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HARDWARE

IBM opens Chinese server recycling plant

International Business Machines (IBM) has opened China's first dedicated plant for rebuilding and refurbishing old server computers, placing it at the forefront of a niche domestic market worth about USD18 billion by 2014. The firm said the new Shenzhen "re-manufacturing center", its ninth such facility worldwide, would help reduce the environmental impact of "e-waste" – discarded electrical and electronic devices – by extending the life of older information technology equipment that would otherwise go into landfills. Richard Dicks, General Manager at IBM's Global Asset Recovery Services unit, said the firm was "the first IT provider licensed by the government to re-manufacture servers in mainland China". The Shenzhen facility will initially handle hundreds of IBM's Power Systems-brand servers that the firm plans to buy this year from corporate customers, as they upgrade to new IBM equipment. Each server will be reconditioned, tested and certified by IBM or rebuilt to meet specific customer needs. Labelled "IBM Certified Pre-owned Equipment", these low-cost servers will be sold mostly to small and mid-sized businesses. IBM said the Shenzhen re-manufacturing center will rapidly expand to annually process about 100,000 low-end and mid-range IBM servers, personal computers (PCs), and servers from other computer brands by 2014. Technology research firm IDC said the Chinese market for used information-technology equipment would reach USD25 billion by 2014. Preliminary estimates by market research firm Gartner show that IBM led China, the world's second-largest information technology market after the United States, in total server sales last year. IBM's China revenue climbed 27% to USD2.51 billion last year, from USD1.97 billion in 2010 – seizing a 44 % domestic market share, the South China Morning Post reports.

Proview tells stores to stop selling new iPad

Proview Technology, which is battling Apple over the iPad trademark in China, has asked distributors to stop selling the new iPad after Apple announced its launch. The Higher People's Court in Guangzhou heard Apple's appeal on the trademark lawsuit on February 29 and is expected to make a decision in the coming weeks or months. Chinese media have reported that Proview is seeking up to CNY10 billion in compensation for trademark infringement. Proview has said it favors an out-of-court settlement, which usually involves the payment of compensation. Analysts have said the company needs funds to repay its creditors. Hejun Vanguard, a consulting company representing Proview creditors, said in a statement that the iPad trademark on the mainland belonged to them. Proview's main creditors are Bank of China (BOC), China Minsheng Banking, China Development Bank (CDB), China Guangfa Bank, Bank of Communications (BoCom), Shanghai Pudong Development Bank (SPDB), Hua Xia Bank and Shenzhen Pingan Bank. Experts say the chances are slim that Proview Shenzhen will be able to block the import and export of iPads and that it is unlikely the company will be able to meet all the requirements for filing a successful petition.

Shanghai's IC industry shows strong growth

Revenue of Shanghai's integrated circuit (IC) industry, which accounts for one-third of the total revenue nationwide, may grow 12% annually this year, according to Xue Zi, Deputy General Secretary of the Shanghai Integrated Circuit Industry Association (SIA). In 2011, Shanghai's IC industry revenue was CNY63 billion, up an annual 17.2%. The revenue may grow 12% year on year in 2012, according to SIA. By comparison, China's IC industry revenue will "remain unchanged or have single-digit growth" this year compared with a revenue of CNY157.2 billion last year, according to the China Semiconductor Industry Association (CSIA). In 2011, the revenue of the chip design sector in Shanghai grew 39.1% annually to CNY14.9 billion, compared with CNY12.8 billion in the IC manufacturing industry, which fell 4.2% from a year ago. "Chip design is the flagship sector of the whole IC industry chain representing innovation and the development level of the industry," said Xue. "The rapid growth of the design sector will fuel the revenue of manufacturing, assembly and testing sectors in the future." Four of the top 10 chip design firms in 2011 are from Shanghai, according to Chen Xian, CSIA's Secretary General.

Cloud computing center to be build on Pingtan island

In a bid to make the area a center for next-generation information technologies, a cloud data center will be built on the main island of Pingtan county in Fujian province, China's closest gateway to Taiwan. The center will be a platform to strengthen cooperation between the province and Taiwan in the cloud computing industry, benefiting both sides of the Taiwan Strait. China Telecom and Taiwan's Chunghwa Telecom have already reached an agreement to set up a cloud data processing center with 200,000 advanced servers on Pingtan Island. The local government believes that the program can attract CNY30 billion in investment, which would generate revenue of CNY14 billion annually from the software industry and other industries related with information services. The government expects the center to create 11,700 new jobs. An undersea communication cable connecting Fuzhou in Fujian province and the Tamsui district in Taiwan will be installed in the first half of the year to better serve the center. In February, the local government said they will make preferential policies designed to attract small and medium-sized enterprises from Taiwan.

