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## HARDWARE

### Lenovo holds steady as global PC market plummets

Lenovo, bolstered by its strong growth in North America, emerged unscathed after global personal computer shipments in the first quarter fell 14%, marking the industry's worst quarterly decline. Lenovo's worldwide shipments were flat in the three months to March, compared with a year earlier. The company was the only one among the industry's biggest players that did not record a double-digit decrease in shipments in the period. Research firms IDC and Gartner estimated that Lenovo shipped 11.7 million personal computers and seized a 15% market share during the quarter to nearly close the gap with global leader Hewlett-Packard. Both IDC and Gartner also found that Lenovo's first-quarter shipments to the United States grew 13% year-on-year to 1.3 million units. Lenovo remained the No 5 supplier in the U.S., the world's second-largest market for personal computers after China. Gartner pointed out that Lenovo's performance was affected by the slowdown in the Asia-Pacific, in which personal computer shipments dropped 10.3% year-on-year to 27.6 million units. A Spokeswoman for Lenovo said the company “continues to outperform its traditional PC competition”, and that “there is still plenty of room to raise marketshare in this market”. IDC said the extent of the year-on-year contraction in the past quarter marked the worst period since the research company began tracking the personal computer market quarterly in 1994.

Lenovo said it was in “preliminary negotiations” about an acquisition following reports that the Chinese company may purchase International Business Machines Corp’s server unit. IBM is seeking USD5 billion to USD6 billion for its x86 server business, according to information technology industry news website crn.com. In April, Chen Xudong, Senior Vice President and General Manager of Lenovo’s China unit, told China Daily the company is considering mergers and acquisitions (M&As) to strengthen its enterprise business. Lenovo is slowly shifting its focus from PCs to mobile devices such as smartphones and tablets. In the meantime, it is also seeking new frontiers in enterprise-level products and services because of higher profit margins. In 2012, Lenovo and U.S.-based data-storage company EMC Corp formed a joint venture to develop server and storage equipment. The two companies released their first co-branded server and storage products on April 2. The negotiations with IBM meanwhile seem to have reached an impasse. Lenovo is holding firm on getting “a reasonable price”. “The talks haven't broken down, but there is a gap in the valuation [of the target business] between the buyer and the seller,” a person familiar with the discussions said.

The company is planning new marketing campaigns to place key products in various films and television shows this year. Lenovo Chief Marketing Officer David Roman said investing in the high-profile branding initiative was part of Lenovo's goal to create a premium global brand “that resonates with our target youth audience” and to become known as “the world's leading personal technology company”. He said Lenovo's new IdeaCenter Horizon table computer, which will sell from early this summer for USD1,699, was the kind of “innovative product placement we're trying to do because it is interesting”. The device, which has a 27-inch multi-touch display and Microsoft's Windows 8 operating system, can be adjusted upright at a 90-degree angle for use as an all-in-one desktop computer, with separate keyboard and mouse. One of Lenovo's high-profile product placements was in the 2011 Hollywood blockbuster, “Transformers: Dark of the Moon”. The movie introduced a new character called Brains, which transforms into a ThinkPad Edge Plus laptop.

## Digital Realty gears up for China investments

Digital Realty Trust, the world's largest builder and wholesale provider of data centers, will start its foray into China next year, with projects planned in Shanghai and Beijing. Digital Realty Chief Executive Michael Foust said the company was in discussions with various major information technology service providers on initial projects in those two cities. “Having domestic partners with strategic relationships in the market and knowledge of local IT services opportunities is important because we're looking at very long-term investments,” Foust told the South China Morning Post. Prior to that expansion initiative, Digital Realty will open in November its first data center project in Hong Kong at a 15,236 square meter site in Tseung Kwan O. The San Francisco-based company and its joint-venture partner, information technology services provider Savvis, are redeveloping an old industrial property into an advanced data center, which will cater to multinational companies with growing operations in the city. Kris Kumar, Digital Realty Senior Vice President in charge of Asia-Pacific operations, said total investments by the two partners in this project would reach up to USD160 million once it was completed. As of the end of February, Digital Realty owned 119 data centers, excluding three held as investments in joint ventures, in 32 markets worldwide. Foust said the company's total data center construction expenditure this year would be between USD900 million to USD950 million, up from about USD800 million last year. A report by British firm BroadGroup Consulting in February said the expansion of data center capacity in China would accelerate over the next few years due largely to domestic demand. The report estimated that overall investments in new data center projects across at least 15 provinces would reach USD370 billion by 2016.

## IHS iSuppli identifies winners and losers in smartphone market

Samsung, Apple and Chinese brands like ZTE and Huawei will continue to grow in the domestic market this year while Nokia, HTC and Motorola are expected to face pressure on their sales, U.S.-based research firm IHS iSuppli said. The recent emergence of “phablet” phones such as Samsung Galaxy Note, a combination phone and tablet which usually features 5-inch or bigger screens, will become a trend, according to Kevin Wang, IHS iSuppli’s China Research Director. Apple and Samsung will continue to expand in the high-end smartphone market as they tap their brand awareness and unveil top-of-the-range handsets. Meanwhile Chinese brands like ZTE and Huawei will increase their market shares in the entry and mid-level segments through price-competitive models, according to Wang. But Nokia’s sales will continue to fall this year while the market shares of HTC and Motorola are expected to “slightly drop” only because of the still growing market demand, Wang added. The global sales of phablets will hit 60.4 million units in 2013, up from 25.6 million last year, IHS iSuppli said.

