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HARDWARE

Xiaomi launches smart TV, Xiaomi 3 smartphone

Xiaomi Corp launched a smart TV and the Xiaomi 3, its latest smartphone, in Beijing as it aims to establish a complete product line like market leaders Samsung and Apple. “It’s not only a smart TV but a game center running Android,” said Lei Jun, Xiaomi’s Founder and CEO. The 47-inch TV, which features Samsung or LG panels and is running Google’s Android system, costs CNY2,999, only half the price of competitive models. The latest Xiaomi 3 mobile phone is equipped with a quad-core processor and a 13-megapixel camera. Xiaomi has 5% of China’s smartphone market to rank No 6. Over the past 10 months, the firm sold more than 9.2 million second-generation Xiaomi phones. Hugo Barra, former Vice President of Google's Android Division, who is expected to help Xiaomi achieve its plan to expand overseas, was at the launch event for the Xiaomi 3. The new Xiaomi smartphone is priced at CNY1,999 for the 16G version, less than half the price of Apple’s iPhone 5 and Samsung's Galaxy S4, and CNY2,499 for the 64G version. China’s smartphone market is led by Samsung and Lenovo, data from Canalys shows.

Lenovo aims to pass HP as Europe's No 1

Lenovo Group, the biggest maker of personal computers, is pushing to overtake Hewlett-Packard for the lead in Europe by 2015, Gianfranco Lanci, President for the Europe, Middle East and Africa markets, said at the IFA consumer electronics show in Berlin. “There are very big growth opportunities in PCs in the whole region and there's still room to grow.” While Hewlett-Packard held its lead in the region in the second quarter with 18% market share, it has lost ground as Lenovo has been gaining, Gartner data shows. Lenovo accounted for 12% of shipments for the period, surpassing Acer. Lenovo is introducing new laptops as well as combination devices that convert from notebooks to tablets. In September, it introduced three ThinkPad laptops that are thinner and lighter than previous models and a collection of “multimode” devices designed for business and home users. It unveiled a “premium” device in its smartphone line-up, the Vibe X, with a 5-inch display and running Google's Android 4.2 system. It will go on sale in China in October and abroad in December. The price will be at the high end of Lenovo's range of smartphones outside China – €149 to €499. Lenovo rose to become the second-largest smartphone vendor in China and the fourth-largest globally with inexpensive handsets. Now it plans to go upmarket with devices that can pose a more direct threat to Samsung's Galaxy S4 or Apple's iPhone. Lenovo released its flagship K900 in May, and the Vibe X expands that “premium smartphone portfolio”, the company said.

Lenovo is hoping hybrid computers – which can turn from laptops into tablets with a flip of the lid – will spur growth in the PC market and win back consumers who are attracted by sleek, lightweight tablets. To this end the Chinese company is unveiling a range of new computers based on its Yoga platform and aimed at buyers who want to be able to use their device in the office, in bed or in the kitchen. “We see the usage model changing,” Gianfranco Lanci said. Lenovo’s new Yoga 2 Pro can also be propped up like a tent or stand with the keyboard folded back for movie viewing and video chat. Business and budget models, called Thinkpad Yoga and Flex, are also being released later this year.

Chinese consumers unhappy about “expensive” iPhone 5c

While China was this time one of the first markets to gain access to Apple’s newest smartphone models, consumers were unhappy about the high price of its supposedly “cheap” model iPhone 5c. Others who had hoped that Apple would reveal a new phone more similar to the large devices that rival Samsung has been producing, such as the Galaxy Note, found the iPhone “too small”. Apple’s new ‘budget’ iPhone 5c received the most criticism, with internet users lashing out at the device’s price, which is listed on the Chinese website of Apple Store as CNY4,488 for a 16 gigabyte model. The devices are priced substantially cheaper In Hong Kong, where the sixteen gigabyte models of the iPhone 5c and iPhone 5s will sell at HKD4,688 and HKD5,588 respectively. This means that mainland customers coming to Hong Kong would be able to buy an iPhone 5s for the price they would have to spend to get the 5c back home. Others ridiculed the iPhone 5c’s plastic case and said that the phone’s components were “too similar to the already existing iPhone 5”. “All that’s really different about the iPhone 5c is its plastic case and colors, and they’re still selling this thing so expensively?” one Weibo user asked. Another Weibo user countered: “The 5c is colorful and cute. The ‘c’ obviously refers to the different colors of the device, who said that it meant cheap?”. “Even though Apple has a lower end iPhone now, its price is still considered mid-end in China and not low-end,” Sandy Shen, Shanghai-based Analyst for Gartner said. Around half of China’s smartphone shipments are in the CNY700-1,500 range, said Shen, but competing on those prices isn’t an attractive prospect for Apple.

At Apple's first China event, reporters were shown taped video footage of the U.S. iPhone launch that had taken place hours before. For the first time, China became one of the first countries to have access to Apple's latest iPhone models. Apple started selling the two new iPhone models on September 20 in the United States, Australia, Britain, China, France, Germany, Japan and Singapore. Apple introduced a fingerprint sensor for the iPhone 5s, as a new security measure in place of passwords. Users can just press the home button to unlock their phones and use it to authenticate App Store purchases.

