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HARDWARE

Apple's factories in China breaking employment laws, audit finds

An audit of Apple's Chinese sub-contractors found “serious and pressing” concerns over excessive working hours, unpaid overtime, health and safety failings, and management interference in trade unions. The audit claimed Foxconn workers could be working 100 hours per month in overtime and cited deadly explosions and exposure to poisonous chemicals at factories supplying Apple in China. The independent Fair Labor Association (FLA) found that more than half of employees had worked 11 days or more without rest. More than 43% of workers reported experiencing or witnessing an accident at the three plants audited. Foxconn is China's largest private-sector employer. The FLA report covered 178,000 workers in three Foxconn factories at Guanlan and Longhua in Guangdong and in Chengdu, Sichuan province. The report said all three factories studied exceeded the standard of 60 hours per week for workers. Overtime was only paid in 30-minute increments, so 29 extra minutes worked was not paid. Foxconn and Apple have agreed to compensate workers, and reduce increments to 15 minutes. While a third of employees surveyed wanted to work more hours so that they could earn more, and half felt their hours were reasonable, Foxconn has agreed to abide by the Chinese legal maximum working week. The FLA found that the union at Foxconn was dominated by management representatives. The organization said this was only the start of an in-depth investigation of Apple’s entire supply chain. Foxconn had agreed that employees would work fewer hours in future while having their income protected from loss of overtime. Interns would also be given new protections. The company has agreed to improve accident reporting and ensure elections of worker representatives without management interference. Around two-thirds of workers said their take-home pay did not meet their basic needs, and the FLA will now conduct a cost-of-living study in Shenzhen and Chengdu. “Apple and its supplier Foxconn have agreed to our prescriptions and we will verify progress and report publicly,” FLA Chief Executive Auret van Heerden said. Scholars from China, Taiwan and Hong Kong who researched working conditions at Foxconn plants for the past two years said that widely reported findings by the Fair Labour Association (FLA) did not give the full picture of labor abuses at its factories. The University Research Group issued its own findings, saying the FLA had failed to address workers' primary concerns and the latest problems of Foxconn, such as harsh management, failing to meet pay-rise promises, and using students from vocational schools as workers in the name of training.

Samsung to set up memory chip factory in Xian

Samsung Electronics announced it will open a USD7 billion memory chip factory in Xian, Shaanxi province, its largest overseas investment and also the largest foreign investment by value in western China. The Samsung NAND flash factory is expected to become operational at the end of 2013, with a monthly output of 100,000 units of chips. NAND flash is a type of memory widely used in smartphones and tablet computers. The Xian plant will also be the company’s second-largest memory chip production base worldwide. China is now Samsung’s largest overseas market. So far, the South Korean electronics maker has 23 companies and 155 sites in China. The country is the largest market for NAND flash memory. China’s NAND flash consumption accounted for half of the global market, reaching USD29 billion. Samsung’s move is expected to spark a new wave of investment by foreign companies in China’s western region.

Intel further promotes use of its chips in China

Intel has held its annual two-day Intel Developer Forum in Beijing. The forum is the company's biggest annual technical conference in Asia. Intel is collaborating with up to 10 local and international brands to introduce media tablets that run its chips and Microsoft's Windows 8 operating system later this year in China. Lenovo and ZTE are already set to release new Intel-based smartphones in summer. Research firm Gartner estimates semiconductor consumption in China will reach USD146.3 billion this year. Intel also announced a pact with the Beijing municipal government and the Chinese Academy of Sciences' Institute of Automation to establish the “China Intel Internet of Things” (IoT) joint laboratories. The three organizations will invest CNY200 million over the next five years on that initiative. Intel described IoT as a technological evolution that will allow data from billions of devices to be seamlessly connected, intelligently managed and securely interact over a network. The joint research will address the core technologies associated with IoT, including sensing, networking and processing. Jesse Fang, Managing Director of Intel Labs China, and Tan Tieniu, Director of the Institute of Automation's National Laboratory of Pattern Recognition, have been named as Co-presidents of the joint research facility in Beijing. Lenovo will launch the world's first Intel-chip smartphone, the K800, next month. It will run on an Intel Atom 1.6 GHz dual-core processor. The phone has a 4.5-inch 256 K color TFT display, an 800 megapixel CMOS camera, and uses a Lenovo customized Google Android 4.0 operation system. Lenovo President and CEO Yang Yuanqing said the company is now one of the top three smartphone providers in the Chinese market and will introduce more than 40 new phones this year.

Lenovo reports 44% increase in PC sales

Lenovo reported the biggest sales gain among the world's top five personal computer suppliers in the first quarter, up 43.7% to 11.7 million units, from 8.1 million units a year earlier, to seize a 13% global market share, according to preliminary estimates from market research firm IDC. It was the 10th consecutive quarter in which Hong Kong-listed Lenovo outpaced the global personal computer market, despite a worldwide shortage of hard disk drives last quarter and competition from complementary computing devices such as media tablets. Separate preliminary data from technology research company Gartner also found Lenovo with a 13% market share, but calculated a 28% year-on-year growth last quarter. Desktop computer shipments in China have decreased since the expiry last year of the government's rural subsidy program, which helped spur purchases of electronics products and home appliances in the countryside. Lenovo Chairman Yang Yuanqing has remained upbeat about the company's prospects in its home market. “The growth momentum in the China PC market will continue … due to its healthy economic growth and the relatively low PC penetration rates in emerging cities,” he said in February. IDC and Gartner both credited Lenovo for continuing to expand its distribution channels outside China to boost its computer sales.