Apple accuses Proview of misleading the courts

Following the launch of its new iPad, Apple accused Proview Technology (Shenzhen) of “misleading Chinese courts” and the public about its claim to the “iPad” trademark. Carolyn Wu, Apple's Spokeswoman in Beijing, said: “We respect Chinese laws and regulations, and as a company that generates a lot of intellectual property we would never knowingly abuse someone else's trademarks.” Proview Shenzhen, a subsidiary of failed Hong Kong-listed computer display maker Proview International, maintains that it did not sell its rights to two China-registered iPad trademarks, despite a Hong Kong court ruling last year that upheld Apple's ownership based on a December 23, 2009 agreement. But the Shenzhen Intermediate People's Court ruled in favor of the mainland firm in November in a trademark-infringement case filed by Apple. Apple appealed the ruling in the Guangdong Higher People's Court, which suggested last month that the two sides try to strike a deal. Proview Shenzhen had earlier said the China trademarks would cost Apple up to USD2 billion. “Our representatives approached Proview Shenzhen in 2009 and negotiated to acquire the rights to the iPad name – including 10 trademarks, two of which are registered in the PRC,” Wu said, noting that Proview had not used the iPad name for more than three years when their talks started. Dismissing Proview Shenzhen's claim that the iPad trademarks were not transferred, or that mistakes were made in handling the transaction, Wu said the firm's managers “were well aware of what they were doing and insisted on selling the trademarks through an affiliate company” – Proview Electronics in Taiwan. “Proview clearly made that arrangement so they wouldn't have to give the money to their creditors in the PRC,” she said. “Proview didn't want to pay its debts in 2009 when it sold the iPad trademarks, and because they still owe a lot of people a lot of money, they are now unfairly trying to get more from Apple for a trademark we already paid for.” Apple, which paid GBP35,000 for Proview's worldwide iPad trademarks, was sued by Taipei-based Proview Electronics in California last month in an attempt to rescind that transaction. Talks between Apple and a subsidiary of the Hong Kong-listed firm Proview International over the rights to the iPad name in China have stalled, Proview said. Taiwan-based Fubon Insurance, a major creditor of Proview Technology, has moved to have the company liquidated, based on USD8.68 million in outstanding debts dating back to 2010.

- Apple cut the price of its iPad 2 by USD100 on March 8, following the announcement of the new iPad. Customers on the Chinese mainland will now be able to buy the 16GB iPad 2 for CNY2,988. iPad 2 sales have risen since the price cut. The new iPad became available in Hong Kong on March 16 but is not yet officially on sale in mainland China. The new iPad in Hong Kong costs HKD3,888 for the 16 GB model, HKD4,888 for the 32 GB and HKD5,488 for the 64 GB version.
- PC sales in the Chinese market will increase 11.3% to 81.9 million units in 2012, almost double the global expansion rate of 4.4%, according to Gartner Inc. The penetration rate of PCs in China is lower than that of the developed countries, which means many domestic consumers will buy their first PCs, industry insiders said. China is expected to contribute 22% of the world sales this year. Hong Kong-listed Lenovo seized a record-high market share of more than 35% in the fourth quarter in China. According to IDC, the mainland's top five personal computer brands last year were Lenovo, Dell, Acer, Hewlett-Packard and AsusTek Computer.
- Samsung is the No 1 smartphone vendor in China and Apple is only No 5, but worldwide, Apple passed its competitor to become the biggest smartphone vendor in the fourth quarter, according to Gartner. Apple’s partnerships with China Unicom and China Telecom, China's second and third largest operators, give it access to about 34% of the nation’s 988 million mobile users, while Samsung targeted the whole market, including market leader China Mobile. Apple does not offer an iPhone compatible with China Mobile's TD-SCDMA network.
- IC companies will expand production capacity and invest heavily to upgrade technology, senior officials from SMIC, ASE and HLMC told a forum during the three-day Semicon China 2012 in Shanghai.
- In the first two months of this year, the production of mobile phones in China rose by 2.7% on an annual basis to 157.6 million units, according to the Ministry of Industry and Information Technology (MIIT). Low-cost Android-run smartphones costing under USD200 were a key growth driver in China, International Data Corp said. IDC added China’s share of the global market this year would be 20.7%, beating the U.S. share of 20.6%.
- Demand for Apple's new iPad in China is slower than for its first two tablets, with

prices already falling within the first week of it being offered by unauthorized sellers. They said they had to cut prices by close to 30% because of sluggish demand. “The market is basically saturated,” said a sales clerk at Buynow, an electronics mall in Beijing. Apple has not yet announced an official launch date for China. Last year, tablet shipments in China ballooned fivefold to 5.83 million, with the iPad grabbing a 70% market share, according to IDC. The new iPad already received the required China Compulsory Certification (3C) to enter the Chinese market.