CNY2 trillion to be invested in broadband by 2020

China plans to invest CNY2 trillion to improve its broadband infrastructure by 2020 with the aim of taking nearly the entire population online, Shang Bing, Vice Minister at the Ministry of Industry and Information Technology (MIIT), said. The government aimed to boost the average broadband speed in China's cities to 20 megabits per second (Mb/s) by 2015, which is less than what internet users in Hong Kong and Singapore currently enjoy. In rural China, where internet penetration is very low, broadband speeds would hit 4 Mb/s by 2015, he said. The number of 3G and Long Term Evolution (LTE) users would increase to 1.2 billion by 2020, four times the current figure. The government aims to increase the number of broadband users by 25 million and fiber optic internet users by 35 million this year, according to the China Internet Network Information Center.

China's smartphone, tablet sales remain buoyant in Q2

Chinese consumers spent a total of CNY157.77 billion on smartphones, tablets and laptops in the second quarter – purchasing a combined 92.37 million units, a 47% increase from CNY107.24 billion in total expenditure a year earlier and an 88% improvement over the 49.21 million units sold during the same period last year, according to market research company GfK. Alfred Zhou, Managing Director at GfK Retail and Technology China, said smartphones and tablets both recorded positive sales growth in the second quarter, which resulted in a decline in demand for laptop computers. Smartphone sales rose 66% year-on-year to CNY126.09 billion, while total shipments climbed 103% to 82.86 million units. "Low prices of domestic brands and the competitive handset subsidies offered by mobile network operators helped drive strong smartphone demand in the second quarter," Zhou said. "Smartphone models that cost below CNY1,000 were the most popular, accounting for 49% of total units sold in this market segment in the second quarter." The top-five smartphone suppliers in China were Samsung Electronics, Lenovo, Coolpad-maker Yulong Computer Telecommunication Scientific (Shenzhen), ZTE and Huawei Technologies, according to technology research firm IDC. Yulong is a wholly-owned subsidiary of Hong Kong-listed China Wireless Technologies. Five of the top six mobile-phone brands in China – the world's largest handset market – are domestic. Only Samsung Electronics still outsells them, while Apple dropped to seventh place in the second quarter of the year and neither Nokia nor Sony was in the top 10, according to research firm Canalys. With their growing sales of phones, and now tablet computers and internet-linked televisions, the likes of Lenovo, ZTE and Xiaomi are giving a lift to Wistron, FIH Mobile and other embattled contract manufacturers and component makers. "China's home brands are getting stronger and grabbing market share from traditional global brands that used to outsource assembly," said Jimmy Chen, Analyst at Masterlink Securities in Taipei. Nokia, which used to account for 40% of FIH's sales, now represents about 10%, investment bank Jefferies estimates. Xiaomi, which was not a major customer a year ago, is now FIH Mobile's third-largest, accounting for 10% of sales.

Tablet sales increased 60% year-on-year to CNY8.73 billion, while total shipments grew 72% to 3.98 million units. Apple remained China's No1 tablet supplier, despite stiff competition from various brands offering tablets that run Google's Android operating system, according to IDC. The other leading tablet suppliers were Samsung, Lenovo, Asus and Acer. Laptop computer sales fell 12% year-on-year to CNY22.95 billion in the second quarter, as shipments decreased 10% to 5.53 million units. Zhou said the most popular range of laptop prices were between CNY3,000 and CNY4,000, which made up 40% of the market segment in the second quarter. Lenovo, the world's largest supplier of personal computers, still leads the laptop market, IDC said, followed by Asus, Acer, Dell and Hewlett-Packard.

- A fire at the vast SK Hynix facility in Wuxi city, making almost one sixth of the world's supply of dynamic random access memory (DRAM) chips, shows how vulnerable global manufacturing chains can be to an unexpected event, analysts say. The South

Korean firm is the world's second largest manufacturer of DRAM chips, and says it has a 30% market share, with the factory in eastern China accounting for half its output. Economies of scale gained through massive factory complexes help lower costs, but also bring with them risks should a company rely on a limited number of plants. Chip values spiked after the fire and are expected to remain buoyant, according to analysts.