- Alibaba has launched six new mobile phone models that run on the Aliyun system. Alibaba’s cloud computing unit will allocate CNY1 billion in subsidies this year for handset makers and software developers to boost its market position and deepen collaboration. The six new mobile phone models will be made by five domestic handset makers, including Amoi Technology and Konka. Last July, Alibaba joined hands with K-touch and launched its first smartphone model.
- Chinese electronics components makers AAC Technologies and GoerTek are now in the top tier of suppliers of so-called micro-electromechanical systems (MEMS) microphones as they are now also supplying Apple. The market for such devices reached USD583 million last year, with AAC and GoerTek generating combined sales of USD144 million, according to research firm IHS iSuppli. Hong Kong-listed AAC, which has its headquarters in Shenzhen, is now the world's second-biggest supplier of the microphones behind United States-based market leader Knowles Electronics. AAC sold USD98 million worth of MEMS microphones last year, compared with USD48 million in 2011.

# OPERATORS

## China to add 60 million broadband and 100 million 3G users in 2013

China will add 60 million broadband users and 100 million 3G users in 2013 as well as improve bandwidth speed nationwide under the “Broadband China” project, the Ministry of Industry and Information Technology (MIIT) said. This year 35 million users will be added on its high-speed fiber-to-the-home (FTTH) network, up from 94 million by the end of last year. The Ministry will also increase the normal home broadband user base by 25 million to 200 million by the end of this year. The Ministry said 70% of all users nationwide will enjoy broadband services with a bandwidth of four megabytes per second (Mbps) or above. The “Broadband China” project seeks to raise the country’s average broadband bandwidth capacity in urban regions to 20 Mbps by 2015, five to 10 times faster than the current level. China, the world’s No 1 telecommunications market, will have over 332 million 3G users this year, up from 232.8 million by the end of last year. By 2015, MIIT sees 450 million 3G users in the country. In Shanghai, the average internet bandwidth hit 4.70 Mbps by the end of the first quarter.

## Only slight profit growth for China Mobile in Q1

China Mobile saw its weakest profit growth in three quarters as higher costs cut gains from more users of high-speed network services. Net income rose to CNY27.9 billion in the three months through March, compared with CNY27.8 billion a year earlier. Sales rose 5.7% to CNY134.7 billion in the quarter. Ricky Lai, Hong Kong-based Analyst with Guotai Junan International Holdings, said “the heavy handset subsidies strategy in 2013, with the total estimated at CNY27 billion, will worsen its profit margins.” China Mobile's SMS traffic actually rose about 5.5%, while mobile internet use also rose a healthy 14%. One vulnerable area was the operator’s extensive wi-fi network, where traffic actually fell about 14% during the quarter. JP Morgan predicts that the operator's net profit will fall 3.5% for the whole of this year. “With a much bigger capital expenditure rise in 2013, China Mobile will have to experience a few years of earnings dips,” said a JP Morgan report. “The question is whether the company's aggressive 4G investment can translate into better long-term growth. In this regard, we are more cautious than the market." In the first quarter, China Mobile faced difficulties from "unprecedentedly intense competition" and more substitution of traditional communication businesses by new technologies and businesses, said Chairman Xi Guohua. The firm's net profit margin "was maintained at a relatively high level of 20.7%" in the first quarter, said Xi. However, JP Morgan, quoting China Mobile's management, said margins would be on a declining trend, and the net profit margin will have to converge to 10% to 15% at global operators in the long run. "We expect earnings to dip due to margin pressure, high capital expenditure and a dilutive 4G profit." China Mobile's total customer base grew by 16.01 million to 726.31 million in the first quarter from the fourth quarter last year, and its 3G customer base rose by 26.44 million to 114.37 million.

## Two competitors report better profit growth than China Mobile

China Unicom's net profit surged 88.6% in the first quarter to CNY1.9 billion as its 3G business boomed. Revenue was CNY70.6 billion, an annual growth of 15.4%. The 3G business contributed 55% of China Unicom's total mobile income of CNY19 billion by the end of the quarter, up from 43% in the same period a year ago. By the end of the first quarter, Unicom's 87.8 million 3G subscribers still lagged behind the 114.4 million for market leader China Mobile. The company said sales expenses increased by 22.8% in the first quarter to CNY10 billion to "respond to the keen market competition".

China Telecom's net profit rose 10% year-on-year in the first quarter to CNY4.7 billion. It was the first increase in earnings since the country's third-biggest mobile telephone operator in terms of users started offering Apple's iPhone in March last year. Revenue grew 14.6% to CNY77.8 billion. The Beijing-based firm announced it would sell to its parent, China Telecommunications Corp, the 80% stake it holds in E-surfing Media. China Telecom said it expected to realize a gain of CNY670 million, which would be used as general working capital. The company said a net 7.41 million new mobile subscribers were added in the first quarter for a total of 168.03 million, of which 78.07 million were 3G subscribers. That compared with China Unicom's 250.7 million mobile users and China Mobile's 726.3 million.