Acer to double number of China stores

Taiwan-based personal computer maker Acer will double the number of its stores in lower-tier cities to 3,000 within three years to compete with Lenovo Group, and expects 30% year-on-year growth in 2012, Acer Group Vice President Scott Lin said. According to U.S.-based IT research company IDC, Acer overtook its U.S. competitors Hewlett-Packard and Dell by grabbing a 9.5% share of the Chinese market in the first quarter of 2012, up from 3.3% in 2009. In order to better compete, Acer will open about 400 stores in smaller cities annually, “and our target is to double the number from the current 1,600 within three years”, said Lin. Starting from this year, the company will place greater emphasis on the new generation ultrabook laptop and on China’s large rural areas. “Last year our sales revenue in China was USD2.3 billion, compared with USD790 million in 2009,” said Lin. In 2010, the company signed a cooperation contract with PC maker Founder Technology Group Corp, using the company’s brand name and distribution channels to increase Acer’s sales and channels. However, the company’s main rival Lenovo still leads in China with a market share of around 35%. “In some rural areas, Lenovo has a more than 50% market share. Acer will use Founder’s sales channels in those places to compete with it,” said an Acer statement.

Ikea to sell electronics with China-based TCL

Sweden's Ikea, the world's largest furniture maker, is set to enter the consumer electronics market with products developed in cooperation with China-based TCL Multimedia. Ikea plans to launch a line of furniture with integrated connected television and sound systems in five European cities in June, throughout seven European countries this autumn, and in its remaining markets in the summer of next year. The televisions, wireless sound systems and built-in CD/DVD/Blu-ray players will be designed specifically for Ikea. The cooperation with TCL isn't Ikea's first venture outside the furniture sector. Previously it has sold appliances developed in cooperation with Whirlpool and Electrolux. Ikea has 294 stores in 26 countries. TCL Multimedia sells televisions and other multimedia electronics under the brands TCL, ROWA, Thomson and RCA. It reported an operating profit of HKD883 million last year, helped by a 46% rise in the sales of LCD televisions to 10.9 million sets.

Court prefers settlement in Apple vs Proview case

A mediated settlement is the preferred solution to the lawsuit between Apple and Proview Technology over the iPad trademark, Qiu Yongqing, a judge with the Guangdong High People’s Court, said. If no agreement is reached through court mediation, a ruling is likely to be handed down by the end of May. The court opened a public hearing between Shenzhen Proview Technology and Apple on February 29, with both sides claiming they own the iPad trademark on the Chinese mainland. During the hearing, attorneys from both parties focused on whether Taiwan-based Proview Electronics had the right to represent Shenzhen-based Proview Technology at the sale of the iPad trademark. Attorneys for Shenzhen Proview said the two are independent companies and the contract signed between Taiwan Proview and Apple for the iPad trademark transfer on the mainland was invalid. Attorneys for Apple, however, said Taiwan Proview was linked with Shenzhen Proview and that Apple has the right to use the iPad trademark on the mainland. Apple and IP Application Development paid USD56,000 to Taiwan Proview for the iPad trademark transfer in 2009. But Shenzhen Proview refused to recognize the contract signed by Apple and Taiwan Proview. “According to Chinese law, both parties involved in the trademark transfer should apply with us together (to make the transfer legal). So Proview Technology is still the owner of the iPad trademark,” said Fu Shuangjian, Deputy Director of the State Administration for Industry and Commerce (SAIC). Fu’s remarks about the trademark ownership have no legal power, however, because the administrative and judicial systems are independent from each other, said Feng Xiaoqing, an intellectual-property scholar with the China University of Political Science and Law. Authorities would be wise not to act until the court’s verdict is announced, Feng said. Xie Xianghui, the attorney for Shenzhen Proview, said the two parties have not reached an agreement on the amount of compensation. The Shenzhen Intermediate People's Court rejected creditor Fubon Insurance's application to liquidate Proview Technology (Shenzhen) Company, allowing the failed display maker to pursue its legal fight against Apple over the iPad trademark, a lawyer for Proview said.

- NCR Corp will expand production and productivity at its Beijing manufacturing plant — NCR (Beijing) Financial Equipment Co. The production of Automatic Teller Machines’ volumes in NCR’s Beijing facility is predicted to grow 66% between 2009 and 2012, according to Rick Marquardt, Senior Vice President, Worldwide Operations for NCR. The Beijing plant has now extended its production portfolio to include retail point-of-sale terminals and kiosks. NCR is the ATM supplier with the largest installed base in China. The country is expected to overtake the U.S. as the world’s largest ATM market by 2013 and China’s installed base of Electronic Point-of-Sales terminals is forecast to double by 2016 from 2010.
- Semiconductor Manufacturing International Corp (SMIC), China's largest contract chipmaker, raised its earnings guidance for the first quarter to 14% to 15% over the previous quarter, up from 7% and 9%. “We have seen solid order momentum and an improved outlook from our customers across the board, exceeding our earlier expectations,” said SMIC CFO Gary Tseng. SMIC operates seven fabs located in Shanghai, Beijing and Tianjin, and is building a new fab in Shenzhen.
- Chongqing will spend CNY2.5 billion to build the country's first “supercomputer center” to aid scientists in their research. The construction of the center is expected to take 18 months and should finish by 2015.