- Apple CEO Tim Cook visited China and met with Chinese Vice Premier Li Keqiang, China Telecom Chairman Wang Xiaochu and senior executives of China Unicom. He also visited the Joy City Apple Store in Beijing. His predecessor Steve Jobs never visited China. Building stronger relations with the government was another likely reason for Cook’s surprise visit.

OPERATORS

China Telecom launches CDMA2000 compatible iPhone 4S

China Telecom started selling a version of Apple's iPhone 4S compatible with its CDMA2000 network on March 16. China Telecom offers black and white versions of the iPhone 4S in 16 GB, 32 GB and 64 GB versions, some of which will be free under certain contracts. Users who sign a two-year contract at a monthly fee of CNY389 will get a 16 GB handset free of charge. Lower contract fees provide a competitive edge over China Unicom’s iPhone offers. A two-year contract for the 32 GB model only requires a monthly payment of CNY489, which is CNY97 less than the same offer from China Unicom. The speed offered by China Unicom’s 3G network is on average four times faster than that of China Telecom, said Xu Zhen, Telecommunications Specialist with d1net.com, an information technology portal. China Telecom said Apple's iPhone will be good for its long-term development but might bring short-term profit pressure. Independent analyst Xiang Ligang said cooperation with Apple will not initially offer China Telecom short-term profits. “The carrier spends a lot of money on mobile phone subsidies, and the result is, at the moment, the more iPhones they sell, the more money they lose,” Xiang said. China Telecom spent CNY15.6 billion in 2011 on handset subsidies, up 29.1% from 2010, and sees no let-up for the moment. “The amount of money we'll spend on mobile phone subsidies this year will not be less than last year,” Chief Financial Officer Wu Andi said, although mobile handset subsidies as a percentage of mobile service revenue will continue to fall, “if subsidies on iPhones aren't included”. The figure has already declined to 22.9% in 2011 from 33.6% in 2009. The company has set 2012 capital expenditure at about CNY54 billion, up 9% from 49.6 billion in 2011, and 70% of the money is earmarked for upgrading broadband networks. China Telecom said 2011 profit rose 10.5% to CNY16.4 billion, as growing use of mobile phones offset a decline in its traditional fixed-line business. Revenue rose 11.7% to CNY245 billion.

China Mobile participates in Pakistan 3G auction

China Mobile Communications Corp has confirmed its participation in an auction of Pakistan’s third-generation wireless spectrum. Pakistan has been the only overseas market for China Mobile since it bought Paktel, a loss-making Pakistani carrier, for USD284 million from Millicom International Cellular in 2007. The company was renamed China Mobile Pakistan (CMPak), and its services were rebranded as “Zong” in 2008. If successful, China Mobile will offer the 3G services on a WCDMA network, which is different from the TD-SCDMA technology it is using in China. The Zong brand has seen the largest net growth in mobile users in Pakistan in the past three years, according to the Pakistan Telecommunications Authority, although CMPak is only the fifth-largest of Pakistan's six telecom operators. Zong had a user base of 13.2 million by October, rising from less than 1.5 million in 2007. Fan Yunjun, CEO of CMPak, said that China Mobile had invested USD1.5 billion in Pakistan so far. China Mobile is actively pushing for its homegrown 4G TD-LTE technology to be adopted worldwide. All three major Chinese operators have made tentative moves to expand overseas. In 2009, China Unicom (Hong Kong) agreed to a tie-up with the Spanish telecom company Telefonica, with each partner holding a stake in the other. This year, China Telecom plans to start selling a wireless service to consumers in the United States, and may even consider building or buying its own wireless network in the U.S., the China Daily reports.

Hong Kong's Hutchison to launch 4G service by June

Hutchison Telecommunications Hong Kong is preparing to launch its 4G mobile network “within the first half of this year” to meet rising demand for high-speed, wireless data services in the city. Chief Executive Peter Wong said the timing would depend on the wider availability of devices that supported the network. The operator, a unit of conglomerate Hutchison Whampoa, formed a joint venture called Genius Brand with HKT, the telecom arm of PCCW, which won a government license in 2009 to deliver citywide 4G services on a block of radio spectrum in the 2.6 gigahertz (GHz) band. Wong's 4G announcement followed that of HKT Group Managing Director Alex Arena, who said last month that HKT was ready to roll out its 4G services by the middle of this year. Huawei Technologies was contracted by Genius Brand in August last year to build and deploy an advanced mobile infrastructure based on the 4G standard “frequency-division duplexing, long-term evolution” (LTE). Wong said Hutchison Telecom had not yet drawn up plans to develop another 4G network on its own that would deliver services based on the 4G standard called “time-division duplexing LTE”. The company last month won a license to operate 4G services on a block of spectrum in the 2.3 GHz band, which it had acquired for HKD150 million in a government tender. Hutchison Telecom, which operates both wireless and fixed-line networks, reported a 35% increase in net profit to HKD1.02 billion last year from HKD755 million in 2010. The result was fueled by record growth in smart-phone sales and data usage in its mobile business, while its fixed-line business achieved steady gains, the South China Morning Post reports.

