve stories about the Hong Kong protests by clicking on headlines, or by searching for keywords or codes. For users inside China, however, articles that are blocked bring up this message: "You do not have access to this story."

Refinitiv's blocking of protest stories intensified after Aug. 30, when Reuters reported that Beijing had rejected a bid by Hong Kong leader Lam to compromise with the protesters. Before that date, all but five of 246 Reuters articles that had run in 2019 containing the words "Hong Kong" and "protest" in the headline were accessible on the mainland. By contrast, between Aug. 30 and Nov. 20, Refinitiv blocked nearly four out of five such articles that Reuters filed – 196 out of 251.

The censorship was especially severe between Sept. 4 and Oct. 7, when all 104 Reuters articles containing those words in the headline were blocked. At the time, demonstrators were rampaging across the city and police were responding with water cannons and rubber bullets.

Refinitiv also censored potentially market-moving stories that would have been of interest to Refinitiv's core clientele of financial professionals. These included a Sept. 6 report that Fitch Ratings had downgraded Hong Kong's long-term foreign currency issuer default rating. Also blocked were stories on the effect of the protests on stock prices and initial public offerings.

Refinitiv eventually began having employees get involved in the filtering process to prevent the blocking of financial stories, according to a person familiar with the matter. Yet the filtering remains inconsistent.

It lets through some stories that China might consider politically taboo, including some articles about the Chinese government's mass incarceration of Uighurs, a Muslim ethnic minority in western China. Many other articles on the Uighurs have been blocked.

Besides Reuters articles, the filtering has also blocked one or more stories from 97 other news providers that are available inside China on the Eikon system – including Xinhua, China's official state-run news agency.

On Dec. 3, Refinitiv blocked a Xinhua story about a small demonstration in Hong Kong by pro-Beijing residents. They were quoted heatedly denouncing Washington over a new U.S. law that supports Hong Kong's pro-democracy protesters.

And news relevant to investors is still being censored. Eikon users in mainland China couldn't read this story shortly after it was published. It was blocked. ®

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