- The Hong Kong government has failed to appraise fully the negative impact of its plan to reassign 3G spectrum in use and the significant increase in license fees on mobile services, according to PCCW's HKT, the city's largest telecommunications network operator, and SmarTone Telecommunications. HKT, SmarTone, CSL and Hutchison Telecommunications Hong Kong earlier closed ranks to try to convince the government to follow international practice and automatically renew all 3G spectrum allocations in the 1.9 to 2.2 GHz band, which are due to expire in October 2016. HKT said the government has not conducted the requisite impact assessment for its plan.
- Customers would be required to present their ID cards when they apply for fixed-line telephone services or buy wireless internet cards if a draft proposal by the Ministry of Industry and Information Technology (MIIT) is implemented. The Ministry is seeking public opinions on the draft until May 15. "It's quite hard for Chinese telecom carriers to effectively achieve the registration goal," said Yang Haifeng, a Beijing-based telecom industry insider, adding that they are not able to effectively supervise the millions of mobile phone stores across the country. Among China's 1.13 billion mobile phone owners, four out of 10 did not register their ID information, according to Chen Jinqiao, Deputy Chief Engineer at the China Academy of Telecommunication Research.
- China Mobile and Far EasTone Telecommunications, Taiwan's No 3 operator, will share services and sales channels as part of a broad cooperation deal after a strategic stock investment accord collapsed. Taiwan saw its telecommunications sector as too sensitive for investment from the mainland. The new agreement covers retail channels, cloud connectivity and digital services. China Mobile Chief Executive Li Yue said the company's income from Taiwan rose nearly 40% in the first 11 months of last year while the number of roaming customers in Taiwan grew 15%.

# RADIO, FILM & TV

## Baidu acquires PPS Net TV

Baidu has acquired online video service provider PPS Net TV for USD370 million to merge with its video arm iQiyi to fend off strong rivals and strengthen its mobile business. Baidu has been playing catchup with rivals including Tencent in the online video streaming business. PPS, which has a large mobile application user base, could complement Baidu's existing video streaming site to better challenge market leader Youku Tudou. The combined new entity may become China's largest online video platform by number of mobile device users and overall video viewing time. Shanghai-based PPS, operator of the online streaming site PPS.tv as well as personal computer and mobile device-based video apps, will become a sub-brand of iQiyi and its team will stay after the completion of the acquisition, which is set to close in the second quarter of this year. Baidu is expected to support the merged entity strongly in funding and advertising. Xu Weifeng, President of PPS, said its mobile app on both Apple's iOS and Google's Android operating systems now has an average of 13 million users daily, and is adding 400,000 new users every day. Figures from iResearch forecast total online video revenue in China to reach CNY13.7 billion this year, up from CNY9.5 billion in 2012, and audience size, excluding mobile users, to grow to 483 million this year, compared with 445 million last year. China had 1.15 billion mobile subscribers at the end of March, which is the possible audience for online video services. Gong Yu, Chief Executive of iQiyi, said the merger will improve the experience of users and "deliver better marketing value and a wider range of options for advertisers".

- To tap into the growing demand for movies, Hong Kong film company Emperor Motion Pictures and UA Cinemas have announced a tie-up to invest in and operate cinemas in China aimed at mid-market to high-end filmgoers. China is the No 2 film market worldwide, with box-office spending of CNY17 billion last year, according to the State Administration of Radio, Film and Television (SARFT). The greatest potential for cinema operators was in second and third-tier cities.
- China's culture and entertainment industry is predicted to grow at 20%, and could be worth CNY5.5 trillion within the next seven years, a study by Deloitte has predicted. The film industry in particular is set to experience unprecedented growth, with expected box office earnings of CNY23 billion this year. Last year, another 3,800 new cinema screens were built, bringing the total number to 13,118, according to the report by Deloitte. The other fastest growing sector was online games, according to data from iResearch, which showed that total sales were CNY58.3 billion, up 22% on 2011.
- A number of Chinese websites offering movie downloads went offline after Beijing police closed the country's biggest high-definition movie site siluhd.com and detained eight of its top officials in an anti-piracy campaign. Websites including yyets.com, btscg.com and cnhd.com were temporarily offline in late April for maintenance and updates. Siluhd.com claimed to be China's top HD movie downloading site with tens of thousands of blu-ray movies, music and games, and over 1.4 million members. Police found more than 190 hard disks with over 10,000 pirated movies at the home of the company's CEO.

## SOFTWARE

### Shanghai named "Famous Software City"

Shanghai is planning to double its software and information service industry revenue in 2015, as it was named China's "Famous Software City". Last year, software and information revenue reached CNY362.8 billion, a year-on-year growth of 18%. In this year's first quarter, revenue reached CNY97.6 billion, also up 18%. In 2015, revenue will hit CNY600 billion and is expected to hit CNY1 trillion in 2020, according to Shanghai's Commission of Economy and Information Technology. At present, Shanghai has 24 software firms with annual income of over CNY1 billion. The city's new Lingang Software park in Fengxian district also opened on April 28 as part of the city's strategy to establish 2 million square meters of IT industrial parks. Shanghai plans to continue to develop new technologies to boost the IT industry in the city in areas such as cloud computing, mobile internet and big data analysis.

- China's biggest digital map provider AutoNavi and Nuance Communications will cooperate in voice-enabled navigation services, the firms said in Beijing. AutoNavi provides default map services for Apple's iPhone and iPad in China. AutoNavi's upgraded map services will now feature voice-enabled navigation functions based on Nuance's technology and Chinese language support. Nuance said its collaboration with AutoNavi will help Chinese drivers keep their "eyes on the road and hands on the wheel."