- Samsung started selling its latest 5.7-inch Galaxy Note 3 smartphone in China on September 25, about a week after rival Apple released the latest iPhones. The Note 3's huge screen contrasts with Apple's latest iPhone 5s which sports a 4-inch screen. Samsung's model has a 13 megapixel camera unlike the iPhone 5s' 8 megapixels. The Note 3 sells from CNY5,399, slightly higher than the CNY5,288 for the iPhone 5s.
- Microsoft and Shanghai-based BesTV will invest USD79 million jointly to set up a joint venture, which may lead to Microsoft's XBox being introduced in China. The new venture, E-Home Entertainment Development Co, will be based in the Shanghai Free Trade Zone (FTZ). BesTV owns 51% of the venture while Microsoft takes a 49% stake. The joint venture will design, distribute and sell game and related home entertainment devices. Presently all game consoles, including Microsoft's XBox and Sony's PlayStation, are not allowed to be sold in the domestic market. The joint venture is expected to change that.
- Technology research firm IDC predicted smartphone shipments in China would exceed 450 million units next year, following the issuance of 4G mobile licenses and an expected deal allowing China Mobile to launch new iPhones next year. That would represent about a 25% increase from the estimated 360 million units shipped this year. Apple has long been in negotiations to add China Mobile, the world's largest wireless network operator by subscribers, as a carrier-partner for the iPhone after China Unicom and China Telecom.
- Nearly half of the urban residents in China own smartphones and 60% of them would give up their television sets rather than their phones, according to the report "Our Mobile Planet: China" by Google and research firm IPSOS. 69% of the respondents said they accessed the internet every day on their smartphones and 38% said they never left home without their phones.

OPERATORS

Hong Kong 3G spectrum re-auction to cost consumers

Consumers will bear the brunt of an estimated HKD15.5 billion in costs imposed by the Hong Kong government's plan to seize and re-auction chunks of 3G spectrum now in use, according to a study by British firm Plum Consulting, commissioned by the city's leading mobile network operators. The study forecast a "substantial disruption" in 3G mobile services once the plan was implemented. It estimated data download speeds would deteriorate by an average of 27% for 3G subscribers, worse than the 9% degradation estimated by the regulator, the Office of the Communications Authority (OFCA). "In the worst case, spectrum deprival could result in a 64% increase in download times," Plum Consultant Ken Pearson said. The network congestion caused by that loss could set back mobile services in the city "by a few years", he added. With the release of Plum's findings, the city's four incumbent 3G network operators appear to have taken a last stand against the spectrum reassignment plan before the government announces its decision this month.

SmarTone Telecommunications, CSL, Hutchison Telecommunications Hong Kong and PCCW's HKT have argued that the government must follow long-standing industry practice and automatically renew their 3G spectrum licenses on the 2.1-gigahertz band. The licenses are due to expire in October 2016. The government, however, has proposed a so-called hybrid option in which about a third of each operator's 3G spectrum allocation will be seized and auctioned off to promote more competition in the industry. Plum's cost analysis of that plan's impact included HKD5.4 billion that subscribers would spend to upgrade to 4G services in light of the service degradation and buy new smartphones; operators' HKD708 million investment to bolster their 3G networks against disruption; HKD145 million to expand their 4G networks to accommodate new users; and OFCA's proposed "spectrum utilization fees", which are likely to be borne by consumers in the long run. China Mobile, the world's largest wireless network operator, has expressed interest in bidding for the reassigned spectrum, but Plum Consultant's Tony Lavender said whoever acquired the reassigned spectrum was likely to redeploy it for 4G services, the South China Morning Post reports.

CSL Hong Kong to launch LTE Advanced 300 service

CSL, the largest wireless network operator in Hong Kong, with brands including 1010 and one2free, showcased a new high-speed service with theoretical peak download speeds of up to 300 megabits a second – double its current best speed. Chief Executive Phil Mottram said he expected the new high-speed mobile service, called LTE Advanced 300, would be put in place across its network in Hong Kong in the next three to four months. The standard speed of 4G networks is up to 100 Mb/s, while the fastest 3G networks run at 42 Mb/s. He said LTE-A300 would offer customers web speeds that none of the company's competitors could match. “They don't have enough spectrum unless they buy more spectrum”, he said. CSL said the highest speed offered by a competitor in Hong Kong was, in theory, 225 Mb/s. “We have invested huge amounts in ensuring that we are leading the way to greater speeds and stability by building out the network capacity and leading-edge 4G LTE capabilities,” Mottram said. CSL's capital expenditure in the fiscal year that ended in June was HKD922 million and Mottram said it was likely to be similar this fiscal year, with most of the money spent on network development. CSL's Chief Technology Officer (CTO) Christian Daigneault said the new technology would be tested in CSL laboratories over the next few months and that new devices supporting LTE-A300 would be available next year. CSL saw subscriber numbers in Hong Kong grow 12% in the past fiscal year to 3.9 million. It was the world's first mobile carrier to launch a dual-band 4G network, in November 2010, and has multiple service brands, including the premium 1010, the mass-market one2free and New World Mobility.

4G license for China Mobile to open way for iPhone

China Mobile had 750.415 million subscribers at the end of August, including 158.687 million 3G users. China Mobile kicked off its 4G network expansion in August by awarding the bulk of contracts to Huawei Technologies and ZTE to set up about 207,000 TD-LTE base stations to cover the main districts of 100 major cities. With CNY190.2 billion in capital expenditure budgeted this year, China Mobile said it planned to procure about one million TD-LTE mobile devices, including smartphones, this year. Both the iPhone 5s and 5c models support up to 13 different 4G LTE bands, more than any smartphone in the world, including the Beijing-backed TD-LTE standard. Currently, China Mobile subscribers with iPhones use their smartphones on the operator’s existing 2G networks, either based on the enhanced data rates for GSM evolution (Edge) or general packet radio service (GPRS) wireless systems, as the iPhone is incompatible with China Mobile's TD-SCDMA 3G system. Technology research firm IHS has forecast Apple to ship 86.1 million iPhones in the second half of this year, up 25% from 68.7 million in the first half. It said Apple’s estimated 154.8 million iPhone shipments this year could receive a boost if China Mobile started carrying the new models by the fourth quarter.

