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## HARDWARE

### Apple receives license to sell the new iPad in China

Apple has received a telecommunications license to release the new iPad – both the Wi-Fi and 3G versions – in the Chinese market. The new iPad has been approved by the Telecommunications Equipment and Certification Center under the Ministry of Industry and Information Technology (MIIT). At the end of March, Apple already received the China Compulsory Certification for the iPad from regulators, required for all electronic devices to debut in the domestic market. Apple China declined to reveal the detailed timetable of the new iPad launch in China, more than three months after its launch in the United States and Hong Kong on March 16. An ongoing legal suit over the iPad trademark may influence the new model's launch in China, Apple's No 2 regional market globally behind the U.S. The new iPad

has the model number "A1430". Apple's previous versions of the iPad hold a roughly 80% share of the Chinese market for tablet PCs, according to Analysys International. China is expected to ship 4.5 million tablet PCs this year. The Guangdong Provincial High People's Court is still handling Apple's trademark dispute with Proview Technology Shenzhen Co. Apple's partner China Unicom has not released a schedule to start sales of the new iPad. The previous version of the iPad, when it was released, came onto the market a couple of weeks after it had received a network access license.

## Lenovo sets sights on potential acquisition targets

Lenovo has begun targeting acquisitions that could provide key intellectual property (IP) to help develop its business in smartphones, media tablets, and internet-linked "smart" televisions. CFO Wong Wai-ming declined to identify the targets. Last month the firm committed to invest CNY5 billion to build a new industrial base in Wuhan, capital of Hubei province, to produce smartphones and other so-called mobile internet devices for the domestic and world markets. The facility will open in October next year. "IP is very important for us to grow outside of [mainland] China. We are looking in areas that give us an opportunity to buy, at the right valuation, certain technologies in which we are not particularly strong at the moment," Wong said. "Obviously, the IP should cover technologies that would add distinguishing features and a better user experience to our products." Lenovo was China's No 4 supplier of smartphones, with a 9.5% share in the quarter to March, and No 2 provider of media tablets, with a 17.2% share. A significant chunk of Lenovo's existing IP portfolio came from its USD1.75 billion purchase of IBM's personal computer division in 2005. Lenovo bought Seattle-based Switchbox Labs, a secretive start-up that focused on developing new consumer technologies, for an undisclosed amount in 2009. Last year, Lenovo paid about €466 million to acquire German consumer electronics firm Medion. It also invested USD175 million in a joint venture in Japan with NEC, the South China Morning Post reports.

## Hon Hai to reconsider buying stake in Sharp

Hon Hai Precision Industry, the assembler of Apple iPads, may seek to renegotiate a planned HKD13.22 billion alliance with Sharp after the Japanese TV maker's shares fell to the lowest in 34 years. In March, Hon Hai agreed to buy 9.9% of Sharp, Japan's largest maker of liquid-crystal displays, but Sharp shares have since plunged 30%, meaning if the deal closed at the agreed price, Hon Hai would have a paper loss of USD255 million, equal to 51% of Hon Hai's net income last quarter. "With the current stock price, Hon Hai won't be willing to pay that much, and given Hon Hai has more say in this alliance than Sharp, the Taiwanese company may request a review," said Takashi Watanabe, Analyst at Goldman Sachs. Sharp fell to its lowest level since 1978 after it forecast a wider-than-expected annual loss for the current fiscal year because of its unprofitable solar, panel, and audiovisual and communications divisions. The alliance with Sharp would give Hon Hai access to advanced displays as the Taiwanese manufacturer looks to expand beyond assembly.

## Haier Zing smartphone marks Alibaba link-up

Alibaba Group is stepping up efforts to get other leading domestic and global smartphone brands to adopt Aliyun, its self-developed mobile operating system, after forming a strategic alliance with Haier, which unveiled in Beijing its first Aliyun-powered smartphone. The new Haier Zing, which will retail for CNY999, follows the high-profile launch in July last year of the initial handset on the Aliyun platform, the K-Touch Cloud-Smart Phone W700 from Beijing Tianyu Communication Equipment. A spokeswoman for Alibaba said talks are on with a number of other major smartphone brands to integrate Aliyun and eventually bring these handsets to markets abroad. Alibaba estimates that sales of smartphones based on Aliyun, which was developed as a free mobile operating system by subsidiary Alibaba Cloud Computing (AliCloud), have surpassed 1 million units as of May 31. There is still plenty of room to grow in the domestic market, according to iResearch. It forecast smartphone sales in China will reach 113 million units this year from 72 million units last year. "We look forward to long-term cooperation with AliCloud," said Haier Vice President Yu Zida. AliCloud said it was exploring further cooperation with Haier that will integrate Aliyun in online-ready smart televisions and various other appliances. The Aliyun platform's distinguishing feature is its support for web-based software applications, which means users do not need to download or install "apps" on their internet-linked smartphones or media tablets. Users can seamlessly synchronize, store and back up data such as contact information, call logs, text messages, notes and photos to AliCloud's remote data center.

