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HARDWARE

China biggest and fastest growing smartphone market

China accounted for nearly 40% of the global smartphone market as of the third quarter, and enjoys the world's biggest growth in smartphone sales. Smartphone shipments for the third quarter stood at roughly 100 million in China, a year-on-year increase of 64%, according to research firm Canalys. Samsung Electronics has nabbed nearly 20% of the market, but local vendors are presenting a threat to the South Korean smartphone maker. "In China, local vendors Lenovo Group, Yulong Co and Huawei Technologies Co are directly following Samsung," said Nicole Peng, Research Director at Canalys China. Apple's strategy to prioritize China as one of the initial launch countries for its new products has the United States company clinching fifth place, followed by Xiaomi Corp and ZTE Corp. IDC, a U.S.-headquartered consulting firm, estimates that China's smartphone shipments could hit 360 million this year, while the global total is on track to break 1 billion, representing a 40% year-on-year jump. "Rapid growth is the result of a variety of factors, including steep device subsidies from telecom carriers as well as a growing array of smartphones priced below USD200," IDC said. It forecast that China's smartphone shipments will exceed 450 million by 2014, boosted by an increasing penetration rate of mobile devices and the upcoming fourth-generation (4G) telecommunication networks. Canalys researchers said that large-screen smartphones – those 5 inches and larger – are grabbing market share from smaller products. "Over the next year, the Asia-Pacific is expected to continue to lead the demand for large-screen smartphones," said Wang Jingwen, Shanghai-based Analyst with Canalys.

Hon Hai moving on from contract manufacturing

Hon Hai Precision Industry's decision to move away from major client Apple and the lower-value electronics contract manufacturing business is a long-term bet that will improve margins and offset rising labor costs, analysts say. The Taiwanese company, better known by its trading name Foxconn, is building an integrated service package ranging from electronic devices to software applications and cloud computing as it strives to become more consumer-driven. Hon Hai still draws an estimated 40% to 50% of its revenue from assembling iPhones and iPads, a slight decline from 60% a year ago. But analysts said the move was likely to boost profit margins this year and in the longer term. Hon Hai announced a better-than-expected net profit of NTD30.75 billion for the third quarter, higher than a median forecast of NTD25.99 billion by 13 analysts polled. The figure compared with a net profit of NTD16.98 billion in the previous quarter and NTD30.26 billion a year earlier. Operating profit margin rose 1.36 percentage points from the previous quarter to 3.46%. The margin in the third quarter of last year was 3.4%. Improved production efficiency may allow Hon Hai to reduce costs, which could result in improved operating margins, according to JPMorgan Chase. So far this year, Hon Hai has teamed up with Chinese mobile video provider Le TV in a bid to sell large internet-enabled televisions. The company is also setting up a factory in the United States to build televisions, the South China Morning Post reports. It also recently bought a license for the faster, internet-enabled 4G mobile network in Taiwan, a USD311 million investment aimed at linking its software and devices.

U.S. tech companies facing backlash in China

U.S. technology companies including Cisco Systems, International Business Machines (IBM) and Microsoft may face new challenges selling their goods and services in China as fallout from the U.S. spying scandal starts to take a toll. "All the big U.S. IT companies are concerned," said Jim Lewis, Senior Fellow with the Center for Strategic Studies in Washington, who is an expert on China and technology. "But so far Cisco is bearing the brunt of it." IBM reported last month a 22% drop in China revenue and Microsoft executives singled out China as the company's weakest performing area in the world during the September quarter. Although Beijing has not prohibited state firms from purchasing Western-made technology services and equipment, the government has sent a clear message to choose Chinese-made equipment first, executives based in the country say. "The government's signal is pretty clear – they want to rely less on U.S. products, such as those from IBM, Oracle and EMC," said a former China-based telecommunications executive. Four domestic software and hardware makers, including China National Software & Service, announced this month they had received a "top-tier" rating from the Ministry of Industry and Information Technology (MIIT). Cisco Chief Financial Officer Frank Calderoni said the company was most affected by a political backlash in China but noted that it was difficult to quantify how much of its revenue shortfall was due to politics versus macro-economic trends.

Samsung and Xiaomi winners in smartphone market

Samsung and Xiaomi are the big winners in China's smartphone market this year while Apple sales dropped, according to a new research report by consumer insight company Kantar Worldpanel. Galaxy S3 and S4 models have been especially popular, as has been the Galaxy Note 2, a "phablet". The combined sales of these three models accounted for 25% of Samsung's total profit for the third quarter this year. Half of all "premium" smartphones – phones with a price of at least CNY3,000 – sold in China during the period were Samsung products. But Kantar's research also shows the company would need to create more innovative models if it wants to stay ahead in the long run, particularly as the Galaxy S4 is widely seen as only an incremental upgrade over the S3. Xiaomi benefited from its latest "budget" smartphone – the Mi-3, starting from CNY1,999. This price point has helped Xiaomi sell to consumers keen on "high-spec, low-price phones", the report said, and helped the company beat Lenovo to become the second-largest Android phone seller in the third quarter of this year. "Consumers are beginning to realize that good user experiences don't necessarily come with a hefty price tag," the report said. In contrast to the success enjoyed by Samsung and Xiaomi, Apple's sales this year have lagged behind the competition, and its market share dropped from 19.5% in the second quarter of the year to 18% in the third. The drop in sales may have been caused by the launch of the iPhone 5s and 5c on September 20 as consumers stopped buying older models. Kantar Worldpanel's research was carried out via a survey of 15,000 Chinese smartphone users over the past year.