RADIO, FILM & TV

Wanda to invest in large film and TV project in Qingdao

Dalian Wanda Group, controlled by Chinese property tycoon Wang Jianlin, announced that it would invest as much as CNY50 billion to build the world's largest film and television industry project in the coastal city of Qingdao in Shandong province. The 3.8 million square meter site, named Qingdao Oriental Movie Metropolis, will feature a spacious film production area, including the world's largest studio – at 10,000 sq m – and the world's only fixed underwater studio. There will also be a film museum, a celebrity wax museum and a film exhibition center with 4,000-seat theaters. Eight resort hotels, a 300-berth yacht club, shops, a bar street and a hospital, will also be part of the large project. “We originally planned to construct only a film production base, but how to fund the project had remained a problem for us. After visiting dozens of projects around the world, we decided to incorporate all these functions into one site. We believe the concept of film industry will boost tourism and consumption at the place, making it a profitable project,” said Wang, Founder and Chairman of Dalian Wanda Group. The first phase of the project is expected to open in June 2016 and the entire project will be completed in 2017. Chinese movie star Zhang Ziyi attended the launch ceremony of Qingdao Oriental Movie Metropolis. Wanda also reached a preliminary agreement with the Academy of Motion Picture Arts and Sciences, the organization that holds the annual Oscars, to provide support in hosting the Qingdao International Film Festival every September from 2016. Four of the world's major entertainment talent agencies, including CAA, WME, UTA and ICM, also committed to invite 30 international superstars and directors to walk the red carpet for the annual event. China holds two international film festivals in Beijing and Shanghai annually, but their influence is very limited compared to the Oscars in the U.S. or the Cannes International Film Festival in France, the South China Morning Post reports.

China’s UHD displays compete with OLED

Chinese companies are successfully competing with Korean manufacturers which are offering the next-generation organic light emitting diode (OLED) televisions, by launching ultra-high-definition (UHD) displays that are sharper than the standard LCD TVs but cheaper than OLED. Until last year, the UHD market had been almost non-existent, with just 33,000 sets sold in the 200 million-unit LCD TV market. Since then, shipments have soared around 20-fold, data from research firm IHS shows. The risk for OLED is that UHD may become mainstream, with long-awaited cheaper OLEDs arriving too late to displace it, analysts say. OLED's long-term potential is huge: ultra-high-resolution, and screens thin enough that they could be curved or even rolled up. Chinese UHD makers include BOE Technology and China Star Optoelectronics Technology, a unit of China's biggest TV maker TCL. In China, 55-inch UHD models sell for about USD1,800, compared to OLED TVs of similar dimensions sold by Samsung at around USD10,000. Chinese UHD makers are enjoying the fattest margins in the industry. In the second quarter, Shenzhen-listed BOE reported an 8.9% operating profit margin, while China Star posted a 9.6% margin. Sharp reported a razor-thin 0.5% margin and LG Display, the world's No 1 LCD maker, 5.6%. Samsung Display had a margin of 13%, the biggest in the industry. But excluding its fledging OLED business, its LCD margin is between 3% and 7%.

USD450 million Warner Brothers movie deal eyes China

A consortium led by Australian billionaire James Packer and U.S. Director Brett Ratner has struck a movie-making deal with Warner Brothers, with an eye fixed firmly on Chinese film fans. The co-financing deal is worth USD450 million over four years and will help cover the production of 75 movies. Packer said that ultimately he hoped to tap into the booming Chinese entertainment market through his investment vehicle RatPac-Dune Entertainment. “There is a real chance to grab the opportunity in China. In 10 years' time, the Chinese box office will have overtaken the United States. I'd like to see my business interests spread out evenly across the U.S., Australia and China”, he said. Warner Bros Chief Executive Kevin Tsujihara said the deal covered films from all genres and budgets. Ratner said that, like Packer, he was keen to branch out beyond Hollywood films into the lucrative Chinese entertainment industry.

- Alibaba and Skyworth plan to introduce three new smart TV models in October under the new Kukai brand name. The tie-up will include 2D and 3D models, with the cheapest priced at CNY1,999. Alibaba is also in negotiations to buy a stake in PPTV, one of China's leading video sharing sites.
- Imax Chief Executive Richard Gelfond forecasts annual box office receipts will almost double to USD1 billion in the next few years as the big-screen cinema firm expands in China, Russia and the Middle East. Imax, based in Ontario, Canada, had 767 cinemas in 54 countries on June 30. Its global box office receipts were USD620.6 million last year. It had a backlog of close to 400 theaters in China.

TELECOM MFG. CO.

