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## HARDWARE

### Lenovo has stronger presence in towns and villages than its competitors

Consumers in China's vast rural markets are expected to provide Lenovo with steady and higher growth opportunities over the next five years compared with major urban markets. That will lead Lenovo to significantly expand its distribution network and marketing in the so-called tier seven region of more than 1,500 rural villages, a report by Bernstein Research says. "Rural China represents sizable unexplored markets with material profitability," said Bernstein Research Senior Analyst Alberto Moel, who recently surveyed Lenovo's operations in rural villages. Bernstein estimates there are about 50 cities in tiers one to three, about 60 in tiers four and five, and more than 500 smaller cities in tier six. There are thousands of still undeveloped townships and counties. Lenovo's national sales team has categorized tiers one to three as mature markets, tiers four to six as emerging markets and the rest as townships and villages, Moel said. Lenovo's management has forecast up to 5% growth over the next three to five years in China's mature markets, 15% in its emerging markets and 25% or more in the townships and villages, where the company has enjoyed consistent price premiums and a stronger local presence than its traditional competitors. Lenovo covers only an estimated 10% of villages at present. China accounted for USD2.9 billion, or 39% of Lenovo's USD7.5 billion total revenue in its fiscal fourth quarter to March 31.

### Apple suppliers break local laws, says China Labor Watch

Apple's suppliers in China violated local labor laws when they imposed excessive overtime and skimped on insurance, New York-based China Labor Watch said. "From our investigations, we found that the labor rights violations at Foxconn also exist in virtually all other Apple supplier factories, and in many cases, are actually significantly more dire than at Foxconn," China Labor Watch said in a report. A four-month investigation showed workers put in up to 180 hours of overtime a month during peak periods, exceeding the legal limit of 36 hours. Some factories also omit medical insurance as required by law, while workers are exposed to hazardous conditions. China Labor Watch interviewed 620 workers at 10 factories run by Apple suppliers including Toyo Precision Appliance and BYD Electronic. The group also spoke with workers at factories run by units of Quanta Computer, Wintek Corp and U.S.-listed Jabil Circuit. "As part of our ongoing supplier responsibility program, our team has conducted thorough audits at every facility in China Labor Watch's report," Apple Spokeswoman Kristin Huguet said. "In some places, our auditors found issues similar to those described by China Labor Watch, including overtime violations." Labor groups say wages have generally been rising, but the growth has been slower than inflation.

### Lenovo and EMC to establish joint venture

Lenovo Group announced it will establish a joint venture with United States-based storage product company EMC, which is expected to help it expand into the high-margin storage and server markets. Lenovo will also resell machines made by EMC. The sales will initially happen in China before moving abroad. Lenovo will hold 51% of the joint venture by contributing an undisclosed sum of cash and EMC will hold the remainder through assets and resources. The new storage equipment, which is often used in powerful server computers among corporate clients, will help Lenovo improve its profit margin and expand beyond the Chinese market. The reseller agreement between Lenovo and EMC replaces a partnership EMC had with Dell. Lenovo and EMC will also work together on servers to be sold by Lenovo.

### Proview settlement cleared the way for New iPad launch

Apple paid USD60 million to Shenzhen-based Proview Technology (Shenzhen) to end a two-year dispute over the iPad trademark in China. The two sides reached an agreement on June 25 and Apple has transferred the money to the account of the Higher People's Court of Guangdong province. The settlement cleared the way for Apple to launch its third-generation New iPad on August 20 in China. Proview's lawyer, Xie Xianghui, said the sum was less than expected but "a realistic result" that was acceptable. The USD60 million was the highest payout for a domestic trade-infringement case, but it was "not enough to pay back all of Proview's debts", Xie said. Proview had been hoping for compensation anywhere from USD400 million to USD3 billion. In December 2009, Proview International agreed to sell the group's iPad trademarks in eight countries and territories – including two registered in mainland China – for GBP35,000 to Apple and IP Application Development. While drawing up

the agreement for that sale and the so-called country assignments, Apple and its intermediary discovered the two mainland Chinese iPad trademarks were not owned by Proview's Taiwan subsidiary, as they had been led to believe, but by Proview Shenzhen. That made ineffective the China country assignments provided to IP Application Development by the Proview group.