- Sony Corp plans to sell game consoles in China through the new free trade zone (FTZ) in Shanghai. Sony, which is developing the PlayStation 4, is evaluating and researching possibilities to expand the game business in China, where they are not officially available. Foreign firms are not allowed to sell game consoles in the domestic market.
- Apple started selling its new-generation iPad Mini with Retina display on November 12 in China, one of the first batch of countries and regions to debut the device globally. It can be booked on Suning and Apple China websites or bought directly in Suning's 500 outlets nationwide. The 7.9-inch iPad Mini, which comes in four memory sizes, starts at CNY2,888 for the 16-gigabyte model. The 128 GB model costs CNY4,988. The iPad Mini devices sold in China are wi-fi only models. Apple did not hype the start of sales in advance, indicating that there could be supply problems. Apple quietly issued a news release on its immediate availability.
- The sales revenue of China's information technology sector will hit CNY12.5 trillion this year, according to the Ministry of Industry and Information Technology (MIIT). In the first nine months of 2013, the sales revenue hit CNY8.98 trillion, up 14% annually, said Ding Wenwu, Director of MIIT's Electronics and Information Department.
- Nokia has launched the big-screen Lumia 1520 phablet, a hybrid between a smartphone and a tablet, in China. The Lumia 1520, with a 6-inch screen, distinguishes itself in the market by featuring superior imaging capability, good mapping services and embedded Office software that connects mobile devices and personal computers, according to Erik Bertman, General Manager of Nokia China.
- Qualcomm and Samsung will launch products to support China's own navigation system Beidou to help it break the monopoly of the U.S.-developed GPS system. Samsung will launch a new version of its Galaxy Note 3 smartphone that will work on China's 4G technology TD-LTE and the Beidou navigation system.
- ZTE plans to launch "smart" wearable devices, including watches, glasses, shoes and socks. ZTE's smart watch would be launched in China in the second quarter of next year and in the U.S. and Europe later, while the timing for the rest of the devices depended on market conditions. The watch would only be compatible with its own smartphones. ZTE is now the seventh-largest smartphone vendor by shipment volume in China, with its market share down to 5% from 10% last year.

OPERATORS

China Mobile's Beijing branch starts 4G smartphone sales

Despite the fact that the government has yet to issue 4G licenses to telecom carriers, China Mobile's Beijing branch started sales of 4G smartphones with two models on offer – Sony's M35T and Samsung Electronics' Galaxy Note 2. Customers do not need to change their phone

numbers but just have to get a new SIM card for their 4G handsets. However, the coverage of 4G networks in Beijing is limited, said Gao Shu, Spokeswoman for China Mobile's Beijing branch. Only people in areas inside the capital's Third Ring Road will be able to access the network. Some Chinese cities, including Guangzhou and Hangzhou, have also started offering 4G services on a trial basis. China Mobile – the only operator in the country currently testing 4G networks – has adopted the domestic Time Division-Long Term Evolution (TD-LTE) 4G technology. The lack of mature 4G smartphones has long been seen as a major obstacle for the expansion of China Mobile's 4G business, but the situation has improved in recent months. China Mobile's net profit dropped 9% in the third quarter partly due to the increasing challenges posed by mobile internet applications. 4G could help the carrier to attract more high-end users from rivals. The launch of 4G services in China will definitely be a new driver for the growth of the nation's smartphone market, inciting people to buy new phones. Ryan Reith, Program Director at IDC's Worldwide Quarterly Mobile Phone Tracker, said that China has become one of the fastest-growing smartphone markets in the world, accounting for more than one-third of total shipments in the third quarter of the year, the China Daily reports. China is carrying out 4G network tests in 10 cities, including Shanghai, Beijing and Guangzhou.

China Mobile will start 4G services on December 18 with a new brand “He”, meaning harmonious in Chinese. China is expected to issue licenses for 4G before the telco's new services start. Users in Beijing, Guangzhou and Chongqing will be the first to enjoy commercial 4G. Shanghai, which is still building a citywide 4G network, will launch the services later. 4G phone services will become rapidly popular thanks to the low cost of 4G phones, according to Li Yue, China Mobile's President, who expects some 4G phones priced below CNY1,000 to appear in the second half of next year. Apple is also set to introduce iPhones supporting the 4G network in China on December 18.

Hong Kong reassigns 3G spectrum

Hong Kong's telecommunications sector is headed for a shake-up that could test the patience of consumers and local network operators, after the government's decision to reassign the existing 3G mobile spectrum. The Communications Authority said the government would auction off a third of the 3G spectrum currently held by each of the city's four incumbent 3G mobile network operators in the fourth quarter next year. But the government will also offer the operators – SmarTone Telecommunications, CSL, Hutchison Telecommunications' Three Hong Kong and PCCW's HKT – right of first refusal to be reassigned two-thirds of the spectrum they now hold. Their licenses are due to expire in October 2016, when each operator will make HKD151 million in royalty payments. Authority Chairman Ambrose Ho said this “hybrid” approach would “encourage competition and allow new investment to enter the local market. It is more likely to promote innovative services from new 3G spectrum assignees and the incumbents”. China Mobile has expressed an interest in bidding for the reassigned spectrum. The four operators expressed their disappointment, raising the specter of service degradation, including slower download speeds, when chunks of their spectrum are removed from service in October 2016. Hutchison Telecom accused the government and in particular the Communications Authority of total disregard for the public's interest. The operators' lawyers are considering litigation.