OPERATORS

China Mobile launches cross-border 4G service

Roaming charges in Hong Kong decreased after China Mobile Hong Kong launched a cross-border data sharing service, which will make it cheaper to access services locked behind Beijing's internet firewall. China Mobile, the second operator to offer 4G services after CSL, will intensify competition among next generation mobile phone services in Hong Kong as subscribers to its 4G service can get cheaper access to news portals or social networks such as Facebook and Twitter, which are banned on the mainland. Although existing roaming services can still overcome the firewall, users face steep charges. Many Hong Kong mobile users tend to switch off their data roaming option and use Wi-fi services offered by mainland operators. China Mobile has cut roaming charges on voice services between the mainland and Hong Kong to HKD0.65 per minute, from at least HKD7. The cut took effect on April 25, when the new 4G roaming service was launched. The company is targeting the 500,000 frequent travelers between Hong Kong and the mainland. It already claims more than 20% of the Hong Kong market. CSL and HTC launched the first 4G handset two months ago. CSL has yet to disclose the number of 4G subscribers but said total subscribers for all services stood at 3.16 million at the end of last year. China Mobile's 4G monthly fees are similar to those under the 3G plan: HKD88 for 200 megabytes of downloads; HKD148 for 400 MB and HKD218 for unlimited data.

China Mobile and China Unicom profits miss estimate

China Mobile's profit rose 3.5% to CNY27.8 billion in the first quarter, lower than analysts' expectations. The company will boost capital expenditure to CNY131.9 billion this year, from CNY128.5 billion last year, as it upgrades networks and rolls out more Wi-Fi hotspots to help maintain its lead in smartphone users over China Unicom (Hong Kong) and China Telecom. “They are facing more extensive competition, so China Mobile is going to have to try hard to maintain its profitability level,” said Jim Tang, Analyst at Shenyin Wanguo Securities in Shanghai. “Definitely going forward, their margins will be under pressure.” Sales rose 7.8% to CNY127.4 billion. In the first three months of this year, China Mobile said it added 17.6 million subscribers, for a total of 667.2 million. Profit margins in the first quarter fell to 21.8%, from 22.7% a year earlier, as the company faced “increasingly intensified competition”, China Mobile said. The operator had a total of 649.6 million mobile-phone subscribers at the end of last year, including 51.2 million 3G users. That outpaced China Unicom's 199.7 million total subscribers and 40 million users of its 3G service. China Telecom was in third place with 126.5 million subscribers. Still, China Mobile's share of all wireless users would drop to 64% this year from 69% in 2010, Barclays Capital Analyst Anand Ramachandran estimated last month. The company is counting on the move to a 4G network, based on TD-LTE technology, to stem a decline in market share among users who watch videos and play games on their phones.

China Unicom (Hong Kong) posted first-quarter profit that missed analysts' estimates on weaker than expected subscriber growth in its third-generation service. The company said net income rose to CNY1 billion from a restated CNY145 million a year earlier. That compared with the CNY1.1 billion median of six analysts' estimates in a survey. Unicom lost the advantage of being the only Chinese carrier to offer Apple's iPhone with a service contract when China Telecom began sales of the device on March 9. Unicom added 8.84 million users to its 3G network in the first quarter, which Macquarie Analyst Lisa Soh called “a weak number”. Revenue rose 25% to CNY61.2 billion. Unicom had 48.9 million 3G subscribers at the end of last month. Its mobile customer base of 209.5 million was less than half that of China Mobile's 667.2 million.

Three Chinese operators geared for massive spending on 4G

Wireless infrastructure spending by China's three telecommunications network operators will top the USD11 billion mark in three years, driven by new 4G mobile investments. China Mobile is expected to lead that record capital outlay, according to a report by market research firm IHS iSuppli. The Hong Kong-listed carrier has spearheaded the adoption and testing of time-division long-term evolution (TD-LTE) technology, the high-speed 4G standard backed by China. The other recognized 4G standard, commercially deployed in other markets worldwide, is known as frequency division duplexing (FDD-LTE). The advanced 4G networks have theoretical internet download speeds of up to 100 megabits per second, faster than what 3G networks provide. IHS iSuppli forecast total wireless infrastructure spending in China will reach USD11.2 billion in 2014, as operators ramp up 4G mobile investments. That would be a significant increase from the estimated USD10 billion next year and USD9.9 billion this year. Commercial trials of China Mobile's pilot 4G network are expected to be completed this June, which may coincide with the possible release of a compatible iPhone from Apple. Miao Wei, Minister of Industry and Information Technology, told China Central Television (CCTV) last month it may take two to three years before 4G licenses are issued, because the government wanted first to double the number of TD-SCDMA base stations. China Mobile operates a TD-SCDMA 3G network with about 200,000 base stations, but most of its subscribers are still on its 2G network based on the GSM standard. The plan was to upgrade those TD-SCDMA base stations to TD-LTE within the next two to three years, according to Miao. China Mobile started offering its 4G data service to subscribers in Hong Kong this week, the South China Morning Post reports.