ZTE expects half of its smartphone sales to be 4G capable

ZTE Corp expects its 4G mobile phone sales to account for half of smartphone sales after the issue of 4G licenses by the Chinese government. Four smartphones made by ZTE, Huawei Technologies, Sony and Samsung have so far been approved by the government for sale after Chinese telecommunication providers receive the 4G licenses. “The 4G brings us a unique opportunity to develop the smartphone business,” said Lu Qianhao, General Manager of ZTE’s Handset Marketing Strategy Department. The world’s fifth-largest smartphone maker, ZTE was the first company to receive regulatory approval to sell 4G phones in China. China is widely expected to issue 4G licenses by the end of this year, possibly even as early as October. ZTE’s Grand Memo handset was approved by the Ministry of Industry and Information Technology (MIIT) to run on the 4G time division-long term evolution (TD-LTE) standard.

Huawei to double Nigeria smartphone sales

Huawei Technologies plans to double smartphone sales in Nigeria this year as it seeks to boost its global market share. The firm – which released its Ascend P6 smartphone in Lagos, the commercial capital of Africa's biggest phone market, on September 6 – forecast it would sell 200,000 smartphones in the country by the end of the year, Tony Liang, Managing Director of Huawei's Consumer Business Group for West Africa, said. That is twice the number it sold last year. More than 90% of the phones used in the country now were used only for voice calls and text messages, leaving room for smartphone growth, he said. The Shenzhen-based firm seeks to become one of the world's top three smartphone vendors by 2018. Nigeria had 117 million mobile-phone subscribers in June, according to the Nigerian Communications Commission, for a population of more than 160 million. With many subscribers acquiring more than one line, the number will grow to more than 200 million in 2017, London-based research firm Informa Telecoms & Media estimates. Huawei has an advantage over its competitors as it is a network supplier to the country's telecom operators. Its competitors include Canadian-based BlackBerry, which remains a popular brand in Nigeria, Finland's Nokia, Taiwan's HTC, Hong Kong's Tecno Telecom, Samsung Electronics, and Apple.

- The United States government stripped a videoconferencing system contract from CyberPoint's Prescient, based in the U.S. state of Maryland, after the U.S. Customs and Border Protection Agency said the device marketed as American-made is really Chinese, made by Shenzhen-based ZTE, China's No 2 phone-equipment maker. The decision is the latest impediment to U.S. growth for ZTE, which was effectively blacklisted last year by a congressional committee that said its products may aid Chinese spying. ZTE's system, using security made by CyberPoint's Prescient unit, had been available for sale to U.S. agencies through the General Services Administration (GSA) since last year.

WEB

Tencent's stock rises on WeChat hopes

Tencent's shares have been rising since its listing in Hong Kong in 2004, when it was offered at HKD3.70 per share. The stock is now valued at more than a hundred times that amount. This year alone, China's largest listed internet firm has risen more than 52%, driven by the expectations that its mobile internet business, led by popular social-networking application Weixin, or WeChat, will soon generate revenues. While its second-quarter earnings missed analysts' expectations, Tencent is forecast to see its shares climb further this year on the back of WeChat. Tencent reported its net profit rose 18.7% to CNY3.68 billion in the three months to June, up from CNY3.1 billion a year earlier. "We would view any potential share-price weakness as an enhanced opportunity to accumulate the shares. Tencent is strategically positioned to capture the emerging mobile internet growth opportunities," according to a research note from Barclays. "Though currently online games contribute more than half of its revenue, e-commerce is the future," said Francis Lun, Managing Director of Lyncean Securities. The scale of China's e-commerce has risen to CNY5.4 trillion, up 38.5% year-on-year. It is projected that by 2015 such transactions will total CNY18 trillion. Chairman and Chief Executive Pony Ma, 42, who graduated from Shenzhen University, was listed by Forbes last year as the fourth-richest person on the mainland with a personal wealth of USD6.4 billion. "We grow more confident in Tencent's monetization capability, one well beyond its current cash cow of online games, to a more diversified arena in the longer term," Alan Hellawell, Analyst at Deutsche Bank, said.

Tencent has added games and a payment system to WeChat, seen as the first steps to cashing in on its users. Barclays forecast WeChat to post revenue of CNY2.95 billion by next year, based on a projected 400 million users. That estimated revenue included 73% from mobile games, 17% from emoticons and 10% from other related mobile-payment transactions. But Tencent's ambition to develop in e-commerce has meant a direct confrontation with China's leading e-commerce company, Alibaba Group. Alibaba suspended sellers' access to WeChat applications in September, but allowed access to users of Sina Weibo, in which it has a stake. Tencent has also been pressured by telecommunications operators to charge for WeChat. Users are spending far less on voice and text-message services as they move to WeChat, eating into the mobile operators' income. Outside China, Tencent is hoping to copy its successful WeChat story, although it will compete against rival social mobile apps such as Line and WhatsApp. Tencent management outlined an aggressive international marketing campaign for WeChat this year, with a budget of up to USD200 million. Tencent said that WeChat had surpassed 100 million registered users in international markets, the South China Morning Post reports.