- China added 8.18 million 3G mobile service subscribers in January, bringing its total number of 3G users to 136.6 million, the Ministry of Industry and Information Technology (MIIT) said. The number of fixed-line subscribers fell by 409,000 to 284.7 million, while the number of mobile phone users increased by 10.35 million to 996.6 million. The number of broadband internet users rose by 2.51 million in January to 152.51 million. The main business revenues for China’s telecommunication industry saw a 12.2% annual growth in January to CNY81.63 billion.
- China Mobile Communications Corp plans to become a minority shareholder in China Broadcast Corp (CBC), which provides mobile multimedia broadcasting services, and help the company expand in rural areas. As of December 31, CBC was serving 336 cities, or 800 million people, in China. Subscribers to its free and paid services reached 40 million in 2011. CBC aims to have 100 million subscribers within three years.
- China Mobile said Lu Xiangdong resigned as Executive Director and Vice President amid a financial investigation. Lu, 52, oversaw the operator’s development strategy, planning and procurement.
- China Mobile said its net profit last year rose 5.2% annually to CNY125.8 billion. Revenue rose 8.8% to CNY528 billion. China Mobile's monthly ARPU for last year was CNY71, down 2.3% from 2010 as most new users live in rural areas. The company said capital expenditure for this year would be CNY131.9 billion, 2.6% more than last year. This does not include the amount that will be spent on the construction of its 3G, or TD-SCDMA, and 4G, or TD-LTE networks, as the money will come from parent firm China Mobile Communications. Chief Executive Li Yue said the company aimed to add 30 million 3G users this year and increase handset subsidies to CNY20 billion, a rise of 17.6% from last year.
- Shanghai Kingtown Hotel is suing China Unicom, accusing it of violating the Chinese Antimonopoly Law by forcing the hotel to pay for a bundled broadband service at a price much higher than the market price. China Unicom is arguing that the contract is binding because it was signed before the law came into effect in 2008.
- By the end of February, China Mobile, the country’s largest carrier, had 56.6 million 3G users, followed by China Unicom (Hong Kong)’s 45.9 million and China Telecom’s 41.2 million, according to figures released by the companies.
- China Mobile Chairman Wang Jianzhou retired on March 22 and was replaced by Vice Chairman Xi Guohua. Wang took the helm of China Mobile in 2004. In that year, the revenue of China Mobile was CNY192.4 billion and its net profit was CNY42 billion. Revenue reached CNY528 billon in 2011, while net profit was CNY125.9 billion. During the same period, China Mobile’s subscriber base grew to about 650 million in 2011 from 204 million in 2004.
- China Unicom (Hong Kong) said its profit margins will be “under pressure” as it faces

higher costs to expand coverage this year. The company will boost capital spending 30% to CNY100 billion, Chief Executive Officer Chang Xiaobing said at a press conference in Hong Kong. China Unicom's net income rose 14% to CNY4.23 billion last year, from a restated CNY3.7 billion a year earlier.

RADIO, FILM & TV

TVB and Shanghai Media Group set up joint venture

Hong Kong's TVB plans to form a joint venture with the state-owned Shanghai Media Group (SMG) to help it expand in the Chinese market. SMG's former Chairman Li Ruigang is expected to run the venture out of Shanghai. Li's only job title now is Chairman of Shanghai-based China Media Capital (CMC), a semi-official investment fund backed by SMG and China Development Bank (CDB). At CMC, Li impressed the industry by setting up a joint venture with U.S. filmmaker DreamWorks Animation to produce Chinese films using U.S. technology.