## Lenovo on list of most reputable companies

Computer maker Lenovo is the sole Chinese firm to join this year's elite group of the world's top 100 most reputable companies. The company was ranked No 95 in the third annual international survey published recently by the Reputation Institute, a global reputation management consultancy based in New York. It is the second consecutive year that Lenovo made it to the institute's Global RepTrak 100, a study in which more than 100,000 consumers from 15 countries assess the reputations of the world's most prominent companies and how perceptions about them affect purchasing behavior. "This achievement capped the most successful year in company history," Lenovo said in a statement. For its recent fiscal year to March 31, Lenovo's net profit jumped 73% to USD473 million from the previous fiscal year. Revenue grew 37% to a record USD29.6 billion. Hong Kong-listed Lenovo also posted a record full-year market share of 13% in the global personal computer industry. Its fledgling mobile internet and digital home division, which was set up in January last year, was the fourth-leading smartphone supplier in China, the world's biggest market for mobile phones. This business unit also made Lenovo the No 2 media tablet brand in China, behind Apple and its popular iPad. The world's top 10 most reputable companies this year are BMW, Sony, Walt Disney, Daimler, Apple, Google, Microsoft, Volkswagen, Canon and Lego.

- Among all Chinese phones, only 1% of all handsets costing less than CNY599 are smartphones, while only 6% of them are priced between CNY600 to CNY799. China's 3G user base will hit 300 million by the end of this year, compared with 1.5 billion at the end of April. Among the 300 million users, 44% will use smartphones, which means a market of more than 100 million units, Lenovo managers said.
- Apple is looking to open flagship stores in Chengdu and Shenzhen. The company currently has three stores in Shanghai and two in Beijing.
- Over half of Chinese smartphone owners would sooner give up TV than their mobile device, according to a Google survey. 54% of consumers preferred mobile devices than watching TV. China's smartphone user base accounts for 33% of the nation's total population, beating Germany's 29% but still behind the 44% in the U.S. The average price of an Android phone will fall to about CNY800 by the end of this year, said China Unicom and chip designer Qualcomm.
- Lenovo Group announced the launch of nine new ThinkServer servers and said it plans to be one of the world's top three server providers by the end of 2015, surpassing IBM and Hewlett-Packard. Lenovo has a market share of around 11% in the Chinese server market and 3% globally at the moment. However, Lenovo's server business didn't even merit a mention in the company's latest financial report. "Servers will be the foundation for the connection of 15 billion devices in the world in the near future, said Jesse Fang, Vice President of Intel and Managing Director of Intel Labs China.
- Apple will add Baidu, China's biggest online search tool, as default search tool on iPhones in China in addition to Google. It will also provide Apple's users with more localized services. To cater to Chinese users, Apple has added NetEase's 126 and 163 e-mail services as default service providers. Baidu accounted for around 35% of total searches via mobile devices last year.
- Shanda Interactive Entertainment released its first Bambook Phone with a price tag starting at CNY1,299. Powered by ST-Ericsson's Nova-Thor U8500, the Bambook has a dual-core 1GHz processor and supports data transmission rates up to 14.4 Mbps. Moreover, Shanda has equipped the device with self-developed games and pushes its online bookstore service to its users.
- ZTE plans to deliver a new router to Japan's 4G network operator SoftBank Mobile in August. The ZTE-developed SoftBank 102Z router, which resembles a slim mobile phone, can provide internet download speeds of up to 76 megabits per second on SoftBank's network. It can simultaneously support 10 connected mobile devices. The company was ranked fourth by technology research firm IDC among the world's largest suppliers of smartphones in the first quarter this year, with sales of 19.1 million units and a 4.8% global market share. It was ahead of LG Electronics, but behind top-ranked Samsung Electronics, Nokia and Apple.
- ZTE has become the first Chinese supplier to launch a Windows Phone handset in China. The company expects its devices running on Microsoft's Windows Phone operating system to account for about 10% of its total business this year, ZTE

Executive Vice President He Shiyou said. The move is part of ZTE's overall plan to diversify its product portfolio. The ZTE V965W debuted in the United Kingdom as "ZTE Tania" in February this year. The 4.3-inch handset is based on the Windows Phone 7.5 operating system and has a 1.4 GHz processor.

- IBM's Sequoia has taken the top spot on the list of the world's fastest supercomputers, overtaking Japan's K Computer made by Fujitsu, which fell to second place. China and Germany both have two supercomputers, while Japan, France and Italy have one. Sequoia is 1.55 times faster than the Fujitsu model, and uses over 1.5 million processors.
- The China Consumers Association accused Apple of having "unfair" repair clauses regarding the use of spare parts, the ownership of old spare parts and compensation. One of Apple's repair clauses states that customers allow Apple to use either new or retreaded spare parts in repair, and that the replaced spare parts belong to Apple. The Association said companies should use new components or parts rather than retreads during the guarantee period. The Association also complained about other clauses.