Qihoo sells bonds

Qihoo 360's USD600 million bond sale was expected to contribute to the purchase of Sohu's Sogou search engine, helping to boost Qihoo's share of China's search market, but finally it was Tencent, not Qihoo which acquired a stake in Sogou. Qihoo shares were laggards for the first year and a half after their 2011 New York IPO, as investors questioned its growth prospects and it came under attacks from several short sellers. But its outlook began to improve sharply a year ago following the launch of its So.com search engine, which has gone on to take nearly 20% of China's search market and posed one of the first serious challenges in years to Baidu. Qihoo's American Depositary Shares (ADSs) have soared during that period, rising more than five-fold from their lows of about USD15 last August to their current levels of more than USD80. Buyers of the new bonds will be able to convert them to Qihoo shares for a conversion price of about USD111 per ADS when the notes come due in five years. Qihoo's claiming of 20% of China's search market just a year after the launch of So.com is already an impressive gain, but it now faces competition from Sohu's and Tencent's combined search engines, Sogou and Soso.

Sogou launched a lawsuit against Qihoo for unfair competition, followed by Qihoo's own countersuit. In its initial lawsuit filed in Xian, Sogou asked for CNY45 million in damages. The suit alleges Qihoo used its popular free security software installed on many Chinese computers to change the default internet browser on those computers to Qihoo's own product from Sohu's.

Tencent invests in Sogou

Tencent has invested USD448 million in cash for a 36.5% stake in Sogou, the online search unit of Sohu. Tencent will become Sogou's second-largest shareholder after Sohu. Tencent also merged its own Soso search-related business with Sogou. Tencent could further increase its stake in Sogou to around 40% in the near future, according to a stock exchange filing. "Sogou's PC-based pinyin input software will have a solid market position and its search business could have the power to challenge Baidu's leading position," Su Zhe, an independent market observer, said. Sogou would continue to operate independently as a subsidiary of Sohu and Sohu's Chairman and Chief Executive Charles Zhang would remain Sogou's Chairman. Zhang said the partnership would "immediately" expand Sogou's market presence and "significantly" elevate its position in the personal computer and mobile search markets. The news surprised many as the market had been expecting either Qihoo 360 Technology or the country's largest search engine company, Baidu, to buy Sogou to consolidate their market lead. In July, Qihoo said it was in talks to buy Sogou. Sogou is China's third-largest search engine in terms of users and Soso is its fourth-largest. Sogou accounted for 5.5% of search-engine queries in China in the first quarter of the year. Baidu had 82% and Qihoo 360 followed with 9%, according to data compiled by Bloomberg. Liu Xingliang, Chairman of Hongmai Software, a Beijing-based internet data analysis firm, said the deal was a case of strategic cooperation for both sides, formerly rivals with search engines and input methods of their own. He added that Baidu would remain the top firm in the China search market but Qihoo would be challenged by the combination of Sogou and Soso.

China issues legal interpretation of "online rumors"

China's first legal document on controlling online rumors has sparked controversy, with legal experts saying it is a violation of the constitution because its was a de facto revision of the law which neither the top court nor the prosecutor had the right to do. The 1982 constitution clearly states that only the NPC Standing Committee has the right to revise laws or to issue judicial interpretations. Stirring up trouble through online rumors carries a punishment of up to 10 years in jail. Under the new rules, people can be charged with defamation and face three years in jail if online rumors they spread receive 5,000 views or are reposted more than 500 times. Top blogger Pan Shiyi, who has more than 16 million followers on Sina Weibo, warned of the dangers of "casual" online posts. The wealthy real-estate developer who has become an influential leader of public opinion through his online comments, said that popular microblog users should be "more disciplined". Chinese authorities have launched a high-profile effort to control speech on microblog platforms in recent months. Police have detained hundreds for posting information deemed to be "false". China's state-run media has said the campaign is aimed at combating online fraud and defamation. Lu Wei, Director of the State Internet Information Office, said in a speech that "freedom means order" and that "freedom without order does not exist". Famous Weibo users have been scaling back their activity on the microblog and deleting previous posts since the campaign against the spreading of online rumors started.

Alibaba drops Hong Kong listing, focusses on New York

Alibaba Group will try to convince New York regulators to accept its controversial executive partnership structure and list shares there after abandoning efforts to persuade Hong Kong authorities. A partnership arrangement is allowed under New York listing rules, but not in Hong Kong. Alibaba had been prepared to cut the number of partners and bind them to a three-year share sale ban to win the approval of Hong Kong regulators, but decided to focus on a listing in New York instead. Hong Kong regulators worry the partnership structure gives top executives more rights than ordinary shareholders by allowing them to nominate a majority of candidates to the Board of Directors. Sources close to Alibaba insist the firm does not want a dual share structure or a change to the rules. Instead, it had sought an exemption under an existing rule in the Hong Kong listing code. Alibaba Founder and Chairman Jack Ma wants to keep control of the board by being able to appoint the majority of its members, but Ma and his top executives own only about 10% of the company, compared with about 24% owned by Yahoo and 37% by SoftBank. Sources close to Hong Kong's Securities and Futures Commission (SFC) have consistently said that a structure giving one group of shareholders more power than another would be unacceptable, the South China Morning Post reports.