- The Southwestern University of Finance and Economics' Tian Fu College has designed an app for students to sign in at campus before the 11 p.m. curfew. After "signing in", AutoNavi's positioning system relays the student's location back to the university's servers. Students dubbed the new program "the sleep checker" and criticized the software for being a blatant invasion of privacy. Legal experts, however, say the rather limited range of the tracking system means it is not privacy invading in a legal sense.
- Microsoft and Hon Hai Precision Industry signed a global patent licensing agreement designed to protect Hon Hai clients from patent claims arising from the use of Google's Android and Chrome operating systems. "Foxconn's clients don't need to worry about infringing Microsoft's patents anymore, because Foxconn has signed the agreement for them," said Vincent Shih, Chief Legal Officer of Microsoft Taiwan. Hon Hai is the flagship listed entity of Foxconn Technology Group.
- Yonyou Software will establish a cloud-computing platform this year in a bid to improve profit margin after its net earnings tumbled 29% last year to CNY380 million, China's biggest enterprise software maker said in Shanghai. Yonyou has diversified from just selling software to providing enterprise clients software, on-site operation, and consulting services based on its platform.
- Amazon has launched its mobile application store in China for Android phone and tablet users in anticipation of the domestic unveiling of its Kindle device, the world's most popular e-book reader. Amazon became the first Western firm to offer a platform for paid Android apps in China. In December, Amazon launched an online e-book store and related apps in the mainland, which allow users to read downloaded digital books on mobile devices. Amazon's Kindle and Kindle Fire may debut in China soon.

## TELECOM MFG. CO.

### Xiaomi's latest smartphone also sold in Hong Kong and Taiwan

Chinese smartphone maker Xiaomi Corp is selling its newly launched Mi 2S model in Hong Kong and Taiwan in a bid to extend its reach beyond mainland China. The handset is equipped with a quad-core Snapdragon 600 chipset developed by Qualcomm, and runs on Xiaomi's latest operating system Miui V5. Xiaomi prepared 200,000 units for the first round of sales. Xiaomi also unveiled the Mi 2A – a version of the Mi 2S targeted at younger consumers, such as college students, priced at CNY1,499. Xiaomi, which posted CNY12.7 billion in revenue in 2012, sold 7.19 million smartphones last year and hopes to double the sales figure to 15 million units this year. It launched its first smartphones in August 2011. In addition to Hong Kong and Taiwan, some emerging markets, including Russia, India and Brazil, will also be targeted.

### EU trade chief seeks backing to investigate Huawei and ZTE

EU Trade Commissioner Karel De Gucht will seek the backing of EU states to investigate Chinese telecom equipment makers Huawei and ZTE, even without a complaint from European manufacturers, EU diplomats said. The European Commission has been collecting evidence to prepare a possible case against Huawei and ZTE over state subsidies it says allows the companies to undercut European firms. EU trade investigations normally begin with a company complaint, but European manufacturers Ericsson, Alcatel-Lucent and Nokia Siemens Networks have refused to cooperate with the Commission because of fears that they could be shut out of the growing Chinese telecom market in retaliation, people familiar with the matter say. EU countries are divided in their approach to Huawei, with Britain and the Netherlands embracing the Chinese firm as a major job provider, while others are more wary of Chinese inroads into the telecom sector. EU member states are also concerned about national security issues. Last year, Germany excluded Huawei from supplying the infrastructure for a national academic research network. Huawei denies receiving unfair subsidies and maintains that its advantages are due to low-cost manufacturing and innovation. It says it complies with international laws and maintains that its products are secure.

## ZTE has wound down its Iran operations

ZTE, China's second-largest telecom equipment maker, has essentially stopped doing business in Iran after a U.S. investigation into alleged sales of embargoed equipment, the company's Chairman told Reuters. ZTE said in March last year that it would curtail business in Iran following a report that it sold Iran's largest telecom firm a powerful surveillance system capable of monitoring telephone and internet communications. The company is now facing a U.S. criminal investigation over the issue. "We've basically stopped. We have to continue to service the products we had sold before – we have no choice," Hou Weigui said in an interview in Beijing. "We maintain communication with them to enable locals to carry out maintenance." Hou's disclosure is the first public acknowledgement of how deeply the scrutiny has affected the company. While he declined to give details on the amount of business ZTE had done in Iran before, Hou said the compensation it had to pay clients there for breaking contracts, and the fact that it had to halt some shipments even after equipment had been manufactured, were important reasons for the company's first-ever annual loss last year of CNY2.84 billion. Losses in Europe were also a big factor in the poor performance last year, he said. "I think we've really been treated unjustly on this issue. Others are selling the same things, and we weren't even selling the most," Hou said. "Now we face these restrictions, and others in the industry aren't facing any restrictions – they're all still selling. This is a bit unfair." Hou said local rival Huawei Technologies was still doing business in Iran, but he declined to elaborate. Huawei repeated a statement it issued in late 2011 that it would no longer seek new customers in Iran and would limit business activity with existing ones, the South China Morning Post reports.