- China reached a new milestone when its mobile phone user base surpassed 1 billion, but the 3G penetration rate was still low at 14.3%. In the first two months of this year, China added 21 million new handset users to create a total of 1.01 billion mobile phone users, the Ministry of Industry and Information Technology (MIIT) said. The penetration rate of China, now at 73.6%, is still lower than that of the West, where it reaches over 90%. During January and February, China added 25 million new 3G users to reach a total of 143 million.

- Hong Kong's City Telecom has agreed to sell its telecommunications assets for HKD5.01 billion to Metropolitan Light, a company backed by British buyout firm CVC Capital Partners. The company plans to devote “very significant financial resources” to its multimedia operations. The assets include fixed-line communications provider Hong Kong Broadband Network (HKBN), which owns and operates a fiber-optic network serving 2 million homes and 1,700 commercial buildings in Hong Kong. City Telecom plans to become a major force in the free-to-air TV market.

RADIO, FILM & TV

China's box office lures U.S. studios

China's booming movie industry is attracting interest from Hollywood studios as they chase bigger box-office returns to offset tighter margins at home. Films with Asian and especially Chinese themes are becoming more prominent after Hollywood hit a 16-year low in movie ticket sales last year. Some of its biggest studios are setting up shop in China. DreamWorks Animation is setting up a base there, and Legendary Studios, which was behind the Batman series as well as “Clash of the Titans”, is also developing a venture. Keanu Reeves is making his directorial debut with “Man of Tai Chi”, now filming on the mainland and in Hong Kong. “The United States is still the biggest market. Within the next 10 years, we are not going to be the biggest marketplace; everything is going to change,” Executive Producer Tracey Trench told a forum at the Hong Kong International Film and Television Market (Filmart) last month. Filmart is Asia's major entertainment industry market and one of the world's top three events of its kind. This year, it attracted a record 648 exhibitors and more than 5,700 buyers, up 14% from last year. The U.S. pavilion had more than 40 exhibitors, or about 25% more than in 2011. China's film industry collected an estimated CNY13.1 billion last year – a jump of about 30% from 2010. Roughly 2,500 more cinema screens are expected to be unveiled in China this year. Its market is now the third-largest behind Japan and the U.S. By contrast, the Motion Picture Association says box office takings in the U.S. and Canada grew only 6.3% from 2007 to USD10.2 billion last year, while Asia-Pacific takings grew 38% to USD9 billion. Analysts say Chinese audiences are particularly drawn to movies that include Chinese references or elements of Chinese culture, so Hollywood is incorporating more and more Chinese content. The number of China’s cinema screens has increased from 4,753 in 2006 to 10,700 in 2011. Last year, China added on average eight screens every day. Still, China’s film industry is largely untapped as the average Chinese person only goes to cinema 0.3 times per year. The U.S. Securities and Exchange Commission is meanwhile investigating Hollywood studios. It has sent letters of inquiry to at least five studios in the past two months, including News Corp's 20th Century Fox, Disney, and DreamWorks Animation, asking for information about potential inappropriate payments and how the companies dealt with certain government officials in China.

- China has sent its largest delegation ever to the MIPTV entertainment trade show in Cannes, whereby China indicated its willingness to increase television tie-ups around the world by inking co-production deals with foreign broadcasters. BBC Worldwide announced it had signed its first co-production deals with CCTV-9, the documentary arm of state broadcaster CCTV, for two new science series. CCTV-9 also signed a memorandum of understanding with France Televisions.

SOFTWARE

Sales of Siemens' PLM software on the rise

Siemens Product Lifecycle Management Software said it had a record amount of sales in China last year. Product lifecycle management (PLM) software is used to help companies manage products in an efficient and economical way from their conception and design to their eventual use and disposal. K. C. Yee, Senior Vice President of Siemens PLM Software, said he expects the company’s momentum to continue in the next decade. He made the remarks at the company’s China User Conference, which was held in Qingdao. Products made in China have long been regarded as low in cost and quality. But many Chinese manufacturers, such as Haier Group and Sany Group, have started to adopt professional PLM software to design, build and sell products. “The Chinese market has great potential during its transformation from made-in-China to innovation-in-China,” said Richard Shou, General Manager of Siemens PLM

Software China. He expects that more than 80% of Chinese manufacturing companies will adopt PLM software to make themselves stronger competitors. “That indicates a huge market volume for all worldwide PLM software makers,” Shou said. Siemens PLM Software was named China’s No 1 PLM provider in 2011 in a report by the consulting company CIMdata. Of Siemens PLM Software’s total sales in China, the auto industry contributed about a third, followed by the aircraft and machinery industries, the China Daily reports.

- The value of China’s online gaming industry is expected to exceed CNY100 billion by the end of 2015, the Ministry of Culture said. The market scale reached CNY46.85 billion by the end of 2011, a 34.4% increase year-on-year. The industry’s growth rate is expected to be between 20% and 25% over the next three years. Chinese developers exported 92 new online games in the past year, which brought the total number of exported games to more than 150. Major overseas markets include South Korea and Vietnam. Development of the sector is driven by new types of games such as browser games and mobile games.
- Tata Consultancy Services (TCS) aims to expand its network of "global delivery centers" in China. “In mainland China, we're present in five different locations with reasonable scale. We have centers in Hangzhou, Beijing, Shanghai, Tianjin and Shenzhen,” Chief Executive and Managing Director Natarajan Chandrasekaran said. Potential locations for the global delivery centers included Chengdu, Dalian and Chongqing.
- Revenue of China’s software and information technology service industry will surpass CNY4 trillion in 2015, more than double the 2010 level, thanks to new opportunities like cloud computing, next-generation network and chip design, the Ministry of Industry and Information Technology (MIIT) said. According to the 12th Five Year Plan (2011-2015), the software and IT service industry will create 6 million jobs by 2015, double the 3 million in 2010.