- Operators in Hong Kong are expected to focus on vital technical upgrades for their high-speed 4G infrastructure over the next 12 to 24 months to allow for high-quality voice services. Currently they offer 4G subscribers circuit switch-based voice and text messaging services through existing 3G and 2G mobile networks since the current LTE architecture does not offer those capabilities. HKT announced the completion of its voice-over-LTE (VoLTE) network trials with Huawei Technologies, guaranteeing the availability of high-definition voice over its 4G network by the end of December. An industry source said the VoLTE-related plans by the other operators “depend on the wide availability of mobile devices that support the technology and its maturity to replace 3G voice”.
- Lu Xiangdong, 53, former Vice President of China Mobile, has been sentenced to life in prison after being found guilty of receiving more than CNY20 million in bribes. Lu is likely to appeal after he refused to accept the verdict.
- More than 40 illegal mobile stations which block cellphone signals and send spam messages to users in Shanghai have been detected, but cracking down on the operators is difficult because there are no specific laws barring the spread of spam messages. The illegal mobile stations placed in sedans usually work around hotels,

restaurants and other downtown public venues with big crowds. More than 50,000 messages can be sent out in an hour. Some stations are sponsored by restaurants and hotels for marketing promotions. Only China Mobile users are affected.

- The number of Chinese mobile phone users hit 1.22 billion at the end of October, the Ministry of Industry and Information Technology (MIIT) said. Among them, 67.19%, or 817 million mobile users, are connected to the internet and 34.5% are 3G users. In contrast, the number of fixed-line users shrank by 8.82 million in the first ten months to 269 million by the end of October.

SOFTWARE

SAP and China Telecom to offer web-distributed business software

SAP, the world's largest supplier of business management software, plans to ramp up the adoption of cloud-computing services by local and multinational companies in China, following the launch of an expanded cooperation agreement with China Telecom. A joint venture between SAP and China Communications Services (CCS), a Hong Kong-listed subsidiary of China Telecom, will now include delivery of cloud offerings nationwide, starting with advanced human capital management (HCM) solutions from SAP unit SuccessFactors. SAP said it was the first international software supplier to bring an integrated HCM offering under a software-as-a-service (SaaS) platform hosted in a Chinese data center. Telecommunications services firm CCS has signed up to be the first customer and is expected to have 12,000 users. The ambitious initiative is part of SAP's ongoing five-year, USD2 billion investment program in China.

Demand for 3-D CAD software products rising

China's manufacturing sector requires more 3-D computer-aided design (CAD) software products as it moves up the value chain and competition intensifies, said Zi Yingkun, General Manager of the 3-D division of ZWCAD Software Co, a major domestic CAD software developer. Guangzhou-based ZWCAD made its foray into the 3-D market in 2010 after acquiring VX Corp, a U.S. company that focuses on 3-D products. "The number of our 3-D clients has doubled every year since then," Zi said. In the domestic market, ZWCAD has more than 500 clients with 3,000 authorized licenses. 3-D represents the future of industrial design, Zi said. Systems can be more easily tested when being designed with 3-D software, reducing the risks of failed designs. ZWCAD has been integrating products with management software companies, such as CoreTech System Co, a Taiwan-based plastic injection molding simulation solution provider, and the U.S. software developer ANSYS.

- Microsoft has made it harder to monitor calls and chats over its Skype phone service in China. Skype ended an eight-year joint-venture with Hong Kong-based TOM Group and teamed up with Guangming Founder (GMF), a joint-venture of the Beijing-based newspaper Guangming Daily and the Founder Group. Skype itself is now part of Microsoft, which lifted all censorship restrictions on their China product. All user calls, chats and login information are encrypted and being communicated directly to Microsoft via HTTPS, while TOM stored information on servers located in China with no privacy controls.

TELECOM MFG. CO.

Huawei has eye on 5G

Chinese telecom equipment vendor Huawei Technologies announced that it will invest at least USD600 million in research and development (R&D) of fifth-generation (5G) mobile technology by 2018. In May, South Korea-based Samsung Electronics said that it successfully tested super-fast 5G technology that allows users to download a film in just a few seconds. Shenzhen-based Huawei expects that the first 5G networks will be ready for commercial deployment starting in 2020. The technology will deliver peak data rates of more than 10 gigabits per second, or 100 times the speed of current 4G networks. Huawei has participated in the European Union's 5G research projects, helped establish the 5G Innovation Center in Britain, and participated in joint research programs with more than 20 universities around the world. In 2012, Huawei invested USD4.8 billion in R&D, accounting for 13.7% of its annual sales. The company's R&D investment surpassed CNY130 billion over the past 10 years. Vice

Minister of Science and Technology Cao Jianlin said recently that the Ministry will increase its investment and support for 5G technology, after allocating about CNY160 million to R&D work on 5G technology in China this year. Not only smartphones and tablets, but also vehicles, meters, medical devices and home appliances, will be connected to the network using 5G technology.

Huawei looks to organic growth, not acquisitions

Huawei Technologies, the third-largest smartphone vendor, is focusing on a gradual growth strategy instead of acquisitions to chase Samsung Electronics and Apple for market share, Vice Chairman Eric Xu said. "We're not expecting an explosive development of our smartphone business, rather we want to grow that business step by step," Eric Xu told reporters in London. "Ultimately we want to be the leading brand worldwide in smartphones, but it will take a while to get there." Xu confirmed Huawei's smartphone growth target of 10% this year and next. The company is relying more on handsets while it fights cyber security concerns that have restricted its access to the U.S. and Australian phone equipment markets. Huawei, China's largest supplier of telecommunications networks, isn't planning an acquisition to bolster its position because of potential product overlaps, he said. The comments would damp speculation over a link-up by the Chinese company with takeover targets such as France's Alcatel-Lucent and BlackBerry of Canada. Huawei hasn't held any discussions with BlackBerry, said Xu, who is also acting CEO under a rotating arrangement set up two years ago by the closely-held company. Huawei shipped 12.5 million smartphones in the third quarter, taking 4.8% of the global market, trailing only Samsung's 31% and Apple's 13%, researcher International Data Corp (IDC) said last month. Huawei is closely trailed by Lenovo Group, which held 4.7% of the global smartphone market in the quarter with 12.3 million units shipped, and LG Electronics at 4.6% with 12 million unit shipments, according to IDC. Smartphones helped boost Huawei's sales 11% in the first six months this year to CNY113.8 billion, the South China Morning Post reports.