## OPERATORS

### Mobile to become China Telecom's major revenue earner

China Telecom, the world's largest fixed-line network operator, expects its mobile data revenue to outstrip income from voice traffic this year as more subscribers adopt the CDMA iPhone and other 3G smartphones. "We are on track to meet our [previously announced] target net addition this year of 36 million mobile subscribers," Chairman and Chief Executive Wang Xiaochu said after the company's annual shareholders meeting in Hong Kong. Wang added that China Telecom, which runs the smallest of China's three nationwide mobile networks, was also gearing up for future high-speed 4G services. At the end of April, China Telecom had 138.51 million mobile subscribers, including 45.56 million 3G users. It also had 168.28 million local access lines in service and 81.45 million fixed-line broadband subscribers. Macquarie Securities Analyst Lisa Soh said China Telecom has recorded higher growth in mobile data services since last year. "In the second half of last year, its mobile data business grew 62% year on year compared with 39% for voice," Soh said. China Telecom posted a 6.5% drop in first-quarter net profit to CNY4.27 billion, from a restated CNY4.57 billion a year earlier, due to higher handset subsidies, marketing and other support expenses. China Telecom also expects to complete its acquisition of the mobile network it is leasing from parent China Telecommunications Corporation by the end of this year. China Telecom spent CNY19 billion last year on leasing that mobile network, while network depreciation at the parent firm was only CNY12.6 billion.

### CSL in agreement with SK Telecom to offer 4G roaming

The two leading wireless network operators in Hong Kong and South Korea are set to introduce the world's first 4G international mobile roaming service between two markets. CSL, the first mobile carrier in Hong Kong to launch a 4G network based on LTE technology, and Korean wireless market leader SK Telecom said their landmark service would be available from July 1 and pave the way for more roaming agreements among existing 4G LTE operators. "Our pioneering partnership with SK Telecom is proof that 4G LTE international roaming will be a reality worldwide – sooner rather than later," said CSL CTO Christian Daigneault. Advanced 4G networks have theoretical internet download speeds of up to 100 megabits per second, while the fastest existing 3G networks run at 42 Mbps. The LTE networks of CSL and SK Telecom are based on the widely adopted frequency division duplex (FDD) standard. The other recognized LTE standard, called time-division duplex (TDD), is being championed by China Mobile. Daigneault said 4G international mobile roaming had become a complex undertaking not only because there were two LTE standards, but also because of the existence of about 40 frequency bands on which operators could run these networks. CSL's advantage is that its 4G network runs on both the 2.6 GHz and 1.8 GHz bands. "There are about 70 operators that have launched commercial 4G LTE networks [worldwide] and a large portion are on those two bands," he said. In the future, smartphones and media tablets that support multiple bands and LTE standards will become available.

## China Unicom to offer cheaper smartphones

Facing a slowdown in subscriber growth, China Unicom is set to slash prices of its cheapest smartphones to less than CNY700 – a 30% discount – as it continues to expand its high-speed 3G network. President Lu Yimin unveiled the strategy at the three-day GSMA Mobile Asia Expo in Shanghai. China Unicom already offers low-end smartphones for less than CNY1,000 from domestic brands, including Huawei Technologies and ZTE. China Unicom reported it added 2.73 million new 3G users last month, down from 2.92 million in April, the lowest monthly gain since September. Beijing-based China Unicom had 215.84 million mobile subscribers at the end of May, including 54.5 million 3G users. Independent Analyst Xiang Ligang has said cheaper smartphones are far more effective than the iPhone in attracting users to China Unicom's network. Bernstein Research forecast the standard key specifications for low-end smartphones in China this year would include a four-inch multi-touch screen, one-gigahertz processor and 512 megabytes of memory. China Unicom has vowed to turn around its loss-making 3G operation this year by increasing market penetration and network coverage, especially outside major urban areas. Macquarie Securities Analyst Lisa Soh said China Unicom “has to find subscriber growth from lower-tier cities this year”.