TELECOM MFG. CO.

Nokia launches Windows phone in China

Nokia Corp introduced its first phone that runs on Microsoft’s Windows Phone operating system to China. The Lumia 800C, will operate on China Telecom’s CDMA network, the first Windows phone to use the system. The phone has features tailored to Sina Weibo, Youku, and Renren. Although Nokia continues to hold the largest share in China’s market for mobile phones, it is gradually losing ground to both local and overseas manufacturers such as Huawei Technologies, Samsung and Apple. Microsoft’s share of the Chinese smartphone market fell to just 2% last quarter from 13% four years earlier. “With the development of China’s mobile broadband network, the country is embracing 3G,” said Charles Zhang, Chairman and CEO of Sohu.com. Although public attention has been diverted to Apple’s iPhone, Zhang said he believes Nokia will be able to retain its strength in the smartphone industry. “Nokia is back,” he said.

ZTE aims to restore its profit margin

ZTE Corp said it would increase the gross profit margin of its handset business this year. The company’s net profit fell 36.6% to CNY2.06 billion last year. “The company’s handset revenue grew very fast (in 2011), but its gross profit margin dropped,” said CEO Shi Lirong. The terminal business contributed 31.3%, or CNY26.93 billion, to ZTE’s total revenue, compared with 25.3% a year earlier. However, the gross margin for ZTE’s terminal business dropped to 15% in 2011, from 19% in the previous year. The handset business is part of the terminal business, along with tablet computers and other portable devices. “ZTE will enhance its technological innovation and we want to develop new smartphone models earlier than our rivals,” said Shi. The company was the world’s fourth-largest handset manufacturer by shipments in 2011, but most of its mobile phones are aimed at low- to mid-end customers. Telecom equipment for carriers was still the biggest revenue source for ZTE, accounting for 53.9% of its total in 2011. Its overseas revenue reached CNY46.76 billion, or 54.2% of its total revenue, in 2011, up 24%.

China's smartphone industry relies on foreign patents

China's smartphone industry is at risk of becoming embroiled in intellectual property disputes since many of the most important patents are held by foreign companies such as Google and Microsoft, according to the "Mobile Terminal White Paper", issued by the China Academy of Telecommunication Research under the Ministry of Industry and Information Technology (MIIT). China shipped more than 110 million smartphones in 2011, more than the combined number of smartphones in the past several years. The country is the world's largest production base for mobile devices. In 2011, China produced 1.13 billion mobile devices, including mobile phones and tablet computers. Those made up about 70% of the devices that were shipped globally. Domestic brands, such as ZTE, Huawei and Lenovo, made significant progress in producing mobile phones, especially mid-to low-end ones. ZTE's mobile device business contributed 31.3%, or CNY26.93 billion, of its total revenue in 2011. In 2005, international brands occupied more than half of the Chinese market. But in 2011, China shipped 455 million mobile phones, among which domestic brands made up 72%. Telecom experts have warned Chinese companies that they may be hit with charges of violating intellectual property rights. Most smartphone patents held by domestic makers have to do with designs or physical forms and few are related to the central technologies. Xu Zhiyuan, Senior Engineer at the China Academy of Telecommunication Research, said international mobile companies often invest heavily in acquiring patents in the hopes of curbing competition through the use of patent lawsuits. "In the mobile device industry, there are patent lawsuits everywhere," Xu said. Though Chinese telecom carriers, as well as some internet companies such as Baidu and Alibaba Group, have developed their own mobile operating systems, their combined market share lags far behind the share enjoyed by the three most prominent international operating systems — Apple's iOS, Google's Android and Microsoft's Windows Phone. In the fourth quarter of last year, more than 68% of the smartphones sold in China ran on the Android operating system, according to a report by Analysys International. Nokia's Symbian operating system holds a market share of 18.7% and Apple's iOS has a 5.7% share, the China Daily reports.

Huawei product launches shrink margins

Huawei has yet to see the same success in its handset business as in network equipment, as it reported shrinking operating margins following costly launches of new smartphones and tablet computers. Huawei's carrier network business grew a mere 3% last year, underscoring the need for the company to diversify. Last year, it generated 74% of its CNY203.9 billion revenue. The company said last year that it wanted to become the world's third biggest handset brand in 2015, but it faces formidable competition. ZTE also wants to become the third-largest supplier of smartphones by volume, a slot currently occupied by Taiwan's HTC, the Financial Times reports. ZTE is launching a new Android-based model called the Mimosa X in July that it hopes will improve margins and help to establish ZTE as a serious player. ZTE and Huawei compete on a range of products and services but the former's revenues of CNY86.3 billion last year are much smaller compared to those of Huawei. The company aims to sell 40 million to 50 million smartphones this year and 100 million units in 2015. Huawei said it shipped around 20 million smartphones last year. Huawei's enterprise-business revenue last year rose 57% year on year to USD1.59 billion, of which 40% came from the Chinese market. The company said it would launch its first smartphone featuring a chip made by HiSilicon, a wholly-owned subsidiary of Huawei, in the third quarter, but did not disclose the price.