Lenovo reports record profit and revenue in fiscal Q2

Lenovo Group beat expectations with net profit rising 36% to USD220 million in its fiscal second quarter. Lenovo said it expects to sell 50 million smartphones this year, more than double last year's 20 million. It also said it expects to sell 10 million tablet computers this year, 10 times more than a year ago, Chairman and Chief Executive Yang Yuanqing said. Revenue was USD9.8 billion, a 13% increase year-on-year. "We have achieved record revenue and record profit, and improved profitability significantly," Yang said. "The PC market is recovering, and tablet growth continues shifting to mainstream and entry-level devices," he added. By the end of the fiscal second quarter, Lenovo remained the world's largest PC vendor ahead of Hewlett-Packard and Dell, with its highest-ever quarterly market share of 17.7%, up 2 percentage points from a year ago, according to International Data Corp (IDC). Lenovo's PC shipments during its second fiscal quarter reached 14.1 million units, growing the fastest among the world's top five PC makers. Booming laptop sales contributed half of the company's revenue. Revenue from Lenovo's Mobile Internet and Digital Home business, including smartphones, smart TVs and tablets, contributed 15% of total revenues in the fiscal quarter, up from 8% one year ago and 4% two years ago. In its fiscal second quarter, smartphone sales jumped 78% year-on-year, the Shanghai Daily reports. Lenovo plans to sell smartphones in 20 more markets over the next few quarters and increase media tablet sales worldwide through existing computer channels. Lenovo posted a record high 2.3 million global tablet shipments last quarter, which made it one of the industry leaders. Yang said Lenovo's goal was to raise the contribution of smartphones and tablets to total revenue to about 50%. "We expect the fiscal third quarter to December to see solid quarter-on-quarter growth on the back of a high seasonal effect and new model launches," Barclays Analyst Kirk Yang said.

Xiaomi faces test in Taiwan

Xiaomi Technology, the Chinese maker of cheap iPhone lookalikes that is reaching offshore for the first time, will find it tougher to establish a customer base in Taiwan than at home, analysts say. Beijing-based Xiaomi, founded just three years ago, has become China's fifth-most popular smartphone brand, with 7.19 million units sold last year. It began selling its handsets in Taiwan about six months ago. Taiwanese customers will be harder to please as they normally stick with older, trusted brands, consumer electronics analysts say. Some look down on mainland products because of perceptions of poor quality and Xiaomi's fate in Taiwan is expected to offer clues about how well the brand might sell in other offshore markets. "I think

there's some audience that's interested in Xiaomi's offering, but definitely that group is not as big as the same audience in China," said C.K. Lu, Smartphone Analyst with market researcher Gartner. "In Taiwan, brand is the concern, and not everyone knows Xiaomi, or it's not the brand everyone trusts." Its Android smartphones, which sell for as little as USD320 on the mainland, eating into the market share of rivals Lenovo and ZTE, would attract cost-conscious Taiwanese consumers who liked to customize their phones, Lu said. Analysts expect Xiaomi will build up a following among poorer Taiwanese and eventually in emerging markets beyond Greater China but to receive less enthusiasm elsewhere. "Xiaomi has limited distribution channels outside China, its smartphone designs are not yet significantly different from most other Android competitors, and the Xiaomi brand is hard for Western consumers to pronounce, spell or remember," said Neil Mawston, Wireless Device Executive Director at Strategy Analytics in Britain. Xiaomi has been offering phones through Taiwan's No 3 mobile carrier, Far EasTone Telecommunications, which gives them out free of charge with new service accounts. Far EasTone would not disclose figures for Xiaomi, but a company publicist called sales "feverish". Chinese media say Xiaomi has targeted Brazil, India and Russia for future sales growth.

- Lenovo is using Bollywood icon Ranbir Kapoor to boost its brand recognition in India. "Lenovo has had a long and very strong presence in the laptop space, acquiring a solid understanding of the Indian consumer's psyche," said Jayanth Kolla, Founder and Partner at telecommunications research firm Convergence Catalyst. "It has also invested a lot in building the brand, as opposed to other Chinese companies that look for quick returns. The average Indian customer doesn't even know that it's a Chinese company." India Marketing Director Bhaskar Choudhury said Lenovo is a global brand. According to IDC, India is set to become the third-largest smartphone market by 2017, after China and the U.S.
- Lenovo Group became the third-largest smartphone maker in the third quarter of the year, according to Gartner. The company surpassed South Korea-based LG Electronics. Beijing-based Lenovo shipped 12.9 million smartphones – representing a 5.1% share of the global smartphone market – in the third quarter, Gartner said in a mobile phone industry report. Lenovo's quarterly smartphone sales rose 84.5% year-on-year. Lenovo also moved up the ranks to the No 7 spot in the more general global mobile phone market. In the first half of next year, Lenovo plans to introduce its smartphones to mature markets such as the United States and Europe.
- The National Development and Reform Commission (NDRC) has started an investigation on Qualcomm under the Chinese Anti-Monopoly Law. Qualcomm, the world's biggest maker of cellphone chips, gets half of its revenue from China and has sought more growth in the country as telecom operators such as China Mobile upgrade their high-speed network services. Its revenue from China rose 54% to USD12.3 billion this year, 49% of total revenue.