- Hutchison Telecommunications Hong Kong, which has spent more than HKD2 billion upgrading its mobile infrastructure over the past five years, plans to establish a dual-mode network that supports the two standards of the 4G technology, TDD-LTE, which runs on the 2.3 GHz band, and FDD-LTE, which is on the 2.6 GHz band. Hutchison Telecoms' current 4G network covers about 90% of the city, with full coverage slated for next quarter. Dual-mode 4G LTE smartphones from different brands would be widely available in the first half of next year.
- China Telecom confirmed that one of its computer systems had been attacked by hacker group SwaggSec and some users' passwords had been stolen. A China Telecom Spokesman said the server they attacked was not part of the operator's core system and the data they stole had little value. He added clients' interests had not been compromised. The hacker group claimed it could destroy the company's communications infrastructure, leaving millions without communication.
- Hutchison Whampoa is re-entering Israel's phone industry after less than three years by agreeing to buy a stake in Partner Communications Co's largest shareholder. Hutchison and the Li Ka-Shing Foundation will pay USD125 million for 75% of Scailex Corp from Suny Electronic. Scailex owns a 44.5% stake in Partner, Israel's second-largest mobile phone operator. Hutchison exited the Israeli phone market in 2009 when its telecommunications unit sold a 51% stake in Partner to Scailex for USD1.4 billion. Suny will retain a 3.6% stake in Scailex and Ilan Ben Dov, who controls Suny, will own 3.7%. Hutchison is assuming Scailex's debt.
- Spain's Telefonica has signed an agreement with China Unicom to sell back almost half its stake in the company. The sale would allow heavily indebted Telefonica to “increase its financial flexibility”. The firm would remain a key shareholder in China Unicom by holding on to a 5.01% stake after selling the equivalent of 4.56% of the share capital of China Unicom. The acquisition of shares was expected to be completed no later than July 31.
- China's 4G technology will go on trial in selected cities by the end of this year. China Mobile, the world's biggest telco, plans to make a huge investment in building pilot 4G networks in 13 cities nationwide by the end of 2012. The telco will build a total of 20,000 base stations that will run on the home-developed 4G technology known as TD-LTE in the cities, which include Shanghai, Beijing, Hangzhou and Shenzhen. Xi Guohua, China Mobile's Chairman, said at the Mobile Asia Expo. He added that the total data consumption by its users has surged 150% annually on average, putting pressure on network capacity.

## RADIO, FILM & TV

### West Bank Media Park to open in Shanghai by 2015

West Bank Media Park, a project incorporating a Chinese cartoon studio, cinema and theater, is to open on the west bank of the Huangpu river in Shanghai by 2015. The West Bank project, formally known as the Oriental DreamWorks project, will occupy a nine-block area in the city's Xuhui District. The cartoon studio is a joint investment by DreamWorks, stated-owned media

firms, and local culture organizations such as Shanghai Film Group Corp, Shanghai Drama Art Center, Shanghai Conservation of Music, and restaurants and bars. Shanghai's Culture Bureau declined to reveal details of the project's timetable or the level of investment. The studio would develop original Chinese animated and live-action movies, TV shows and other entertainment.

- Users paying to watch films online will generate extra income for film producers and video websites, but the industry also has to resolve the payment problem, panelists said at the 15<sup>th</sup> Shanghai International Film Festival. iQiyi, an online video subsidiary of Baidu.com, will charge users to watch films online this year. Under a deal with Huayi Bros, China Telecom's E-surfing Video Media Co will broadcast online paid films and video clips for the telco's 120 million mobile phone users and 68 million broadband users.

## SOFTWARE

### Apple's OS X and iOS to offer new features for Chinese users

OS X Mountain Lion – the upcoming major release of Apple's Mac operating system – will include new features for Chinese users such as significantly improved text input, a new Chinese dictionary, easy set-up with popular e-mail providers, Baidu search in Safari, and built-in sharing to Sina Weibo, as well as video websites Youku and Tudou. Mountain Lion will be available next month on Apple's online store, while the new version of the mobile platform, iOS 6, would be available in autumn as a free download for the iPhone, iPad and iPod touch. iOS 6 will also have better text input and built-in support for Baidu's online search engine. The improved text input in iOS 6 will allow users to mix full and abbreviated pinyin, and type English words in a pinyin sentence without switching keyboards. With support for more than 30,000 characters, iOS 6 more than doubles the number of Chinese characters used in handwriting recognition. Siri, the iPhone's voice-command system, would be available for the iPad with iOS 6, with support for Putonghua and Cantonese. Yi Liu, CEO of U.S. mobile software application developer iHealth Lab, said the extra support for Chinese users would boost the number of developers creating programs for Mac computers, the iPhone, iPad and iPod touch. Apple reported that robust sales of the iPhone in China helped the company nearly double its profit in its fiscal second quarter to March to USD11.62 billion, compared with USD5.99 billion the previous year. According to Gartner, sales of Mac desktop and MacBook laptop computers in China have also been strong, with 1.46 million units sold last year.

- 38% of software installed on computers in China was pirated in 2011, a decline of 3 percentage points from the previous year, according to Chinalabs.com. It was the 7<sup>th</sup> year that the figure declined. As for categories, information security software piracy declined the most — from 45% in 2010 to 39% last year — followed by office and operating system piracy. 1,148 cases involving online pirated software were investigated during a campaign in 2011.
- An iOS app warning users about unsafe food products in China has become an instant hit. The China Survival Guide app, released at the end of May, features thousands of food products that have been reported to have breached safety rules. It became the No 1 free app three days after its launch.
- Zynga, which paid USD180 million for popular mobile social game Draw Something, launched a Chinese version of the game and linked it to Sina Weibo.
- NQ Mobile (Netqin), the No 1 mobile security service provider in the Chinese market, acquired mobile service firm Beijing Nation Sky Network Technology, which provides mobile services for over 1,000 corporations, for about USD13 million at the end of last month. Netqin said it would build a new platform to provide mobile security services for both individual and enterprise users, according to Lin Yu, Netqin's Chairman and Co-CEO. By the end of the first quarter, over 118 million mobile phone users have installed mobile security tools. Netqin has 64% of the market, followed by Qihoo 360 and Tencent QQ, according to SinoMarket Research.