## ZTE switches focus from network equipment to smartphones

ZTE Corp, which has already sold 500 million phones globally, expects mobile phone revenue to contribute up to half of its total income by 2015 from an expected 30% this year, thanks to surging smartphone sales, overseas expansion and 4G opportunities. ZTE is banking on mobile phones to help diversify business and overcome weaker demand for telecom equipment which drove the Shenzhen-listed firm into its first annual loss of CNY2.84 billion in 2012 since being listed in 1997. Its revenue fell 2.4% to CNY84.2 billion. Last year, ZTE sold CNY25.8 billion of mobile phones and the firm expects sales to grow 30% this year. "Mobile phones have become our strategic business, especially smartphones," Hou Weigui, ZTE's Chairman, said at an event to mark the firm's 15th year of selling mobile phones. This year, ZTE plans to sell 45 million to 50 million smartphones, up from 35 million units last year. It plans to sell high-end phones costing over CNY2,000 and also test the market for phones priced over CNY3,000, where Apple and Samsung dominate, He Shiyou, ZTE's Executive Vice President, said. In 2012, ZTE sold 65 million phones globally, taking up a 3.8% market share to rank No 4, according to International Data Corp (IDC). Overseas sales account for 60% of ZTE's total revenue. Chairman Hou Weigui expects the company to return to profit growth this year. He forecast revenue growth will average 10% annually over the next five years. Hou said he expects network infrastructure spending by European telecom operators to gradually pick up, and demand from carriers in Asia and Africa to also gain momentum. The issuance of 4G licenses in China would also be a boost for ZTE's business. China Mobile announced its capital spending would jump 49% year-on-year to CNY190.2 billion in 2013. More than half of the company's spending on networks will go on 4G projects this year. Last year was a tough year for Shenzhen-based ZTE, as it posted its worst annual financial report in 15 years.

## Huawei cuts forecast of sales to enterprises

Huawei Technologies, the world's No 2 telecommunications equipment maker, has slashed its long-term target for networking equipment sales to enterprises by a third, saying its earlier figure was too optimistic. Eric Xu, Huawei's Executive Vice President and one of its rotating Chief Executives, said that the company's enterprise division, which has been targeted for expansion as sales to operators turned sluggish, was now aiming to increase sales over the next four years to USD10 billion, well below the USD15 billion goal set last year. The division posted CNY11.5 billion in sales last year. He said that after assessing the market situation more closely, USD10 billion was a more realistic target. Huawei's enterprise division, which contributed about 5% to total revenues last year, sells network equipment to companies. The firm's carrier business, which accounted for nearly 75% of revenue, sells equipment to telecommunications operators. Its consumer group sells handsets and tablets to end-users and has been rising up the ranks of the booming smartphone market to compete with high-profile brands such as Apple and Samsung Electronics. Xu also said that Huawei expects its information technology business, which provides IT-related equipment and services to enterprises and telecommunications firms, to generate between USD800 million and USD1 billion in revenue this year. Eric Xu also added Huawei was “not interested in the U.S. market any more”, as U.S. security officials and politicians have repeatedly identified Huawei as a threat to U.S. national security – an allegation the Chinese company has consistently denied. Although Huawei has done business with 45 of the world’s top carriers, it failed to get contracts from any leading operators in the U.S. In October, a U.S. congressional report had officially branded Huawei and ZTE a threat to national security and advised U.S. companies not to buy their equipment, the South China Morning Post reports.

Eric Xu also said Huawei has no intention of being listed in the near future and would rely on organic growth as it has done in the past 25 years. As a private company, Huawei does not have enough funds for mergers and acquisitions (M&As), he added. He made the remarks during the 2013 Huawei Global Analyst Summit in Shenzhen. The company posted eye-catching results last year by achieving a 32% jump in net profit to CNY15.38 billion. Xu said he is neither optimistic nor pessimistic about the carrier networking business this year. “It is hard to say if the worst time for European telecom operators has passed. I expect a similar industry growth rate worldwide this year as that in 2012,” he said. Global spending on carrier infrastructure is expected to grow only 3.4% in 2013, according to Gartner Research. 4G projects in China are also unlikely to create a significant boost for Huawei’s revenue this year, according to Xu.

## China Wireless aims for China's No 1 spot

China Wireless Technologies, China's third-largest smartphone vendor, believes demand for low-cost phones will help it eventually overtake market leaders Samsung Electronics and Lenovo. A 50% surge in smartphone shipments will allow China Wireless to pass Lenovo for the No 2 spot this year, though catching Samsung will take longer, Chief Financial Officer Jiang Chao said. “Lenovo's share is only 2% higher than our company's, so we will catch up to them very fast,” Jiang said in Shenzhen. China Wireless surged to third place in the smartphone market in the three months to September, up from sixth in the preceding quarter, according to IDC. For 2012, Samsung led China’s smartphone market with a 17% share, against 11% for Lenovo. China Wireless did not rank among the top five for the full year. Smartphone shipments in China will rise 44% to 300 million units this year, driven by handsets costing about CNY700, IDC forecast in December. Demand is surging as China Mobile aggressively encourages users of second-generation networks to upgrade to third-generation services with low and middle-end smartphones. China Wireless, formed in 1993, has sold phones through China Mobile for a decade. Yuji Fung, Hong Kong-based Analyst with Oriental Patron Financial, said that strong smartphone growth was driven by the operator channel via handset subsidies. China Wireless will boost smartphone shipments to 30 million units this year, and 40 million units next year, from more than 20 million units last year, Jiang said. Samsung shipped 37.1 million smartphones in China last year and Lenovo 23.5 million, according to IDC.