WEB

China's first online insurance firm established

Zhong An Online Property Insurance, China's first online insurance firm, plans to roll out its first products by the end of the year. The new venture is a three-way tie-up between Ping An Insurance, Tencent and Alibaba. The partners would address the risks of online shopping and design "innovative products" to solve these problems, said Chief Executive Yin Hai at the company's launch ceremony in Shanghai. Alibaba is the largest shareholder of Zhong An with a 19.9% stake. Tencent and Ping An each own 15%, while online travel agency Ctrip owns 5%. The balance is spread among a number of other shareholders. Jack Ma, Chairman of Alibaba, said the most important task for Zhong An was to build a database that could be leveraged by all kinds of companies in the future. Headquartered in Shanghai, the insurer has a registered capital of CNY1 billion. Yin said the company would provide products for internet enterprises and individuals. Zhong An's product portfolio would range from enterprise property insurance to cargo transportation insurance and exchange rate insurance "but all these businesses must be related to internet transactions", he said. Online transactions by individuals usually involved small payments, on average just several hundred yuan, he added. As a result, the firm's insurance products will be quite cheap.

Competition in search market increases

Competition is increasing among China's top three search engines. For the moment, Baidu remains the top player. Online security software developer Qihoo 360, which launched its search engine www.so.com in August last year, is winning users from Baidu, and claimed it commanded a 20% market share of web-page searches in October. In September, Tencent teamed up with Sogou, a subsidiary of internet portal Sohu, to bolster its presence in the search market. Tencent invested USD448 million for a 36.5% stake in Sogou, and merged its Soso search engine and QQ Chinese input system with Sogou. The tie-up between the two increases the competition with the top two providers Baidu and Qihoo 360. The search engine business is an important battlefield because search services are mature products generating advertising income. Nasdaq-listed Baidu, whose core business is selling advertisements online, posted a year-on-year rise in revenue of 42.3% to CNY8.9 billion in the third quarter of this year. As the market leader, it commanded 63% of market share in September, according to internet data provider CNZZ. Next in line were Qihoo 360 with 19%, and Sogou with 10.4%. Tencent's Soso was ranked fourth with a 4% market share.

Microsoft's Skype to run under new joint venture in China

Skype, the instant messaging and online voice-and-video-call service owned by Microsoft, will be relaunched in China under a new joint venture, following the end of a long-standing alliance in the market with Tom Group. Tom informed Skype users that Microsoft took over the online business with effect from November 24. "In China, Skype software is made available through a partnership to comply with established procedures to meet obligations under local laws," Judd Harcombe, Manager of global market development at Skype said. "We are committed to making the transition seamless for our users and look forward to Tom's continued assistance," she added. Microsoft acquired Skype for USD8.5 billion on May 2011 and initially ran the service as a separate division. A sweeping reorganization by Microsoft in July has since put Skype under the company's applications and services group, led by Shanghai-born Executive Vice President Lu Qi. Ricky Lai, Research Analyst at Guotai Junan International, said Skype under a new joint venture "would still find it tough to compete on the mainland against Tencent's popular platforms QQ and WeChat and those of other local players". Efforts by Skype to expand its online voice-and-video-call service in China have been hampered by tight industry regulation.

Social media drive helps lift 'Double 11' sales

Alibaba and Tencent posted record transactions on November 11, also known as Single's day, thanks to free gifts and rewards promoted on their online messaging platforms. Analysts said Alibaba, through its marketing on microblogging platform Sina Weibo, and Tencent, with campaigns on its popular WeChat social mobile-messaging service, had demonstrated the effectiveness of having a "social commerce" strategy for the shopping day. The total gross merchandise volume achieved by Tmall.com and Taobao Marketplace hit a daily record CNY35.01 billion. That topped the CNY19.1 billion total on November 11 last year and CNY5.3 billion in 2011. Rival Tencent's 51buy campaign on WeChat allowed smartphone users to view, make orders and finish payment directly on the social mobile-messaging platform. On November 11, Tencent's 51buy website offered the usual extensive sales that have become the norm on Single's Day, one of China's biggest online shopping festivals. Single's Day brought over CNY500 million in profit to Tencent this year, partly thanks to an integrated campaign between the 51buy website and Tencent's WeChat mobile app. The campaign allowed smartphone owners to view and order products available on 51buy with relative ease through WeChat's menus, and was aimed at residents in Beijing, Shanghai, Shenzhen and Guangzhou. Despite these city restrictions, of the roughly 600,000 51buy orders made on Singles Day, those via WeChat exceeded 80,000. Members of China's online community have labeled the process a low-key success, even going so far as to call it Tencent's "secret weapon". Others speculated that the ubiquitous nature of WeChat and the ease of shopping it provided was one edge that Tencent had over its chief rival Alibaba, which organized the majority of its Singles Day promotions through its websites. Tmall.com and Taobao.com both have mobile versions, but neither enjoy the popularity of WeChat, which boasts nearly 300 million monthly active users. Xiaomi said it sold more than CNY500 million worth of phones during its Singles' Day promotion with Alibaba, which would equate to around 200,000 phones if one assumes an average price of around CNY2,500.