Suning launches open e-commerce platform

Suning has launched its new open platform, which other vendors can use, complementing its existing online store and also its older chain of brick-and-mortar shops. It joins other major e-commerce firms to make similar moves over the last year, including Jingdong, China's second largest player, and Dangdang, one of the country's first major e-commerce firms. Such platforms offer consumers more choice, but they also potentially could lead to internal competition between site operators and their individual merchants. Suning has decided to work exclusively with major brands and retailers on the platform, excluding smaller, independent merchants from setting up shops for now. The list of partners at the launch includes clothing seller H&M, luxury watch maker Rolex, and electronics makers Lenovo, Samsung and Apple. Smaller merchants are more difficult to control and can often become a source of consumer complaints due to quality and reliability issues. Three months after the launch of Jingdong's platform, Vice President Kui Yingchun said the platform is more similar to the business model of Amazon and less similar to Alibaba's TMall. Jingdong is providing strong support to its third-party merchants in areas like logistics to help them provide better service, the South China Morning Post reports.

Forgame launches IPO, plans to offer 35 new games

Forgame, a Guangzhou-based game developer, said it would expand into the mobile game market and broaden its reach in the global market to bolster revenue growth. The company hopes to raise as much as HKD1.72 billion in its Hong Kong initial public offering (IPO). Trading is expected to start on October 3. "In the next 18 months, we will launch 35 new games, of which 18 will be mobile games," said Wang Dongfeng, Chairman and Chief Executive of Forgame. He added that mobile games would be "the next important strategic growth point" for the company and it had shifted its operations focus from web games to mobile games. Market analysis firm Niko Partners' said in its latest report that China's mobile game market – which raked in USD750 million in revenue last year – would grow to USD1.2 billion this year. Forgame's costs for games' research and development (R&D) was CNY43 million in the first half of this year, up from CNY14 million a year earlier. The company is aiming at increasing its overseas business to account for 20% of revenue within two years from a very small proportion at present. About HKD543 million, or 60% of the proceeds from the share sale, would be used to acquire web game and mobile game licenses and game developers, the company said. Founded in 2009, the company has launched more than 30 games. Revenue rose to CNY777 million last year from CNY384 million in 2011.

E-commerce to grow 30% a year, says PwC

China's e-commerce market is expected to grow at a breakneck pace of 30% in the next three to five years, according to PricewaterhouseCoopers (PwC). The firm said an estimated 240 million people in China shopped on the internet. More than 60% said they bought their clothing, footwear, and accessories online, compared with 35% to 45% in the rest of the world.

PwC found that Chinese consumers who shopped online bought 58% more than their peers in developed markets, and two in five shoppers used their mobile or tablet to shop online. 68% of online shoppers bought apparel and accessories, 39% shopped for household goods and 35% purchased digital and electronic products. Chinese consumers, however, expected to find lower prices online than in physical stores, which could impact the business of the merchants. Online players must also ensure data security for their customers, PwC's retail and consumer Hong Kong Leader Michael Cheng said. “We believe data security is a big concern for online retailers.” The rise of e-commerce will make foreign brands more accessible to Chinese customers in third and fourth-tier cities but Cheng said Hong Kong would retain its place as a shopping paradise for Chinese because of its ability to offer lower prices.

News apps targeted by Chinese government

The Chinese government launched a crackdown on several mobile applications that provide news information services without approval from official regulators, threatening to shut down those who refuse to “rectify”. The State Internet Information Office said some of the news applications carried “pornography and obscene information and harmed the physical and mental health of youngsters”. Others published false information, it said. Some mobile news applications also provide a channel for Chinese subscribers to read articles published by foreign media outlets whose articles have been blocked. The mobile news applications that were identified include Zaker, which said it had more than 17.5 million users at the end of April, and Chouti, whose slogan is: “Publish all that should not be published”. The government will close down and ban those that refuse “to maintain order of news dissemination on the mobile internet”, authorities said.

Ctrip likely to gain more business from Qunar platform

Ctrip.com International may benefit from the proposed USD125 million initial public offering (IPO) by Qunar.com, the leading Chinese travel search engine controlled by Baidu. In August, former rivals Ctrip and Qunar agreed to cooperate on providing packaged tour offerings online. A bigger Qunar platform after the stock listing is likely to drive even more business to Shanghai-based Ctrip, which is already the second-largest provider of packaged tours to Qunar's website. A Barclays report said Ctrip might “contribute close to 15% to 20% of total package tour products for Qunar. We raise our package tour estimates for 2014 and 2015, with year-on-year growth of 35% and 33% respectively, from 29% and 27% previously.” Founded in Beijing in 2005, Qunar offers consumers real-time searches for air and rail tickets, hotels and tour packages. Qunar filed for its long-anticipated initial public offering (IPO) with the Securities and Exchange Commission (SEC) in the United States as Qunar Cayman Islands. The company will list its American depositary receipts (ADRs) on the New York Stock Exchange. Qunar, which booked revenue of CNY501.7 million last year, said in its filing that the proceeds from the share offering would be used to invest in technology, infrastructure and product development efforts; expand sales and marketing; and for general corporate purposes. Its platform currently has more than 131,000 tour packages covering 1,268 travel agencies. Offerings from Ctrip and rival online packaged tour providers Tuniu.com and 17u.com are featured most frequently. Unlike offline travel agents, Nasdaq-listed Ctrip has a larger scale, more do-it-yourself travel products, lower pricing and a popular mobile travel application for smartphone users. China's online travel market is forecast to grow to CNY408 billion by 2016 from CNY170.9 billion last year, according to iResearch.