## TELECOM MFG. CO.

### EU said to launch investigation of Chinese telecom companies

The European Union is poised to launch a subsidy investigation of Chinese telecom companies selling mobile network equipment in Europe. Visiting Chinese Minister of Commerce Chen Deming said in Brussels that if the EU uses punitive measures to protect its market, Beijing is also ready to do so. The EU said it has got “very solid evidence” of Chinese companies benefiting from illegal government subsidies and that they had sold products in the EU below cost. Swedish Trade Minister Ewa Bjorling warned that the probe risked backfiring on the European wireless network industry. “While Chinese companies’ share of the EU’s wireless equipment market is 30%, one has to remember that the EU’s share of China’s wireless equipment market is 45%. So if China were to hit us back with similar measures, it would hurt us more than what it would hurt them,” she told the media.

### Xiaomi offering cheap smartphone

Beijing-based Xiaomi Corp, established in April 2010, is offering high-capability smartphones below CNY2,000. Since its debut on August 16 last year, the CNY1,999 Mi-One, the first generation of Xiaomi mobile phones, has attracted great attention in China. About 300,000 Xiaomi handsets were pre-ordered in the first 34 hours after Xiaomi accepted online booking from September 5, 2011. The company had to immediately suspend selling because stocks ran out. On December 18, Xiaomi resumed online sales but its stockpile of 100,000 handsets began to run out in just three hours. CEO Lei Jun said he expected the company to sell more than 5 million Xiaomi handsets by the end of this year. Xiaomi’s revenue is likely to exceed CNY10 billion this year, he predicted. The company aims to ship more than 100 million smartphones annually by 2016. Apple managed to sell more than 90 million iPhone devices last year, and is expected to break the 100 million unit mark this year. Lei Jun became CEO of Kingsoft Corp, a leading Chinese software developer, at the age of 25. In 1999, he invested in the e-commerce company Joyo.com but sold the website to Amazon in 2004 for USD75 million. After leaving Kingsoft, Lei acted as an angel investor. He hopes Xiaomi will become a Fortune 500 consumer electronics company someday.

China overtook the United States to become the world’s largest smartphone market by volume in the third quarter of last year, according to research firm Strategy Analytics. “China is now at the forefront of the worldwide mobile computing boom,” said Neil Mawston, Executive Director at Strategy Analytics. “I expect two-thirds of Chinese people will be using smartphones by 2013,” Lei said. He admitted Xiaomi smartphones sold much faster than he expected. “We had a four-year plan but we finished it in two years,” he said. The success of Xiaomi phones is down to three things, Lei added. First, one-third of Xiaomi device-design ideas come from what users want. Second, Xiaomi sells handsets mainly through e-commerce websites, which cuts costs and helps lower the selling price. The third reason may be the most important — Xiaomi doesn’t expect to make money from selling handsets but hopes to realize profits by providing software and related services. Its sales were mainly driven by the word-of-mouth effect. “Xiaomi has essentially imitated Apple’s marketing strategy,” said Shen Sui, Internet Analyst at consultancy firm iResearch. “The phone is clearly targeted at people on lower incomes who want a smartphone but cannot afford those priced at CNY4,000 or more. This is a niche market that is largely ignored in the smartphone sector,” Shen said. Xiaomi will start selling smartphones abroad in the second half of this year, focusing on emerging markets such as Russia, India and Brazil. Lei said Xiaomi would not go public in the next five years. “If we have an IPO, we may be distracted from delivering good products,” he said. “I just hope Xiaomi will fulfill my dreams and become a world-class company,” the China Daily reports.

- Huawei Technologies asked the European Commission’s anti-trust regulators to intervene in its dispute with InterDigital, a United States-based wireless research and development company. Huawei said InterDigital had demanded “discriminatory, unfair and exploitative” fees to use its 3G patents for mobile devices, in breach of European licensing practices.
- Huawei Technologies Co denied it would lay off large numbers of staff, but it could have a difficult year in 2012, as the company recently had to deal with intensified competition and has been the subject of investigations by both the United States and European Commission. In 2009, the company had about 95,000 people on its staff. The figure climbed to more than 146,000 in 2011. Huawei appears to have hit a plateau in recent years in its attempts to develop its market for traditional carrier

network infrastructure, which is its chief revenue source, and aggressively expanded into other fields, such as business communications.

- U.S. lawmakers investigating spying threats from China are pressing Huawei and ZTE for details about their relationship with the Chinese government and with U.S. companies. They requested an expansive collection of documents, including the contracts between the firms and Huawei as well as the results of the firms' consulting work for Huawei. The firms include IBM, Accenture and PricewaterhouseCoopers (PwC).