Deputy Chairmen to lead Huawei on a rotating basis

Huawei Technologies' Founder Ren Zhengfei is splitting the role of Chief Executive with a panel of three executives who will rotate at six-month intervals. Deputy Chairmen Guo Ping, Xu Zhijun and Hu Houkun will join Ren as Co-chief Executives. Ren remains Deputy Chairman of Huawei, according to the company's annual report. Ren founded Huawei in 1988 after retiring from the military in 1984 and built it into the world's second-largest maker of equipment for phone networks behind Ericsson. Huawei initially implemented a rotating chief executives system last year in which Ren mentored the executives, according to a memo dated December 25, 2011. Huawei's profit fell to CNY11.6 billion last year, less than half the CNY24.7 billion it reported a year earlier, according to the annual report. Profit fell as the company spent more on research and development (R&D) and funded the global expansion of smartphones and computer services for businesses. Sales rose to CNY203.9 billion, from CNY182.5 billion. Hu took the first rotation as Chief Executive from October to March; Xu began the second rotation earlier this month; and Guo is scheduled to take the title in October. The rotation repeats after that. Huawei disclosed the members of its senior leadership team and board of directors for the first time a year ago as it raised transparency to offset security concerns in markets such as the U.S. That information showed Ren was related to at least two members of the firm: CFO and Executive Director Meng Wanzhou is Ren's daughter, while Ren's brother, Ren Shulu, sits on the supervisory board.

ZTE hopes to ship up to 50 million smartphones this year

ZTE plans to increase smartphone shipments to between 40 million and 50 million this year from last year's 15 million. The Shenzhen-based company also expects this year's gross profit margin on mobile devices to rise. It was 15.18% last year, down 3.81 percentage points from 2010, though revenue from mobile devices rose more than 50% to CNY27 billion. Smartphone shipments last year surged to 15 million from 3 million the year before, while revenue from smartphones climbed to 30% of ZTE's total mobile phone sales. “Our target is that in three years, smartphone shipments should reach 100 million,” said ZTE Executive Director He Shiyou. ZTE ranked fourth in mobile-phone market share globally last year, according to research firm Gartner. The company also expects sales of its tablet devices to double in 2012 year on year. It sold 700,000 ZTE-branded tablets last year. The Hong Kong-listed company plans to increase the proportion of operating revenue derived from the sale of mobile devices to 50% by 2015, according to He Shiyou. “We worked on gaining market share last year. Now as we have achieved a certain scale, we are moving up the gross profit margin curve.” He said ZTE products would increasingly move towards the middle and high-end markets, and it would launch a device he described as the “next generation of Samsung's Galaxy Note” by the end of this year. ZTE reported revenue of CNY86.3 billion for last year, up 23.4% year on year. However, its net profit dropped 36.6% to CNY2 billion last year. He said ZTE would strengthen its investment in the government and enterprise market.

- An Australian government decision to ban Huawei from working on a national broadband network does not signal new rules on Chinese investment in Australia, Trade Minister Craig Emerson said. He added the current government, since coming to power in 2007, had approved all 350 foreign investment applications from China, although conditions were placed on six of them. “No one is saying to Huawei don’t invest in Australia. We’re just saying in the National Broadband Network, that’s a problem,” Emerson said.

WEB

China to expand internet broadband network

China is expected to have 20 million new broadband internet subscribers this year and a total of 250 million subscribers by the end of 2015. “Our aim is to install fiber-to-the-home (FTTH) broadband connections for 35 million families this year,” said Industry and Information Technology Minister Miao Wei. China had 156 million internet broadband users in 2011. About 45 million families were covered by the FTTH network. China Telecom will invest CNY40 billion to build the FTTH network this year, and attract 25 million new FTTH users, bringing the total number to 55 million, said Wang Xiaochu, Chairman of China Telecom. Xi Guohua, China Mobile’s new Chairman, said the company will add 1.4 million WLAN wireless hotspots this year. China Unicom has more than 44 million broadband users. The company has injected CNY60 billion into broadband development in the past three years, said Chairman Chang Xiaobing.

Weibo to launch advertising platform

Weibo, China's most popular Twitter-like platform operated by Sina, is expected to officially release its social advertising offering to companies at its “Weibo Advertising Summit” on April 26 and 27 in Xiamen, Fujian province. Targeted advertising, in which client companies reach a specific audience based on specific user profiles and paid keywords, would serve as a major source of revenue for Sina Weibo, according to JP Morgan Securities (Asia-Pacific). Sina Weibo, which started operations in August 2009, had more than 300 million registered users in February. Of that number, 130,565 were enterprise accounts which are viewed as potential advertisers. Baidu, the market leader in internet search, had 311,000 active online marketing customers in the fourth quarter of last year. “We estimate the business will generate a net income of USD73.7 million, assuming full monetization [revenue-generating operation] for the year, which is not likely to be the case,” two JP Morgan analysts said. They also calculated

Weibo's value this year at USD1.8 billion, with an average of 320 million active users. Shanghai-based Sina has forecast that its investments in Weibo will climb to USD160 million this year, up from USD110 million last year.