Online video providers sue Baidu over illegal links

Search company Baidu is being sued for providing illegal links to pirated broadcasts of online videos. A group of online video providers including Youku Tudou, Tencent Holdings and Sohu.com, as well as the China Film Copyright Association and the Motion Picture Association of America, are suing Baidu for CNY300 million for losses they claim are caused by the company's practices. Sohu.com, Tencent, Youku Tudou and LeTV said they had set up technical barriers to block Baidu's access to their online video content. Youku Tudou has the largest market share in the domestic online video market with a 28.3% share in terms of sales income, but it posted a net loss of CNY105 million in the second quarter this year, as content costs continued to rise. Baidu's iQiyi and PPStream had a combined 16.9% market share, followed by Sohu's 10% and Tencent's 8.5%. "The alliance is clearly targeted at the rising pressure from Baidu's iQiyi and this could push up the license fees for high-quality TV and film content next year," said Zhou Juan, General Manager of 56.com, a smaller online video site. Baidu said it had blocked up to 5.8 million links to illegal online video content in the past six months and said it was taking the copyright issue "very seriously." Internet consultancy iResearch said the online video market grew 37.3% from a year ago in the third quarter to CNY3.25 billion, Shanghai Daily reports. "Baidu video search pages directly host and play video content, without taking users to a third party site. It is a serious violation of the rights of video sites that have legally procured content," said Zhou Lin, Deputy Technology Director with Sohu. Baidu is also providing access to rogue video sites that host pirated content and do not have an official license to operate in China, the group claimed. Baidu said it developed a screening system to filter pirated videos and opened a 24-hour channel to receive pirated video reports or complaints. However, Yao Jian, CEO of Youku Tudou, said his company has made reports to Baidu, but nothing changed and pirated content was still rampant online. To be able to provide high quality content to the end user, major legitimate video sites have made huge investments. Charles Zhang of Sohu said the price of TV dramas jumped to CNY1 million per episode, from zero a few years ago.

Weibo operator Sina more than doubles profit

Sina, operator of China's most popular microblogging site Weibo, more than doubled its third-quarter net profit from last year after the site's income grew strongly as more vendors chose social networking sites to better engage with consumers and market their products. Sina's net earnings jumped 157% to USD25.4 million and sales increased 21% to USD185 million. Weibo contributed USD43.7 million of the sales, more than double from last year and also 46% higher from the previous quarter. Total advertising income gained 26% to USD151.6 million. Earlier this year Sina reached a USD586 million deal for Alibaba to buy an 18% stake in Weibo. The deal is expected to yield USD380 million of revenue in the next three years. Separately, Tencent, China's largest internet company by market value and operator of the popular WeChat smartphone chatting application, said earnings in the third quarter increased 20% from a year ago to CNY3.87 billion. Its revenue jumped 34% to CNY15.5 billion, the company said. Advertising revenue climbed 26% to USD151.6 million. The company forecast fourth-quarter non-GAAP revenue of between USD190 million and USD194 million, including USD160 million to USD162 million from advertising.

IM app Momo more popular than Foursquare

Momo, a popular instant messaging app in China said to be popular among those looking for one-night-stands, now has 80 million users, according to CEO Tang Yan. Some 13 million people use Momo every day, generating a daily average of 500 million messages, according to Tang. The application was launched in August 2011. Demonstrating the power of operating in the Chinese market, Momo boasts twice as many users as Foursquare, a similar application popular outside China. Foursquare was launched two years before Momo and is available in 12 languages. Momo is a location-based instant messaging application for smartphones. Users can connect to people nearby and share free texts, audio notes and photographs over the internet. Momo seeks to "change the future of mobile interactions", Tang said. The app gained 10 million users in its first year and this year has been particularly successful, adding an extra 50 million users since March. Momo was founded in March 2011 by four Beijingers who had previously worked at two of China's biggest internet portals, Sina and Netease. Tang did not make public any information about revenue and profit but said, "We are not in debt".

NQ Mobile's profit more than doubles in Q3

NQ Mobile, the Chinese mobile-services provider that Muddy Waters accused of inflating revenue, posted third-quarter profit that beat analysts' estimates as sales of game and security software rose. Net income more than doubled to USD17.4 million in the three months to September from USD8.13 million a year earlier. NQ Mobile shares closed in New York on November 26 up 6% at USD14.31, but are still down about 40% since October 24, when Muddy Waters, the research firm founded by short seller Carson Block, gave the company a strong sell rating, saying it inflated sales and misrepresented cash balances. NQ Mobile, which has headquarters in Beijing and Dallas, denied the allegations. On November 6, it said it completed the transfer of USD103 million in cash to an account at Standard Chartered to show it had ample reserves. Sales in the third quarter rose 110% to USD54.2 million, NQ Mobile said. NQ Mobile forecast revenue for the fourth quarter of as much as USD63 million, more than the mean USD61.2 million estimate of five analysts. That would bring sales for this year to as much as USD192 million, the company said, the most on record.

Revenue growth slows at Tencent

Tencent, China's largest listed internet company, posted the lowest revenue growth in six years in the third quarter while net profit missed expectations, weighed down by investments in its mobile and e-commerce businesses. The Shenzhen-based company reported a 34.3% year-on-year jump in quarterly revenue to CNY15.5 billion. Net profit rose 20% to CNY3.87 billion. Since Tencent launched in August its latest version of WeChat, which is connected to an online payment service, investors have been hoping the firm will start making profits from its mobile messaging application. Xue Yongfeng, Analyst at Analysys International, estimates the games on the WeChat platform will contribute CNY1.5 billion to CNY2 billion this year. Tencent saw revenue from social networks, including WeChat and QQ, grow 3.7% year-on-year in the quarter to CNY3.2 billion and a 124% increase in the number of active users of WeChat to 271.9 million. Selling and marketing expenses increased 79% to CNY1.47 billion from the third quarter of last year. Online games, which contributed 75% of the company's total revenue, rose 24.9% to CNY11.6 billion. E-commerce income more than doubled to CNY2.36 billion from CNY1.13 billion. Tencent has expanded into e-commerce with platforms including business-to-customer Yixun.com and Paipai.com, rivalling Alibaba Group.