## WEB

### Government pushes "Broadband China" project

Government ministries are stepping up the pace of working out details of the "Broadband China" project, which aims to realize fiber optic communication in urban areas and improve the availability of broadband services in rural areas. It will speed up the pace of deploying the next generation of the internet in China. The project also plans to step up the convergence of cable television, telecommunications, and the internet. The Chinese government hopes to deliver fiber optic communication to a further 35 million households this year, and have more than 50% of its broadband users enjoying a connection speed at 4 Mbps or faster. Chinese telecom operators are expected to invest CNY370 billion in broadband construction this year, an increase of 10% year-on-year. The number of broadband users in China reached 159 million, or 11.7% in terms of the penetration rate, by April, still far behind that of some developed economies.

### Green light for Alibaba privatization bid

Minority shareholders of Alibaba.com voted in favor of a proposal by its parent Alibaba Group Holding to take the Hong Kong-listed online trading unit private. 95.5% of the outstanding Alibaba.com shares voted in favor of taking the subsidiary private. According to the proposal, Alibaba Group will buy the 27% stake it does not already own in Alibaba.com. The privatization of the Hong Kong-listed flagship company is part of preparations for the China-based group's expected initial public offering (IPO). After more than a year of tough negotiations, Yahoo this month said it had agreed to sell its stake in Alibaba Group back to the company for at least USD7.1 billion. Alibaba Group includes Alibaba.com and Taobao, China's largest online marketplace for consumers with more than 800 million product listings and 370 million registered users. The potential valuation of the group could be between USD35 billion and USD50 billion. Group Chairman Jack Ma has said going private will allow the company to "make long-term decisions "free from the pressures that come from having a publicly listed company". Alibaba.com posted a net profit of CNY1.71 billion last year, up 16.6% over the previous year, but with weakness in the fourth quarter. The firm said its fourth-quarter net profit fell 6.0% from a year earlier due to a weak global environment. Alibaba.com was delisted from the Hong Kong stock exchange on June 20. The privatization of Alibaba.com was agreed by the Grand Court of Cayman Islands, where the group is registered, last week. Taking the website private would allow the company to make long-term decisions that are in the best interest of customers, said Group Chairman Jack Ma.

### Rakuten undaunted by failed China venture

Rakuten, the operator of Japan's largest online mall, and Baidu, running China's leading search engine, had planned to make their joint venture "the number one internet shopping mall in China", but less than two years after the October 2010 launch of Lekutian, Rakuten pulled the plug on its Chinese venture in the face of fierce domestic competition. Lekutian closed at the end of May. In the first quarter, Rakuten's revenue rose 14% to JPY98.7 billion from the same period the previous year while net profit grew 12% to JPY7.7 billion. "With the Chinese e-commerce market said to be worth about JPY9 trillion and growing at about 100% annually, the move seems to be a step backward" for Rakuten as it tries to strengthen its industry position, said Yuki Nakayasu, Analyst at Credit Suisse in Tokyo, in a recent report. He suspected that one reason Rakuten stumbled in China was a failure to overcome differences between Japanese and Chinese consumers' tastes in merchandise and site design. Rakuten said the decision to close its Chinese online site was driven by intense price competition from local sites, which were willing to sell at a loss. Rakuten in recent years acquired direct sales sites Buy.com in the U.S. and Play.com in the UK.

## Discounts offered in battle of e-commerce providers

The battle between e-commerce providers is pushing them to provide huge discounts. To celebrate its anniversary, Beijing Jingdong Century Trading Co, which runs 360buy.com, offered discounts worth CNY1 billion for purchases in June, while Tmall.com, the largest business-to-consumer website in China, gave users “red-pocket money” worth CNY40 million to encourage purchases from June 15 to 18. Since May, it has also provided CNY300 million in rebates for vendors and buyers of electronic products. Home appliance retailer Suning Appliance Co said it would offer rebates of whatever users spent from June 18 to 22, to be used for future purchases. E-commerce players are engaged in cut-throat competition for market share. Most of them remain in the red. 360buy.com, for example, reported a net loss of more than CNY1 billion last year, double from the previous year. However, “the promotions often bring in non-online shoppers to the market, which enlarges the e-commerce players’ user base,” said Lu Bowang, President of China IntelliConsulting Corp, a market research company. Compared with online ads, which mean a company usually has to spend CNY100 to get a new user, promotions of this kind are more cost-efficient, he added. E-commerce China Dangdang, which started out selling books, has recently introduced its own brand, which features products with fatter profit margins. It has recorded losses of more than CNY300 million since the second quarter of 2011, partly due to aggressive price-cutting. Tmall dominated China’s business-to-consumer market, with a 37.4% share in the first quarter, followed by 360buy.com’s 17.2% and Suning’s 2.4%, according to domestic research company Analysys International.