- Huawei Technologies plans to increase hiring by 73%, or more than 5,500 employees, in Europe from the current size in the next four or five years. Huawei Europe will employ a total of 13,000 people in during the period, up from 7,500 now, Bloomberg News reported, citing Huawei’s acting Chief Executive Officer Ken Hu in Paris. While Chinese companies like Huawei and ZTE accelerate overseas expansion, their counterparts reduce their workforces in Europe. Paris-based Alcatel-Lucent said it would cut 5,500 jobs while Stockholm-based Ericsson announced it would eliminate 1,550 positions in Sweden.
- A report on network security by the U.S. Government Accountability Office (GAO) could have positive implications for Huawei Technologies and ZTE's business in the country. It found no evidence of cyber-security incidents affecting the country's telecommunications networks from January 2010 to October 2012. The GAO report said: “Specifically, of the over 35,000 outages reported to the FCC over this time period, none were related to traditional cyber threats.”

# WEB

## Mobile shopping the highest in smaller cities

Smaller cities in China have shown the fastest growth in shopping through mobile devices.

Third- and fourth-tier cities – those at county level – occupied the entire top 10 list with the highest frequency of mobile payment usage, according to Alipay.com Co, China's biggest online payment company. Lhasa topped the list with 14.48% of Alipay users accessing the service via mobile devices. By contrast, Shanghai had a mobile payment ratio of 8.44% last year. Alipay represented 46.9% of the online payment market in the third quarter of last year. "The gap between big cities and small ones is narrowing in terms of internet coverage with the popularity of smartphones," said Zhan Yongsheng, Manager of Lifestyle Services at Alipay. "Paying telephone charges while taking a bus, buying a lottery ticket while walking… these may probably be the most typical examples of mobile payment in small cities," he said. Last year the number of people who used payment services through mobile devices more than tripled and the money they spent increased by 546%, according to Alipay. The number of transactions via mobile devices accounted for 9.2% of the total. First-tier cities, such as Beijing, Shanghai and Guangzhou, remain strongest in the sheer size of mobile payment. People in these cities spent an average of CNY128 on each payment via mobile devices, while those in third-tier cities spent CNY87. Taobao.com, China's biggest consumer-to-consumer (C2C) online marketplace, said it had 300 million mobile users by the end of last year, which is close to the total population of the United States, compared with the 10 million mobile users it had in 2010. Zhejiang province, where Alibaba Group Holding is based, claimed nearly 15% of all online payments last year, followed by Guangdong province, Shanghai, Beijing and Jiangsu province, the China Daily reports.

## QR-code scanning opens door to malicious software

Shoppers scanning QR-codes for discounts are getting exposed to malicious software. A growing number of people are reporting scams involving the codes, the black-and-white squares now seen on many advertisements. Instead of receiving a bonus, many people say they have fallen victim to crooks. Media in Shijiazhuang, the capital of Hebei province, reported that a woman had money wiped from her phone account after scanning a QR-code on an ad on the wall of a bus stop. The woman immediately received a text message saying she had been charged CNY100. Risks include corrupted privacy settings, identity theft, links to dangerous websites, and even viruses. No effective measures or rules have been released to control the growing misuse of the codes. More than 351,000 links contained in QR-codes were found to be dangerous and about 2,550 viruses were detected by the end of February, according to statistics from a Tencent antivirus program, which means 1.5 out of every 100 smartphone users may be attacked by a virus or access malware when scanning the codes. Some people have now become wary of using them. Li Yuxiao, Professor of Social Networks at the Beijing University of Posts and Telecommunications, advised mobile phone users to scan QR-codes from regular websites instead of from posters on the street or other sources, the China Daily reports.

## Spotify extends music-streaming service in SE-Asia

Spotify, the European online music-streaming service, has stepped up its expansion into Asia by launching in Hong Kong, Singapore and Malaysia. It is the world's leading music-streaming service, with more than 24 million users and 20 million tracks available on demand. The international roll-out in April included Hong Kong, Singapore, Malaysia, Mexico, Latvia, Estonia and Iceland, which brings the service to 28 markets worldwide. Founded in Stockholm in 2006, Spotify made its debut in October 2008 after securing deals with major and independent record labels. This year, it expects to pay about USD500 million to music-rights holders. Spotify General Manager Jonathan Forster said Hong Kong music fans could also try its premium subscription for HKD48 a month, which has no advertising. The service already has a extensive catalogue of tracks from Hong Kong and Taiwan. Hong Kong tycoon Li Ka-shing was an early investor in Spotify through his charitable institution, the Li Ka-shing Foundation, which made investments in 2008 and 2009.

## Guidelines help China to take step forward in data privacy

Mainland China is one of the few remaining major markets in Asia without a comprehensive law regulating the use and handling of personal information, according to Scott Thiel, Partner in the intellectual property and technology practice at DLA Piper Hong Kong. Data privacy is governed by the constitution, criminal law, civil law, tort law and some sector-specific regulations. Fundamental concepts such as "personal information" and "consent" have not previously been well defined and, as such, the protection of data privacy on the mainland is piecemeal at best. The ambiguity concerning the obligations of users of personal information has recently been significantly addressed by the issuance of the "Information Security Technology – Guidelines for personal information protection system for public and commercial services". The guidelines, which came into effect on February 1, represent the mainland's first significant attempt at defining data privacy concepts for more general application. That said, their applicability is still limited, as they only cover personal information in computer networks, Thiel told the South China Morning Post. Furthermore, the guidelines only apply to the private sector as government authorities and other institutions exercising public management responsibilities are excluded. More importantly, the guidelines only serve as a voluntary national standard and therefore do not have the force of law – thus compliance is not mandatory. However, in practice, it is possible that they may be used for reference by local authorities and courts, and as such, are not necessarily devoid of legal significance. It is expected that the guidelines will serve as an important reference in lawmaking, when China enacts its own comprehensive data privacy law.