Online shopping will triple to USD360 billion by 2015

Online retail sales in China will triple to more than USD360 billion by 2015, with nearly a quarter of the population shopping online, according to the Boston Consulting Group (BCG). China's e-commerce market is expected to account for 8% of the total retail sales in 2015, compared to 5% last year. China will become the largest online retail market in the world in three years. “Online buying and selling, including group buying, has been the second fastest-growing activity on the internet after micro-blogging in China,” said BCG Principal Yvonne Zhou. Suning Appliance, the largest home appliance seller in China, was a pioneer by establishing suning.com three years ago. The company's Chairman Zhang Jindong said Suning will switch its business focus from street shops to its shopping portal this year, extending the online product categories from home appliances to books, clothing, jewelery and groceries. “To go online is not our choice but the customers' choice. Our goal is to build Suning into China's Wal-Mart plus Amazon,” said Zhang. According to the BCG report, China had 193 million online shoppers so far, more than any other market in the world. Online spending amounted to 14.8% of their total spending, and it is expected to grow by 15% annually before 2015. BCG expects China will add nearly 200 million internet users in three years, reaching an internet population of more than 700 million users, double the combined number of Japan and the U.S.

NetQin hopes to become No 1 in mobile security services

NetQin Mobile is poised to become the world’s number one provider of mobile security services, according to Chairman and CEO Henry Lin. Currently, only about 12% of mobile phone users worldwide are using smartphones, but that number is expected to jump to about 85% in the next three years, Lin said. NetQin Mobile had 91.5 million users in China as of the third quarter of 2011, according to a report by SINO Market Research. NetQin Mobile had a market share of 61.5%, followed by Qihoo360 with 23.4%. NetQin Mobile added 43 million subscribers in 2011 and more than doubled its revenue. But Lin said that China accounts for only 5% to 7% of the global market, and the company was eager to expand abroad. Earlier this year, NetQin announced that it had hired Omar Khan, a former senior executive at Motorola and Samsung Mobile, as the company’s co-CEO, managing the global expansion project. “Helping enterprises secure their mobile devices is a massive opportunity,” he said. Overseas markets helped NetQin generate about half of its revenue in 2011, according to its fourth quarter financial report.

Qihoo, Tencent face off in anti-monopoly case

The Guangdong People's High Court heard Qihoo 360, which sells antivirus software, accuse Tencent of abusing its dominant market position in a dispute between the two companies in 2010. Qihoo is seeking CNY150 million in damages. Tencent denied dominating the instant messaging market, saying its QQ system was only one of a range of similar services available. Tencent's lawyer said the instant messaging market was completely open, adding that QQ did not have pricing power, saying that 87% of its users would turn to other tools if it tried to charge for its service, which is now free. David Stallibrass, a former Director of the Office of Fair Trading in London, was an expert witness for Qihoo, and Jiang Qiping, Secretary General from an IT arm of the Chinese Academy of Social Sciences (CASS), defended for Tencent. Stallibrass said Tencent's high market share made it difficult for others to enter the market. Zhao Ye, Qihoo's lawyer, separately said the QQ IM system operated by Tencent had topped 70% in the past five years, and it had abused its position. He said Tencent had restricted QQ users from using Qihoo software and monopolized the market through tie-in sales of software and distributing QB, a virtual currency for purchasing services. He said this strangled competition. The companies' dispute dates back to 2010, when Qihoo alleged that Tencent let its QQ software scan users' computers for personal data, prompting Qihoo to issue tools to protect QQ users' privacy, the South China Morning Post reports. Zhang Xuejun, the Court’s presiding judge, said there are issues to be clarified before a ruling could be handed down, including how to define the “market”, whether the defendant has a dominant market position and whether it has taken advantage of its market share. “No matter what the ruling is, it will have a far-reaching impact on internet development, especially for instant messaging services,” said Wang Bin, an official from Beijing’s Online Copyright Protection Association.

Big shake-out among group-buying sites

Half of China's group-buying sites have shut down since the industry peaked and only 10 major players will survive an ongoing reshuffle, experts say. A recent report from tuan800.com, a leading group-buying service site in China, says that more than 2,000 of the sites in China closed in the past year. The top 20 sites occupied more than 96% of the overall market share, leaving 3,800 smaller players fighting fiercely for the remainder. The number of group-buying websites hit 3,909 in December 2011, up from 2,630 in January last year, according to figures from the China E-Commerce Research Center, an independent research institute based in Hangzhou, Zhejiang province. The institute collected about 100,000 complaints related to e-commerce shopping last year, 25% of which involved online group buying. The top complaint was about selling fake or non-existing products. Besides coupons for fake products, a more common case is that while people get discounts on prices, they also get a discounted service, said Chen Shousong, Analyst with Analysys International. Bigger players usually maintain better ties with vendors, which has led to consolidation of the industry. Alibaba's group-buying site Juhuasuan serves as an open platform for other sites to sell their goods and is striving to set a standard for the group-buying industry. “Localized services, from restaurant coupons to movie tickets, will be a huge market and may account for transactions worth billions of yuan in the coming few years,” said Yan Limin, General Manager of Alibaba's group-buying business. Up to 86% of revenue generated via group-buying deals is attributed to local services, the China Daily reports.