Alibaba plans to spend CNY300 million on summer promotions for goods ranging from iPhones to televisions to air-conditioners sold through its Tmall. “They are taking money out of their own pockets and helping clients slash their prices to steal users from 360Buy,” said Michael Clendenin, Managing Director of the research company RedTech Advisors. “It’s a very aggressive move.” Under the program, which is focused on electronics, vendors on Tmall can apply to the Alibaba unit for subsidies to make up for discounts. Tmall accounted for 37% of Chinese business-to-consumer e-commerce in the first quarter, more than double the 17% held by 360Buy.com, the No 2 player. Suning Appliance Co, Tencent, and Amazon.com each have about 2%. China has more consumers buying online than the United States, and the value of the country’s e-commerce market may triple, to USD364 billion, by 2015, Boston Consulting Group predicts. RedTech expects e-commerce to account for 5.3% of the nation’s retail sales this year versus 4.9% in the U.S. Success for Alibaba will increase pressure on chains such as Suning and Gome Electrical Appliances Holding, which are revamping their online businesses to retain customers. Suning says it will offer new products on its Yigou e-commerce site and step up promotions. The company also has a CNY200 million program to reimburse price differences for customers who find cheaper deals elsewhere. Gome reached an agreement to sell products on the website of E-Commerce China Dangdang, China’s biggest internet bookseller. Alibaba is more profitable than rivals because it doesn’t stock merchandise itself, according to RedTech’s Clendenin, and therefore risks less from a squeeze on profit margins from a price war.

## Rovio to open many activity parks in China

Rovio Entertainment, the Finnish company behind the popular Angry Birds game, has big plans for China. Co-founder and Chief Marketing Officer Peter Vesterbacka says the company hopes to build a number of activity parks in China “in the not too distant future.” The first could be at Shanghai’s Tongji University. Plans for a theme park in Haining in Zhejiang province have already been announced and negotiations are under way with a number of Chinese cities, Vesterbacka said. “Instead of building one massive amusement park, we’re planning to build hundreds, maybe even thousands of activity parks here in China,” he said. The first Angry Birds retail stores in China – the first outside Finland – will open in Shanghai on July 3 and in Beijing on July 10. Rovio’s first overseas office has also been established in Shanghai to work with local talent to develop cartoons and animation work with Chinese elements. China is Rovio’s second largest market after the United States.

- Shanghai police will assign a team of officers to monitor all Shanghai-registered websites to combat the rising trend of online crimes. Police in Shanghai handled more than 4,700 cases related to the internet last year, an annual increase of nearly 44%. The number grew by 45% from 2009 to 2010. The lawbreakers mainly spread pornographic information, sell contraband, conduct online fraud or gamble. The proportion of people using the internet in Shanghai is more than 66%, second only to

Beijing.

- Google is changing its search service in China so that it will warn users when they are using terms likely to trigger interference from the authorities and suggest ways around the censorship. Over the past couple years, users are regularly getting error messages like 'this webpage is not available' or 'the connection was reset'. When that happens, people typically cannot use Google again for a minute or more, Google said. Now when users type characters that are likely to trigger a blockage, Google will warn the users and suggest they use other search terms.
- Tencent, China's biggest internet company, plans to plough USD1 billion into its e-commerce unit to meet rising demand for online shopping. Tencent named President Martin Lau as Chairman of the e-commerce unit. The transaction value of China's e-commerce market could climb 42% this year to CNY1.1 trillion, according to JPMorgan Chase in January.
- Sina Corporation has introduced a code of conduct for users of its weibo services, a local variant of Twitter. Users cannot post information that is against the constitution, cannot harm national unity, disclose state secrets or publish false information, among other rules. Sina also introduced a points system in which a user starts with 80 points and loses points for every violation. A score of zero results in a canceled account. A user can gain points for validating his or her real identity.
- Shanghai-based Yihaodian, China's e-commerce service controlled by Walmart, plans to bring brands from the world's top wine and spirits producers to its online shopping platform in August. The company appointed business consultancy Data Driven Marketing Asia (DDMA) China to help it develop this market segment. Total business-to-consumer e-commerce transactions reached CNY240.1 billion last year, up 130% from 2010, according to Analysys International. Yihaodian, launched in July 2008, runs logistics centers in Shanghai, Beijing, Guangzhou, Wuhan and Chengdu, along with delivery stations in 34 other cities.
- Baidu said online search revenue allocated to its partners this year will nearly double to CNY2 billion due to higher traffic growth and paid search income. The nearly 600,000 Baidu Union members, or smaller websites affiliated to Baidu, integrate the Baidu search box into their sites and also display relevant promotional links for Baidu's advertising customers in order to receive a proportion of paid search income. The amount of income these websites received in 2011 was CNY1.16 billion.
- China spent USD286 million on cloud-computing infrastructure last year, and the amount will increase to more than USD1 billion in 2016, IDC said. China accounted for around 10% of global cloud-computing investment last year. China already has five pilot cloud-computing cities — Beijing, Shanghai, Shenzhen, Hangzhou and Wuxi. A National Cloud Computing Industry Development Plan was recently approved by the central government and will be released soon.
- Users of mobile devices will soon be able to get two hours of free wireless internet in a number of locations in Shanghai, paid for by the city government. The scheme, called i.Shanghai, is set to cover 450 public venues by the end of next year. Transport hubs, parks and public greenery areas, hospitals, shopping streets and government service halls will be among the first batch of sites to be covered by the program. The program aims to have a total of 2,400 areas covered over the next few years. A free Wi-Fi service is already available in the Lujiazui area, covering a 1.7 square kilometer core area including the halls of 30 office buildings.
- Wenzhou businessman Guo Chuanzhi is accused of stealing more than CNY1 billion using an e-commerce website. He previously had been Deputy Director of Wenzhou's Small Business Association.
- The government has begun to solicit public opinion on proposed changes to a 12-year-old law on management of the internet in China. The draft encourages service providers to launch "self disciplinary activities" and the public to supervise internet information services. The draft also clarifies the licensing procedure for online forums and micro-blog sites, and standardizes entry criteria for websites and management responsibilities of service providers. Real-name registration rules will also be adapted.
- One-third of Chinese urban dwellers own a smartphone, and 67% of them surf the web with the device every day, according to a survey by Google and research company Ipsos. 59% of urban Chinese smartphone owners have purchased a product or a service with their device, and more than half think they will shop more frequently