## China Mobile seeking operator for Fetion chat app

China Mobile has launched public bidding for operating its Fetion service, an instant messaging tool similar to Tencent Holdings' WeChat. Previously, Fetion was solely operated by Beijing Ultrapower Sofware Co. China Mobile's move is seen by many analysts as a strategic step to restructure Fetion and take on Tencent's WeChat. China Mobile's Guangdong branch is conducting the bidding process. Four subsidiary projects, worth CNY638 million, are listed in the tender. Zhang Qianshan, General Manager of Ultrapower's Strategic Investment Department, said China Mobile wants to enhance its presence in the mobile internet sector. Li Zheren, Analyst with Beijing Gaohua Securities, expected Ultrapower to win the majority of contracts from China Mobile, based on its experience and talent pool. Launched in May 2007, Fetion once enjoyed great popularity and attracted hundreds of millions of users in China, but recently lost ground to competing services from Tencent and Sina. Chinese telecom carriers would like to start charging companies for operating web chat apps because they use too much traffic on their wireless networks, while returning few benefits as fewer people were using the voice and short messaging services provided by telecom operators. Analysts expressed pessimism about Fetion's prospects due to Tencent's dominance in the sector. Kevin Wang, Director of China electronics research at IHS iSuppli, said it is good for China Mobile to bring in more powerful partners to its Fetion service. "New partners may introduce fresh ideas in terms of product design and marketing, and may help improve Fetion's user experiences," Wang told the China Daily.

## Alibaba steps up fight against counterfeits

Alibaba Group is tightening its focus on eliminating counterfeit merchandise across its online trading platforms with the help of five key government and law enforcement agencies. Jack Ma, Chairman and Chief Executive of Alibaba, described China's counterfeiting issue as "a spreading toxic cancer that must be dealt with". Alibaba is strengthening its online system for identifying, confirming and taking down counterfeit product information on its platforms and penalizing merchants caught violating intellectual property rights (IPR). Government agencies will track and locate the identified sources of counterfeit goods and shut down the operations. Last year, Alibaba dealt with 94 million items that infringed copyrights and handed out punishment 900,000 times. In the first three months of this year, China's public security organs have dealt with 3,747 counterfeit cases, which involved a total value of CNY24.2 billion, said Meng Qingfeng, Director of the Economic Crime Investigation Department of the Ministry of Public Security. In December, a report from the United States Trade Representative said that Taobao, owned by Alibaba, "has worked with rights holders to significantly decrease the listing of infringing products for sale through its website, and has committed to continue working to streamline its complaint procedures to further reduce listings of counterfeit products".

- Alibaba Group Holding has chosen banks for a loan of USD8 billion, three people familiar with the matter have said. Founder Jack Ma said in January that he would step down as CEO on May 10, stoking speculation the company may be preparing for an initial public offering (IPO). About USD4 billion of the loan proceeds will refinance a facility of that size signed last year for the privatization of Alibaba's Hong Kong-listed entity Alibaba.com and a buyback of a stake in itself owned by Yahoo. The rest would be used for general corporate purposes.
- Only 943 Chinese group-purchase websites, or less than 20% of the number at the industry's peak, have survived. The number fell because large-scale websites in the

sector have been very competitive and attracted the most customers, the report said.