- Cao Shuming, Director of the China Academy of Telecommunication Research, said a national broadcasting network company would be launched by the State Administration of Radio, Film and Television (SARFT) by June. The authority will consolidate about 1,000 radio and television networks at various administrative levels into a single, national network.
- At its current growth rate, China is expected to become the world's second-largest movie market in a few years, with box office takings projected to top USD5 billion by 2015. In North America, revenue has fallen for two years straight, and ended 2011 with USD10.2 billion in ticket sales.
- Tencent Holdings officially entered the internet television industry by launching an exclusive partnership with China Network Television (CNTV), the online branch of China Central Television (CCTV). Tencent said it would initially put QQ, the most popular instant-messaging service in China, on TV. The domestic internet TV industry is expected to grow to USD1.38 billion by 2016 from USD50 million in 2010, according to Digital TV Research.

SOFTWARE

China to become world's largest mobile application market

China, already the world’s biggest mobile phone market, is now close to become the world's biggest mobile application market, thanks to a huge mass of mobile device users and great potential in the smartphone market, iResearch said. By the end of October, China’s Apple iOS installations among iPhone, iPad and iPod Touch users accounted for 13% of the global total, second only to the U.S. with 29%. In February, China passed the U.S. for the first time in new activations of iOS and Android smartphones and tablets, according to U.S.-based Flurry, a maker of software for tracking use of mobile applications. “China’s large population and emerging middle class make it an increasingly important market,” iResearch said in a report. The installed base gap between China and the U.S. is closing because “not only is China already the second-largest app economy, but also could eventually overtake the U.S. with the largest installed base of smart device users,” Flurry said. Last month, 23% of activations of mobile devices based on iOS or Google’s Android software occurred in China, compared with 22% in the U.S. China accounted for 8% of the world’s activations, while the U.S. led with 28% in January 2011, Flurry said.

TELECOM MFG. CO.

ZTE sold surveillance systems to Iran

Shenzhen-based ZTE Corp has sold the Telecommunication Co of Iran (TCI), Iran's largest telecom firm, a powerful surveillance system capable of monitoring landline, mobile and internet communications. The system was part of a €98.6 million contract for networking equipment. Government-controlled TCI has a near monopoly on Iran's landline phone services and much of Iran's internet traffic is required to flow through its network. ZTE documents reveal the deal includes hardware and software from some of America's best-known tech companies, including Microsoft, Hewlett-Packard, Oracle, Cisco Systems, Dell, Juniper

Networks and Symantec. ZTE has partnerships with some of the U.S. firms. As the U.S. has imposed sanctions on Iran, the hard- and software from U.S. companies was not supposed to be sold to Iran. ZTE Spokesman Li Erjian said his firm only sold standard equipment to Iran. “Our main focus for business in Iran is to provide standard communications and network solutions for commercial use to help upgrade their network.” Subsequently, ZTE announced it was no longer seeking to expand in Iran. “Due to local issues in Iran and its complicated relationship with the international community, ZTE has restricted its business practices in the country,” it said. ZTE Corp's full-year profit fell 37% to CNY2.06 billion in 2011, from a restated CNY3.25 billion a year earlier. Research and development (R&D) costs rose to CNY8.5 billion from CNY7.1 billion a year earlier, ZTE said. The company posted a 48% drop in fourth-quarter net profit, the third straight quarter fall, dented by weak telecom spending in Europe and narrower margins on handset sales. Net profit slid to CNY991 million from CNY1.89 billion a year ago.

Lenovo to double smartphone sales within one year

Lenovo is expected to more than double domestic sales of its smartphones in the next 12 months as it focuses on mid-priced handsets. The firm forecast to sell about 13 million smartphones in the year to next March, up from an estimated 6.2 million this year, according to a recent report by Bernstein Research. “Lenovo is betting big on mid-range smartphones in the USD100 to USD200 average selling price range, a segment we expect will see explosive growth,” Bernstein Research Senior Analyst Alberto Moel said. Lenovo's mobile internet and digital home business unit contributed about USD570 million of the firm's total USD8.4 billion revenue in the quarter to December. Chief Executive Yang Yuanqing said last month that he believed the mobile internet business would become a growth engine for the group. Lenovo's competitors in the mid-rage smartphone market include Huawei Technologies, ZTE, Coolpad-maker Yulong Computer Telecommunication Scientific (Shenzhen), Shanghai-based SIM Technology, Beijing Tianyu Communication, TCL Communication, and new entrant Xiaomi Technology. “We estimate that the segment will grow from about 18 million units last year to 70 million units in 2016, accounting for most of the smartphone growth in China,” Moel said. “We forecast the total revenue in this segment will rise from about USD3 billion last year to over USD10 billion in 2016.” According to Strategy Analytics and Bernstein Research, 84 million smartphones were sold in China last year. Most handsets were priced between CNY1,200 and CNY1,900, with those in the premium range priced above CNY1,900. Nokia, Samsung and Apple remained China's top-three smartphone brands last year, with a combined market share of about 60%, followed by ZTE and Huawei, with a combined 15% market share. Lenovo, which ranked 10th among the smartphone brands last year, sold most of its handsets through China Unicom. In the quarter to December, Lenovo sold 3 million smartphones and 3.5 million 2G phones, the South China Morning Post reports.