with smartphones in the future. However, 60% of them prefer to do online shopping with their PCs rather than smartphones. Payment via mobile phones hasn't developed well, and therefore hinders people's ability to do mobile shopping.

- Chinese authorities have closed down 89 websites for fraudulent activities in the name of government organs or charity groups. Their operators would fabricate negative news stories and threaten to post them online if the organizations or individuals targeted didn't pay hush money. Counterfeit media licenses and journalist certificates were also on sale.
- Alibaba Group Holding has launched a book-selling service through its subsidiary Tmall.com, promising 1.3 million titles through more than 1,000 online booksellers that market their stores on the site. Alibaba will compete with 360Buy.com, Dangdang and Amazon China. Dangdang has racked up losses of more than CNY300 million since the second quarter of last year, partly because of aggressive cuts in prices to fend off rivals. According to Analysys International, Dangdang had a 29.4% share of the book market among business-to-consumer players in the first quarter, just ahead of Amazon China's 27.5% stake.
- Alibaba Group is mulling new ways to facilitate payments by overseas customers on its Taobao shopping site as cross-border transactions rise. Alibaba's Alipay affiliate is "working on a couple of ways" to allow Taobao users outside China to pay for goods and services, Alibaba Vice President Brian Li said. Overseas users account for about 5% of the more than 400 million registered accounts at Taobao. China's biggest online retail operator displays products in Mandarin only, and overseas users mostly make purchases through agents, Li said.
- Group buying website Lashou has canceled its USD100 million initial public offering in the United States due to unfavorable market conditions. It had planned to sell about 5.4 million shares at USD13 to USD15 on Nasdaq, according to an initial prospectus filed in October.
- Sina Weibo, one of China's most popular micro-blogging sites, has launched a paid premium service. For a CNY10 monthly fee, users get a membership badge on their profiles, personalized pages and voice blog posts. The premium membership plans generated negative comments from its users. Dong Xu, Analyst with consulting firm Analysys International, said that Sina shouldn't expect a substantial increase in revenue brought by the new services. A potential source of revenue could be gaming, Dong added.
- Jingdong Mall pushed back its USD5 billion Nasdaq listing. The company had been expected to file its listing as soon as this month and launch the IPO by September. But after recent discussions with investment bankers, it has decided to delay any listing until next year because of weak market sentiments worldwide. Beijing-based Jingdong operates 360buy.com. It was set to be the second-biggest web IPO this year after Facebook. It has 20 million registered users and 1,200 suppliers.

## ONE-LINE NEWS

- The fixed-asset investment of China's information technology and electronics industry grew 13.8% on an annual basis in the first four months of this year, fueled by spending in electronics components, the Ministry of Industry and Information Technology (MIIT) said. From January to April, China manufactured 350 million handsets, up 4.7% from a year ago.
- More than 10 suspects were detained by police in Shanghai in a scheme to sell brand knockoff laptops on the internet. More than 800 laptops of various brands, mostly Apple, were confiscated by the police. The value of the laptops is estimated at CNY10 million. The laptops were assembled in Shanghai with components from Guangdong province and sold through seven online stores and one actual store, police said.
- Lenovo founder Liu Chuanzhi has stepped down as President of Legend Holdings, the computer giant's parent company, ahead of plans for the company to go public. Zhu Linan, previously an Executive Vice President at Legend, was named the company's new President, responsible for day-to-day operations and preparing long-term plans. Liu will remain Chairman of Legend's board and its Executive Committee. Legend and its property arm, Raycom Real Estate, are scheduled to pursue simultaneous initial public offerings between 2014 and 2016.

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