Online currency Bitcoin is booming in China

Bitcoin, the unofficial online currency, is booming in China. A co-founder of China's biggest bitcoin exchange said there were "boundless opportunities" for the digital currency in the country because of the Chinese saving ethic. "The main reason why Bitcoin has become big in China is because Chinese people are savers, and more people are seeing Bitcoin as a way to store and invest their money," Linke Yang, Vice President of BTC China, told reporters on the sidelines of a conference in Singapore. Bitcoins, a form of digitally-created 'e-money' which is stored in a virtual wallet and bypasses banks, allowing users to remain anonymous, have soared in value in recent months. They were created in 2009 in the aftermath of the global financial crisis by an anonymous programmer who wanted a currency independent of any central bank or financial institution. Yang attributed the sharp rise in Chinese demand for bitcoins to a documentary broadcast on state-run CCTV, as well as increased acceptance of the crypto-currency as an investment instrument. Other participants at the Bitcoin Singapore conference echoed Yang's bullishness on the digital currency's prospects in China. Investors however are closely watching to see if China's government will place specific restrictions on Bitcoin trading. Hundreds of Chinese investors were left with more than CNY20 million in combined losses after Global Bond Limited, a Bitcoin trading platform, suddenly closed in October, the South China Morning Post reports.

"Taobao villages" reaping rich e-commerce harvest

In some villages in China, including Wantou village in Shandong province, Taobao online stores have been proliferating. On entering Wantou, row after row of courier shops emerge and wi-fi signals instantly appear on smartphones. Store owner Ma Yaofei, 28, runs an online store selling hand-woven craft, including straw-made chairs, tables, cases and small decorative items. He moved from Dongying city to Wantou 2½ years ago and set up his shop there. Wantou, crowned a "Taobao Village", is home to more than 500 online stores on Taobao Marketplace, Alibaba's popular consumer-to-consumer (C2C) online shopping platform. Ma said the internet allows him to reach out to the outside world. His online store's sales are

CNY3,000 to CNY4,000 per day and his products are sold across the country. "This year in our village, sales increased by 30% to 40% from last year," Ma said. But now competition is increasing as too many vendors rushed in after seeing the success of the online business. Almost all households that do business have linked their real stores to virtual shops. Wantou is just one of 14 Taobao villages in China. Alibaba defines a Taobao village as a one in which more than 10% of households run online stores and village e-commerce revenues exceed CNY10 million a year. By the end of last year, more than 1.63 million Taobao stores were registered in rural areas, with total transactions from the 14 Taobao villages hitting CNY5 billion last year, according to Aliresearch. Importantly it has liberated farmers from the field and created new jobs for couriers, drivers and online shop designers. Even some university graduates are now moving back to the villages to operate online stores, the South China Morning Post reports.

Mobile payment market growing strong

More consumers are making payments via mobile devices and the size of the market is expected to exceed CNY800 billion this year, more than five times the volume in 2012, according to a report by a research group headed by Ba Shusong, Analyst with the Development Research Center of the State Council. Last year, 535 million payments were made through mobile phones with the transfer volume at CNY2.31 trillion, a year-on-year increase of 116% and 132%, respectively. In 2013, one third of transactions on Alipay were made through phones, a staggering jump of over 800% from a year earlier. Online shopping surged in the third quarter of the year with transactions totaling CNY454.76 billion. The figure was a 42.4% year-on-year increase, according to iResearch. Two factors contributed to the surging trend, online shopping in third and fourth tier cities and better marketing by e-business firms, said the report. Business-to-customer (B2C) platforms covered about 36.6% of the online shopping transaction volume, up 5.6 percentage points compared with the third quarter last year. Online retail is set to account for at least 10% of total retail sales by 2015, the Ministry of Commerce (MOFCOM) said. E-commerce is also likely to account for over 10% of imports and exports by 2015. The size of China's e-commerce market will continue to grow 32% annually in the next three years and is expected to be 50% bigger than the U.S. in 2015, consultant Bain & Company said in its annual "China E-commerce Report" earlier this year.

Supreme Court hears first web anti-monopoly case

The Supreme People's Court heard the country's first internet anti-monopoly case in which Qihoo 360 Technology Co, a leading anti-virus software developer, accused Tencent of "abusing its dominant market position". This is Qihoo's second lawsuit against Tencent. On March 28, the Guangdong High People's Court ruled that Tencent was not in violation of the Anti-Monopoly Law and rejected Qihoo 360's monopoly claims. Attorneys for Qihoo 360 claimed the first trial was held unfairly and that the top court should reject the March 28 verdict. Qihoo 360 claims it has lost CNY825 million because of Tencent's abuse of its dominant market position. It is seeking CNY150 million in compensation. Qihoo 360 claims Tencent has a nearly 90% share in the domestic instant messaging service market and also said none of Tencent's competitors have more than a 5% market share. Tencent countered by saying that Qihoo 360 lacks the evidence to support its claims. It said the 90% market share is not based on commercial revenues but on the length of time users spend on Tencent's instant messaging service. Qihoo 360 claims Tencent also abused its dominant position by forcing users to choose between the two companies' services. It points to Tencent's announcement on November 3, 2010, that it would shut down its QQ instant messaging service on computers that had installed security software by Qihoo 360, the China Daily reports.

- Google Chairman Eric Schmidt briefly visited China at the end of October and checked out counterfeit goods in Beijing's Zhongguancun high-tech area. Schmidt's entourage included two former Google executives, Lin Bin and Hugo Barra, who now work for Xiaomi, raising speculation about possible collaboration between the two companies. Google's Android free operating system (OS) powers most of Xiaomi's smartphones and its new smart TV product. It was Schmidt's second visit to Beijing this year. Google is rumored to prepare the launch its Nexus phone in China next year.
- There are currently more than 2,500 sex toy companies using the Alibaba e-commerce platform and nearly 50% have no more than 10 staff. Many customers prefer to buy sex toys online but some complain that the higher quality toys are all exported leaving the domestic market flooded with inferior products.