Australia bans Huawei from bidding

Australia has banned Chinese technology giant Huawei from bidding to help build a nationwide high-speed internet network. Australian Prime Minister Julia Gillard said the move was among “prudent decisions” to ensure the planned network functions properly. The company rejected suggestions it might be a security risk and said it had won the trust of global telecoms carriers. Huawei said it was disappointed at the decision. It has operated in Australia since 2004 and already works with the country’s major telecoms carriers. Australia plans to build a fiber-optic network to provide high-speed internet access to 90% of the country’s homes. Huawei said it is building similar networks in Britain, New Zealand, Singapore, Malaysia and other countries. Huawei has offered to limit all employees on the broadband project to security-cleared Australian citizens, open up its software code, and undergo a full audit of security measures. The office of Australian Attorney General Nicola Roxon' declined to comment on why Huawei was banned from bidding. It was not the first time Huawei was banned by a foreign government over alleged security concerns and its perceived ties with the military.
In 2006, the company and its rival ZTE were banned by India from its lucrative markets on security grounds. Beijing eventually persuaded New Delhi to lift the restrictions. In 2010, Huawei announced a USD2 billion investment to set up its biggest overseas research and development center in India.

- Hon Hai Precision Industry Co, the world’s largest contract manufacturer of electronics, posted record quarterly profit as sales of Apple’s iPhones and iPads climbed and costs for relocating factories dropped. Fourth-quarter net income climbed

64% to NTD35 billion from NTD21.4 billion a year earlier.

- Nokia launched its new Lumia 800C phone for China Telecom's CDMA2000 network. Although still the leader in the domestic market, Nokia has seen its share fall to 15% by the end of last year, compared with above 20% at the start of last year and over 30% at its peak in previous years. The phone runs on the Windows mobile operating system. Nokia Siemens will trim 350 jobs in China as part of its plan to slash 17,000 jobs globally, the joint venture said. The reduction will account for 3.5% of employee numbers at Nokia Siemens China, which now has 10,000 employees.

WEB

China set to unseat U.S. as top e-commerce market

China will overtake the United States as the world's largest e-commerce market next year, when its annual online sales hit CNY1.5 trillion, according to global consultancy Bain & Company. At that point, online sales in China would represent as much as 7% of the country's total retail sales, versus a 3% share of the total last year. Growth in online sales would be fueled by an expected increase of more than 60% in the total number of online shoppers and a projected 40% or more surge in their spending, Bain said. Currently, consumer-to-consumer (C2C) shopping portals such as Taobao.com take 80% of China's online market share, compared with the 20% by business-to-consumer (B2C) sites. "An explosive B2C growth is under way, fueling the expansion of China's entire e-commerce industry," said Serge Hoffmann, Partner at Bain and author of the report. "Many big traditional retail names are gearing up to seize the opportunity, including Wal-Mart," which took a controlling stake in Shanghai-based shopping website Yihaodian.com. A survey conducted by Bain found that more and more Chinese shoppers are shifting online for the sake of convenience and variety, although price is still the primary motivator. Around 19% of 600 respondents said convenience was the most important reason for them to purchase goods on the internet, and 15% pointed to variety as the major reason. According to the survey, the most popular categories for first-time online buyers are electronics, apparel, and groceries. Around 40% of online shoppers in first- and second-tier cities plan to increase their spending this year. Nearly half of the respondents decide where to shop online largely based on word-of-mouth recommendations and search engine results. Despite increasing competition, Taobao.com is still one of the fast-growing players. The site is using its 370-million-user base to feed traffic to Tmall, its entry in the B2C market, which it hopes to build into China's largest B2C site, the South China Morning Post reports.