- China and the U.S. have agreed to work together on cyber-security although the U.S. continues to accuse Chinese government entities of conducting cyber-espionage and attacks against the U.S. government and businesses, and stealing government and commercial data. The Chinese government has stated repeatedly that it opposes any form of hacking.
- Yahoo China has come in for criticism after announcing that its e-mail service will be deactivated and all user content deleted from August 19, a move that is likely to affect about 5 million Chinese accounts. User content and addresses can be transferred to an Aliyun account. Yahoo user IDs will remain operational until the end of 2014. Hitwise, an internet data service company, said the scrapping of Yahoo's mail service in China would affect about 2% of China's overall e-mail users, or about 5 million accounts. Alibaba Group took over Yahoo China's business operation in 2005. Yahoo Mail ranked No 6 in March in market share in China. QQ Mail is market leader.
- Publishing industry professionals have expressed concern over a number of online promotions in which copyrighted e-books are being offered for free. China's largest online bookseller Dangdang.com is offering almost all of its e-books for free during some days of the week, while rival Jingdong Mall also announced that it will offer 50,000 e-books for free. Analysts warned that a price war between the industry's main players could be hugely destructive to the sector. Chinese writers are complaining about lost royalties.
- Online shoppers should be granted a seven-day cool-off period, within which they would be able to get a refund, according to a draft amendment to the consumer rights law. Businesses would have to refund consumers within a seven-day period after the goods are returned. The proposal would also apply to TV and phone sales. China's consumer rights law, which was enacted in 1993, does not have stipulations on the protection of online consumer rights. The requirement would not cover consumer-to-consumer (C2C) transactions, which account for almost 70% of online sales.
- The Ministry of Industry and Information Technology (MIIT) will not be involved in telecom operators' deliberations over charging for Tencent Holdings' WeChat mobile messaging application. Zhang Feng, Director of the Ministry's Communications Development Department, said the decision to charge for internet and mobile internet businesses is a market-driven practice, one in which the government does not take sides. Tencent said that users will not be charged for its WeChat service.
- Qihoo 360 Technology Co was ordered to pay CNY5 million to Tencent for illicit competition, and also has to publish apologies in major media for 15 straight days, the Guangdong Province Higher People's Court ruled. Chief judge Zhang Xuejun said, however, there wasn't enough evidence to support Tencent's demand for CNY125 million in damages. Qihoo said it would appeal to a higher court. Tencent filed the lawsuit in early 2012 after Qihoo launched software to block users from installing other value-added services related to Tencent's online chatting tool.
- NetEase has entered the digital music market by releasing a service that enables users to listen to and share music on mobile devices. William Ding, NetEase's CEO and Director, said earlier that the full portfolio of the company's mobile internet services will be released in the first half of 2013.
- Alibaba Group is to pay USD586 million for an 18% stake in Sina's Weibo microblog service. The two companies are to work on user account connectivity, data exchange, online payments and online marketing, Sina said. Weibo has more than 500 million users for its microblog services while more than 800 million people use Alibaba's Alipay service. "Cooperation between the top social media platform and the top e-commerce platform will create huge business opportunities," said Sina's Chief Executive. Alibaba has the option of increasing its stake to 30% within a stipulated time.
- Youku Tudou, China's largest online video company, says original programming and a push into mobile content will help the company as it seeks to post its first profit since a 2010 initial public offering (IPO). The company faces growing competition in the online video market. Baidu has expanded its video service with an acquisition as it seeks a greater share of advertising revenue that is projected to rise to CNY16.2 billion next year from CNY1.36 billion in 2009, according to Shanghai-based iResearch. Youku Tudou's net loss more than doubled to CNY424 million last year from CNY172 million a year earlier. Youku Tudou held about 76% of the online video market last year.

- Haitao or “sea shopping” – buying from overseas online shopping platforms – has become an increasingly popular option for many consumers attracted by low prices and guaranteed quality. MasterCard estimates the cross-border online shopping market in China reached about CNY18 billion last year and could hit CNY50 billion by 2015. So far, mum-and-baby products, medicines, and cosmetics are the best sellers on the sites.
- Alibaba Group Holding’s net profit jumped to USD642 million in the quarter through December from USD237 million a year earlier, as revenue rose 80% to USD1.8 billion. The value of goods sold on Alibaba this year could reach about USD330 billion as more Chinese consumers shop online, according to iResearch.

## ONE-LINE NEWS

- The number of internet cafés in China fell in 2012, due to a boom in household broadband and mobile internet. The country had 136,000 cyber cafés nationwide at the end of 2012, a decrease of 6.9% year-on-year, according to an annual report released by the Ministry of Culture. It is the first decrease in eight years. The revenue of internet bars plummeted by 13.2% to CNY53.7 billion. The total number of computers installed in internet cafés increased by 3.7% to 11.95 million. Internet cafés employed more than 1.03 million people. The report predicted a further downward trend for the industry.
- The Pentagon's decision to use a commercial satellite operated by a Hong Kong-based and listed company was questioned by U.S. Republican Representative Mike Rogers, who said the use of China's Apstar-7 satellite “exposes our military to the risk that China may seek to turn off our eyes and ears”. However, a satellite expert has played down the fears, pointing out that the satellite was made by a French company. The Pentagon uses the satellite to provide communications for its Africa Command.
- Liquidnet, one of the largest dark pool operators in Asia, believes trading in Hong Kong on electronic platforms will continue to grow despite the regulator tightening regulations. Dark pools are electronic platforms that have emerged in recent years in advanced markets such as the United States and Britain. They allow traders to buy or sell large blocks of shares without having to disclose their identities, the volume or prices, as opposed to requirements at traditional exchanges. The 14 dark pool operators in Hong Kong represent just 3% of the total market turnover, but they represent 50% of all trades.
- China will invest CNY5 billion in an industrial park in Tianjin to make products for Beidou, the Chinese navigation satellite system. Output at the 27-hectare Beidou Strategic Emerging Industrial Park is expected to be worth CNY10 billion by 2017, said Miao Qianjun, Secretary General of the Global Navigation Satellite System and Location-Based Service Association of China. He added that 30 to 50 companies will be operating in the park by 2017. The industrial park, built by the Association and Tianjin’s Wuqing district government, is expected to welcome its first 20 companies in June.

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**Contact:**

Flanders-China Chamber of Commerce
Voldersstraat 5, B-9000 Gent
Tel.: +32 9 264 84 86/82 – Fax: +32 9 264 69 93
E-mail: info@flanders-china.be
Website: www.flanders-china.be

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The FCCC Newsletters are edited by Michel Lens, who is based in Beijing and can be contacted by e-mail michel.jc.lens@gmail.com . Disclaimer: the views expressed in this newsletter are not necessarily those of the FCCC or its Board of Directors.