- Telstra, Australia's leading telecommunications and information services company, is to list its majority-owned Chinese internet-based business Autohome on the New York Stock Exchange (NYSE). Autohome is the leading online destination for car buyers in China and one of Telstra's strategic investments in Asia. Telstra has recently increased its shareholding in Autohome from 66% to 71.5% ahead of the planned listing.
- Net profit of Ctrip International, a Chinese online travel booking company, surged 92% in the third quarter to CNY373 million as sales of travel packages and hotel bookings boomed. Its sales in the three months ended on September 30 jumped 34% to CNY1.64 billion. Packaged tours contributed CNY320 million to net income during the three months, a 43% jump from a year ago. The rise in sales was driven by a 40% surge in hotel reservations and a 26% jump in air ticket bookings.
- Tarena International is preparing an initial public offering (IPO) after hiring NQ Mobile's former Chief Financial Officer Ji Suhai. Tarena, which provides training for software engineers, was targeting a share sale for as early as next year. Tarena hired Ji in part because of his involvement in NQ's listing on the New York Stock Exchange (NYSE). Shares of NQ have plummeted recently after a damaging report by short-seller Muddy Waters alleging that NQ faked its sales figures.
- Alibaba Group Chairman Jack Ma has upset some of China's wealthiest real estate tycoons by pledging in a CCTV talk show to drive down the soaring price of housing with "the power of e-commerce". Property tycoons wrote damning responses to Ma in a tit-for-tat verbal exchange online, with some describing the online entrepreneur as "delirious". Earlier Ma had accused tax-evading e-businesses of acting "immorally". While some readers agreed with the tycoons, many championed Ma as a hero and slammed developers as callous and greedy.
- Alibaba Group will invest up to CNY500 million by the end of this year to help the 7 million vendors on its Taobao market adapt to the mobile internet era. Vendors will also be offered discounted service packages and be given free smartphones that run on the Aliyun operating system and allow them to access Alibaba's order management system. Wu Yongming, Alibaba's Senior Vice President, said many online shoppers have migrated to mobile devices from desktop computers and smartphones are bound to become one of the major shopping channels for consumers. The investment is part of Alibaba's new "All In" strategy.
- India is home to the second-largest number of suppliers on Alibaba.com after China itself, accounting for nearly a tenth of the business-to-business (B2B) platform's global user base. Membership numbers in India have rapidly increased over the years, with a 22% rise last year. Chinese buyers make up just 4% of customers of Indian suppliers on Alibaba.com. Indians themselves account for 21%, followed by U.S. buyers, at 12%.
- Baidu Founder Robin Li has become China's second richest person thanks to a 63% rise in Baidu's share price this year. Li's net worth has risen to USD12 billion. Nearly all of Li's wealth stems from his 20.8% stake in Baidu. Baidu is China's second-largest internet company by market value after Hong Kong-listed Tencent, whose Chairman Ma Huateng has a net worth of USD10.8 billion, making him China's fourth-richest man.
- The Supreme People's Court (SPC) has set up its own accounts on Sina Weibo and WeChat, two of the country's leading social media platforms. The SPC said the move was aimed at building an internet platform for judicial transparency and public service to increase interactions between the courts and the people. Important trial information from the SPC and local courts, judicial interpretations, and key documents will be released on the Weibo and WeChat accounts.
- Guangdong, Hong Kong and Shanghai are ranked as the top three e-retail export hubs in China according to eBay's report titled "2013 Greater China Retail Export Industry Landscape". The top three are followed by Zhejiang, Beijing, Taiwan, Jiangsu and Fujian. There is also an increasing number of eBay sellers in inland provinces, represented by Hubei, Hebei and Henan. Electronics, fashion, and home and garden are the three largest e-retail export categories by gross merchandise volume. Computers, cell phones, accessories, clothing, jewelry, gems and watches were the most popular items.
- Mobile network operator Three Hong Kong launched a new mobile dating service linked to Taiwanese mobile application iPair. The iPartment website and iPair app services created by partner SunFun Info are "the most popular social and dating

platforms in Taiwan”, with more than 4.65 million registered members.

ONE-LINE NEWS

- China’s homegrown Beidou Navigation Satellite System will be put into its first overseas operation in Thailand early next year. The Wuhan Information Technology Outsourcing Service and Research Center and the Geo-informatics and Space Technology Development Agency of Thailand have agreed to start building a model satellite station in Thailand’s eastern Chon Buri province, the first Beidou facility outside China.
- More than 1,000 workers of Hong Kong-listed Shenzhen ASM Micro Electronic Technology staged a protest outside three of the company’s factories in Shenzhen at the end of October, demanding better terms in a relocation plan. The company is the world’s largest maker of machines and tools used in the semiconductor industry. Two of the three factories would be relocated to Shenzhen’s sub-district of Longgang and to Huizhou, a city more than 100 kilometers to the north, at the end of September next year. Only those employees who agreed to move would keep their jobs.
- Lenovo has invested more than CNY1 billion in its agricultural arm, Joyvio Group, which will cover the complete industry chain from production to food processing, distribution, and retailing. After launching its own branded blueberries in the middle of this year, Joyvio announced that around 4,000 tons of golden kiwifruit from its farms near Chengdu will be available in supermarkets and online stores. The fruit will be branded “Liu Kiwi” as a tribute to Chairman Liu Chuanzhi, who has masterminded the shift in the group’s focus to food. Over the past two years, Joyvio acquired blueberry farms in Qingdao, as well as in Chile in South America. It has also become the largest kiwi fruit planter in China.
- China’s telecommunication, media and technology (TMT) industry attracted a bigger share of the overall private equity (PE) and venture capital (VC) investment in the first half of this year and more funds are likely to be injected in the second half. Its share accounted for an average 59% in the first six months, a sharp rise from the 46% in the year-earlier period, according to the China MoneyTree report by PricewaterhouseCoopers (PwC). In the first half of the year, USD1.65 billion in venture capital funds were invested.

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