- The Bund Financial Innovation Pilot Zone in Shanghai’s Huangpu district will offer preferential policies to attract businesses such as e-commerce companies and online trading platforms. The district government and the Shanghai Financial Institute jointly established the China Internet Financial Research Center. Some 40 internet financial enterprises have applied to move into the zone. They will for the first time be allowed to use ‘the Bund’ in their companies’ names, as part of preferential policies in the zone.
- Google Maps launched its Indoor Maps service in Hong Kong and Macao, offering users a new way of finding shops, ATMs and toilets in more than 70 malls and hotels. Once users search these malls and hotels, they will see their floor plans. Android and iOS device users can view floor plans for every level of the buildings through a "switch" function, while desktop users can see only main levels.The Map Maker function allows users to add buildings and roads with a drawing tool, and name them. Google staff will verify the information before approving them.

- The growing demand for internet-linked smart televisions is poised to help drive greater advertising spending in the country's online video market, analysts say. Smart TVs are now providing a better online viewing experience, which is encouraging marketers to spend more advertising money on this media segment. Forrester estimates that online video advertisers in China will increase spending by about 50% to USD2.1 billion this year. There are currently about 450 million regular online video users in China. IDC forecasts that smart TV sales in China will reach a record 23.97 million units this year, higher than the combined forecast of 22.06 million for flat-panel televisions with light-emitting diode (LED) or liquid crystal display (LCD) screens.
- Celebrities' accounts on WeChat now offer paid content such as wake-up tunes, exclusive photos and books. Famous accounts could generate a substantial amount of revenue. Tencent, the owner of WeChat, still has to develop a clear vision on how to monetize WeChat's sprawling user base. The latest update enables a mobile payment service through the company's payment subsidiary, Tenpay. Tencent also charges users for premium stickers and emoticons.
- Alibaba has launched its Laiwang mobile messaging software application to compete with rival Tencent's WeChat. The new app allows users to share pictures and video clips as well as form chat groups comprising up to 500 members. By offering some features that Tencent's WeChat doesn't have, Laiwang hopes to boost subscribers to 100 million in one year. The number of mobile instant messaging users in the country climbed 13% in the first half to 397 million, according to the China Internet Network Information Center (CNNIC).
- Reports that the Chinese government had decided to lift a ban on internet access within the Shanghai Free-trade Zone (FTZ) to foreign websites considered politically sensitive, including Facebook, Twitter and the website of The New York Times, proved false. Foreign telecommunications companies will however be allowed to apply for licenses to provide internet services within the zone. The FTZ, which spans 28.78 square kilometers in the city's Pudong New Area, including the Waigaoqiao duty-free zone, Yangshan deepwater port, and the international airport area, was officially inaugurated on September 29.
- The biggest ever cyberattack on Chinese domain servers in August was carried out by a lone hacker, according to Wang Minghua, an operating officer with the National Computer Network Emergency Response Coordination Center of China. A suspect has been detained in Qingdao, Shandong province. Wang said the man wanted to bring down a game server but mistakenly attacked government servers hosting the country's domain. Earlier, Li Xiaodong, Executive Director at the China Internet Network Information Center (CNNIC) said the attack was launched "by a group of hackers for commercial interest".

ONE-LINE NEWS

- Kai-fu Lee, Founder of Innovation Works and one of China's most influential social critics, is fighting cancer. The 51-year-old former President of Google China has been diagnosed with lymphoma. China's net users have posted hundreds of thousands of supportive messages on Lee's Weibo page. Lee is one of China's most influential internet celebrities.
- The Beidou Ground Base Enhancement System to enhance the precision of China's homegrown Beidou Navigation Satellite System was officially launched in Shanghai. Its 11 base stations are expected to help improve Beidou's positioning accuracy from an error margin of 10 meters to within several centimeters or even millimeters under optimum conditions, similar to or better than the U.S.-developed GPS. The system will help the city government to better monitor the movement of dump trucks and those transporting dangerous chemicals with any abnormal movements detected and recorded.
- E-commerce firm Alibaba Group and smartphone supplier Xiaomi Technology have been named among this year's most promising innovative enterprises in a global survey by the Boston Consulting Group (BCG). It included the two privately-held Chinese firms in the new category of "up-and-coming companies". Lenovo and Tencent are in this year's ranking of the top-50 most innovative companies.

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