Video web sites Youku and Tudou plan to merge

Youku, China' largest video site, is planning a merge with Tudou to establish a new company, Youku Tudou, based on a stock-for-stock transaction. Youku will have a 71.5% stake in the new company and Tudou will take the rest. The merger is expected to be completed in the third quarter of this year. Independent industry watcher Xie Wen said: "It is a clever move for both sides to reduce the cost of competition and further expand their advantages in the sector." Victor Koo, Founder, Chairman and CEO of Youku, said: "Youku Tudou Inc will establish a clear and dominant leadership position in China's online video sector and the combination will lead to improvement in the industry sector." Koo will become CEO and Chairman of the new company, and Gary Wang, Founder, Chairman and CEO of Tudou, will take a position on the board. The merger is valued at USD1.04 billion, according to Thomson Reuters, making it the biggest Chinese internet deal by stock swap on record. The two sides have long engaged in conflicts over content. The merger will be a blow to smaller competitors in the market, including Sohu and Tencent's video divisions. At the end of last year, Youku had a 21.8% share of the market and Tudou 13.7%, Analysys International said. Online video sites are still trying to turn a profit despite remarkable growth in advertising income. Both Youku and Tudou were still in the red as of the fourth quarter last year, the Shanghai Daily reports. Tudou reported a net loss of CNY511.2 million last year, and Youku reported a net loss of CNY172.1 million. Youku said its fourth-quarter net loss had widened 32% from the same period a year earlier to CNY49.6 million. Revenues doubled to CNY303.9 million in the quarter. On March 1, Tudou reported a CNY148.9 million net loss for the fourth quarter on a 70% jump in revenue. Last year, online video advertising revenues in China grew 123% to CNY4.84 billion, but the pace of growth is forecast to slow to 83.9% this year and to 33.6% in 2014, according to Analysys. Zhang Fan, Online Video Expert with Analysys, said: "The deal will hugely reduce the copyright cost pressure for them." Tudou will retain its brand and separate website as its content and users differ from Youku. Tudou has a stronger focus on user-generated content and social networking, similar to YouTube, the Financial Times added. “But the merger is just the first step. They have similar user groups, but Tudou is more grass roots and has more self-generated content. They will have to deepen cooperation or the merger will be meaningless,” said Xie Wen, former Yahoo China President. The number of internet users who watch videos online reached 325 million as of December 31, according to the China Internet Network Information Center (CINIC).

China Telecom joins Japan's IIJ in cloud computing

China Telecom is planning a big foray into cloud-computing services through a partnership with Tokyo-based Internet Initiative Japan (IIJ), an information-technology services provider that serves more than 600 companies in Japan. IIJ established a local subsidiary in Shanghai called IIJ Global Solutions China. China Telecom will offer its extensive fixed-line network and data centers across the country to the cloud-computing venture, while IIJ will build and operate a cloud-computing platform that will offer software, technology platforms and infrastructure to corporate customers. Market research firm Ovum has forecast that spending by Asia-Pacific enterprises on cloud services over the internet could reach USD12 billion in 2016, compared with an estimated USD2.9 billion last year. Last month in Hong Kong, the fixed-line network unit of Hutchison Telecommunications teamed up with information technology giant Oracle, consulting firm PricewaterhouseCoopers (PwC) and other major carriers in a consortium – the Asia-Pacific Cloud Alliance – that aims to accelerate adoption of cloud computing services by businesses across the region.

PayPal hopeful of door opening to China market

U.S.-based PayPal hopes to become the first foreign online payment service provider to win a domestic payment license in China, where the e-commerce market is worth an estimated USD121 billion. Senior Vice President for Asia Rupert Keeley said the company was cautiously optimistic that the People's Bank of China (PBOC) would give it a license, after applying late last year. China has kept a tight grip on its electronic payment services business, and industry players have often called for it to be relaxed. No overseas companies have so far been awarded a permit to process domestic payments in China. PayPal this month launched a smartphone app and plug-in device to let small business owners take credit and debit card payments through their mobile devices, and hopes to also offer it in China. The company said small business owners often lacked access to credit card payment devices, and risked losing customers. The service known as PayPal Here solved this problem, enabling anyone with an iPhone to receive credit card payments, although the service was expected to expand to include other smartphones as well. Hong Kong, where half of the population has a smartphone, is one of the first markets to get the service. At present, PayPal has offices in six Asian markets, including China, Hong Kong, South Korea and Singapore.

Chinese consumers shopping more online

Chinese consumers are more likely than their overseas counterparts to shop online and this trend will push traditional retailers toward a multi-channel business model, according to a survey among over 7,000 consumers globally by PricewaterhouseCoopers (PwC). They are nearly four times as often to make online purchases as those in continental Europe, and twice as often as those in the U.S. and UK. Up to 70% of the 905 Chinese respondents said they shop online at least once a week. Chinese consumers buy 60% to 65% of their clothing, footwear, books, music and films online rather than in physical stores. 70% of them make online purchases across all categories, compared with only 40% of their western counterparts. PwC said retailers will have to further embrace the multi-channel concept and to be successful, they need to fully integrate the physical store, online site, mobile, catalogue and call center to provide a seamless shopping experience. China said it aims to double its e-commerce sales to CNY18 trillion by the end of 2015.