Backing for Alibaba.com buyout

E-commerce giant Alibaba Group moved a step closer to taking its subsidiary Alibaba.com private after its offer was endorsed by the Hong Kong-listed unit's independent board committee and financial adviser. Alibaba, which is controlled by Jack Ma, has offered to buy out the minority shareholders of Alibaba.com for HKD18.39 billion, according to a document jointly filed by the two firms with the Hong Kong stock exchange. Alibaba said it intended to finance the privatization with new financing and cash on hand. The company and other parties in the proposal own 73.45% of Alibaba.com. The parent firm's financial advisers are Rothschild, Credit Suisse and Deutsche Bank. HSBC is advising the subsidiary. The minority shareholders will vote on the offer on May 25. Meanwhile, Alibaba.com expects revenue growth to be challenging in the near term because of efforts to upgrade its operations. The world's largest business-to-business e-commerce company, with 79.8 million users worldwide at the end of last month, reported a 25% drop in first-quarter net profit to CNY339.2 million from CNY452.5 million a year earlier. That was its lowest quarterly earnings since posting CNY330 million in the first quarter of 2010. “As expected, our continuing investment in upgrading our business model and our higher membership standards for suppliers have negatively impacted our financial performance,” Chief Executive Jonathan Lu said. Revenue rose to CNY1.59 billion from CNY1.53 billion. The number of paying members on its international and domestic trading websites fell 9.4% to 753,955 from 832,469, as it focused on improving the trustworthiness of online suppliers.

Wall comes down briefly for Facebook users

Some internet users in China were able to gain access to Facebook for a few hours this week, but only through mobile internet connections. It has since been blocked again. “This could be caused by an update to the great firewall of China (GFW) or an error in processing,” said Hong Bo, a Beijing-based IT Analyst. “There's a chance that some websites could have been released for a short time when the system was updating.” Facebook was not accessible everywhere, however, with internet users in Sichuan, Guangxi and Xinjiang reporting that it was still blocked. Facebook opened a sales office in Hong Kong early last year, giving the company its second office in Asia after Singapore. The office is strategically located to serve the Hong Kong and Taiwanese markets, and potentially mainland China. China's 500 million internet users are the largest untapped market for American social networking sites.

- China plans to build a next-generation IPv6 internet network by 2015, which can provide more internet addresses. China's internet penetration rate will rise above 45% by the end of 2015 from 38.3% in 2011, according to the Chinese government. The new IPv6 network bandwidth can reach 2.5-10 gigabytes per second, 100 times faster than the current internet speed. Upgrading to the IPv6 network will also create 3 million jobs.

- Popular micro-blogging services briefly stopped allowing posting of comments after six people were detained for posting rumors about a possible coup in Beijing following the ouster of former Chongqing Communist Party Secretary Bo Xilai. Sixteen websites were also shut down for allegedly spreading rumors.
- Web access was hindered for more than two hours in China on April 22, as virtually all foreign websites were inaccessible. Internet users outside the mainland, including in Hong Kong, reported they couldn't access China-based websites. Neither service providers nor the government offered an explanation. Engineers of Ccidnet.com traced the problem to a bottleneck involving two routers in Shanghai.
- The Hong Kong Cloud Standards Alliance was formed to speed up the development of cloud computing in the city. The Hong Kong government has been promoting the city as a regional data center hub to entice cloud service providers. Google last August unveiled a USD300 million investment to build a new data center in Hong Kong.
- Sohu, Tencent and Baidu are teaming up to buy video content together, in the hope of beating down the price. The three firms said the copyright cost of an episode of new television soap operas hit CNY1 million last year, up from tens of thousands of yuan in 2009. The move follows last month's merger between the country's two main online-video-service companies, Youku and Tudou. Youku spent CNY240 million to buy content last year, compared with CNY82 million in 2010.
- Baidu forecast weak sales in the second quarter of CNY5.33 billion to CNY5.46 billion, but the company's full-year revenue growth is predicted to be strong at 55%. JP Morgan calculated revenue for Baidu this year to reach USD3.57 billion. Analysys International estimated that Baidu had 78.5% of China's internet search market in the first quarter, far ahead of Google's 16.6%.
- China has by far the world's most active social media population, with 95% of the nation's 513 million internet users having registered on a social networking site such as Twitter-like Sina Weibo, according to a survey by management consultancy McKinsey. Some 39% of the respondents to the McKinsey survey said they had already used these services as their primary digital tool to reach customers. The survey also showed that 91% of Chinese internet users have visited a social media site in the last six months, compared with 67% in the United States and 30% in Japan.

ONE-LINE NEWS

- China Post and Tom Group aim to soon turn their joint venture Beijing Ule E-Commerce into China's pre-eminent e-commerce infrastructure services provider for online retailers. China Post has a network of 46,000 post offices, 150,000 postal workers, 36,000 Postal Savings Bank branches, 56,000 delivery vehicles and 17 aircraft. Tom is providing the information-technology system that runs Ule's e-commerce, which online merchants can plug into like a utility.
- Kunshan, Jiangsu, where one in every two of the world's personal computers and tablets is made, is pressing hard to upgrade its industries by joining hands with international financial firms, including Blackstone Group and Deutsche Bank's private equity arm. The Huaqiao Economic Development Zone in Kunshan has entered an agreement with Blackstone to invest CNY100 million in the investment firm, which manages approximately USD160 billion in assets around the world.

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