- Apple has made Baidu the favored search service for local users of its personal computers. Apple's recently announced OS X Mountain Lion will deliver features specifically designed to support Chinese users, including the option to select Baidu search. Baidu had a 78.3% share of China's desktop internet-search market in the fourth quarter of last year. IDC ranked Apple as the No 11 personal computer brand in China last year, but pointed out that sales of iMacs and MacBooks almost doubled to 1 million units from about 600,000 in 2010.

- E-commerce became the biggest hot spot of consumers' complaints last year. The Shanghai Commission of Consumers' Rights and Interests Protection said it received more than 11,350 cases on e-commerce, up 161% on 2010. Consumers encountered a wide range of problems, including fake promotion, low product quality, slow delivery and bad service, said the Commission, which cited a lack of specific laws to regulate e-commerce.
- LeTV.com, a major online video provider, said it had ended its cooperation with a unit of Baidu, the search engine, which it said had infringed the copyrights of its licensed content. Gao Fei, Senior Vice President of LeTV, said that Baidu Player enabled users to search and watch pirated videos from various websites. "Pirated content would be a big problem for LeTV, which generates revenues by sub-licensing copyrights to other online video websites," said Shi Jialong, Hong Kong-based Analyst with CLSA Asia-Pacific Markets.
- Micro-blog users who had not submitted real names and ID card numbers could still put up posts on Beijing-based services such as sina.com, sohu.com and 163.com, as well as Shenzhen-based tencent.com, after the registration deadline. China has more than 300 million micro-blog users, more than half of its 517 million internet users, although many people have more than one account. Analysts said authorities wanted to use the real-name registration system to better monitor and control public opinion. About a quarter of micro-bloggers on 163.com had registered, it was reported.
- China's copyright authorities are investigating claims that Apple is offering some Chinese writers' works at its App Store without authorization. The Chinese Writers Alliance has filed a lawsuit in Beijing demanding CNY50 million in compensation. The lawsuit was filed on behalf of 22 writers, involving 95 books. Legal experts in Beijing said Apple lacked supervision on what is sold or freely provided at the App Store. Last year, Baidu deleted 2.8 million unauthorized works of literature following protests.
- Online payment firm Alipay said it will invest CNY500 million over three years to boost a cash-on-delivery service to e-commerce merchants and courier firms. It plans to introduce 10,000 cash-on-delivery (COD) terminals in the first half of this year in all first-tier cities. The firm eyes 60,000 COD terminals in three years. Online vendors will get paid 24 hours after delivery, down from three to four days now. Alipay said less than 20% of China's top-100 online business-to-consumer merchants were able to accept credit or debit card payments upon delivery.
- NetEase.com extended its licensing pact with Blizzard Entertainment, the creator and publisher of the popular World of Warcraft franchise. Their new three-year deal sets the stage for the domestic release of the fourth expansion pack of World of Warcraft called Mists of Pandaria. In 2011, NetEase's total turnover increased 32% to CNY7.5 billion from the previous year. Revenue from its online games business rose 35% to CNY6.6 billion from 2010. Blizzard has been working with NetEase since 2009, when the firm replaced The9 as the licensed operator of World of Warcraft in China.
- Vipshop Holdings, a Guangzhou-based online retailer, raised USD71.5 million, 39% less than targeted, in the first initial public offering (IPO) in the United States by a Chinese company since August. Vipshop runs an online discount store in China for branded goods through vipshop.com. Venture-capital investors DCM and Sequoia Capital China have stakes in Vipshop Holdings of 19.2% and 19.3% respectively.

ONE-LINE NEWS

- China will "standardize" regulations on telecommunications services and also plans to open the industry wider to private investment, the National Development and Reform Commission (NDRC) said in its report to the National People's Congress (NPC). The announcement follows widespread public complaints about the high cost and low speed of broadband services. The NDRC also welcomes private investors to invest more in the telecom industry when it is opened wider.
- Pacnet, the operator of Asia's largest privately owned submarine cable network, plans to accelerate development of new data centers across the region after launching a USD44 million facility in Hong Kong's Tseung Kwan O. Chief Executive Bill Barney said this new infrastructure, called CloudSpace2, was "the most advanced data center to open in Hong Kong in the last 10 years". Daniel Lai, Hong Kong's new government Chief Information Officer, said Pacnet's new facility helped "reaffirm Hong Kong's status as the prime location for data centers in the Asia-Pacific region".

- Taiwan's Foxconn Technology will become the largest shareholder in Sharp to help the Japanese company restore profitability to its TV manufacturing and liquid crystal display (LCD) businesses. Sharp has lost ground in recent years to more nimble South Korean companies like Samsung and LG. Foxconn is primarily a contract manufacturer, with premier clients that include Apple, for which it makes iPads and iPhones.

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