Now, Proview Technology is being sued by its own lawyers for legal fees that helped Proview collect the USD60 million from Apple. The Beijing-based Grandall Law Firm is seeking about CNY15 million in outstanding legal fees that Proview owes. Grandall agreed to represent Proview in March 2010 in exchange for 4% of the firm's settlement amount. "According to our contract, the amount should be settled immediately with no delay," Xie said. "The contract we signed should be honored, but Proview's behavior lacks integrity and should be condemned. It is unethical and has no moral baseline." He said his law firm had assigned nearly 20 lawyers from Beijing, Shanghai and Guangzhou to help financially-ailing Proview turn a CNY1 million offer from Apple into the USD60 million court-mediated settlement over the course of two years. Xiao Caiyuan, a lawyer at Shenzhen-based Guanghe Law Firm who also represented Proview, signed a similar compensation contract. Guanghe set its commission at 8% of the total settlement amount – meaning it is owed about CNY30 million. It should be noted however that Proview is not at liberty to disburse the funds, as it is under receivership and the courts will use the funds to repay creditors.

In a separate case, the Jiangsu Xuebao Consumer Goods Co is suing Apple, claiming that the latter's Snow Leopard operating system has the same Chinese name as its registered trademark. The company is seeking CNY500,000 in compensation and a public apology. Xuebao Chairman Tong Yu said he registered 42 Xuebao trademarks under different categories since 1994. Xuebao means "snow leopard" in English. He added that Apple had applied for the Snow Leopard trademark in China in 2008 but its application had been rejected. The Jiangsu company said it had evidence of 104 trademark infringements by Apple.

Shanghai Zhizhen Network Technology Co also filed a lawsuit, accusing Apple of infringing its patented voice recognition software with its Siri function on the iPhone. Zhizhen developed its Xiao iRobot software in 2004, while Apple's Siri, which made its debut with the iPhone 4S last year, was first developed in 2007. Zhizhen Chairman Yuan Hui said the firm had 100 million users in China. Zhizhen's patent covers "a type of instant messaging chat robot system", according to the database of the State Intellectual Property Office (SIPO). "People feel that China has no innovation, that companies here just copy. But in fact, we are a leader in our field, and we have created our own innovation," Yuan said. In a third case, a Taiwanese plaintiff is suing Apple in the Zhenjiang People's Intermediate Court, in Jiangsu, for allegedly violating his patent on technology that he claims is used in the FaceTime video-calling application and protocol. The plaintiff, surnamed Lee, claims to hold a so-called utility model patent on "voice network personal digital assistant" technology. FaceTime, which was introduced by Apple co-founder Steve Jobs in June 2010, is also used on Apple's iPad, iPod touch, iMac and MacBook products.

Apple sold 1.68 million iPads on the Chinese mainland last year, a 50% growth from the previous year. The company launched its new iPad tablet in the Chinese mainland market on July 20, this time without the overnight lines seen during the release of the iPhone 4S and the iPad 2. Customers could pre-order the new iPad online and pick it up at a specified time. In addition, the new iPad had been sold for about four months in many countries around the world since its launch in the U.S. in March, leaving ample time for those wanting the gadget to get a grey import. China is now waiting for the iPhone 5. Apple and its principal manufacturing contractor, Taiwan's Hon Hai Precision Industry, are rushing to meet pent-up demand for the iPhone 5 in China. The device becomes available in Hong Kong on September 21, but a release date for the mainland has not been set. Apple said however that worldwide it would be the fastest iPhone roll-out ever.

Apple was ranked seventh among the top-selling smartphone brands in China in the first six months of this year as cost-conscious consumers flocked to buy lower-priced models rather than iPhones, according to market research firm IHS iSuppli. Unicom President Lu Yimin said the operator was focused on marketing the iPhone but he described many new 3G subscribers as "low-end users" who wanted cheap smartphones. Sino Market Research found 67.9% of first-half smartphone sales to subscribers on Unicom's 3G network were models that cost CNY2,000 or less. Apple's iPhone is in the premium handset segment priced at CNY4,000 or more, which made up 19.2% of first-half smartphone sales at China Unicom. China Telecom, which introduced the iPhone on its CDMA 3G network in March, credited the Apple product for attracting high-end users, but added it offered 240 different smartphone models to effectively reach more consumers.

Apple's revenue in China, which accounts for 20% of its global income, posted a growth rate of 48% year-on-year in the April-June quarter, a 28% quarter-to-quarter decrease from USD7.9 billion in the first quarter, and compared with a 23% growth globally. Sales of iPhones jumped 100% year-on-year in China in the quarter after Apple, in partnership with China Unicom and China Telecom, launched the iPhone 4S in the country in the first quarter. Apple's China revenue hit USD5.7 billion in Q2. The iPad's market share in China's tablet-PC sector climbed to more than 72.6% in the second quarter of 2012, according to a report by Analysys International. The figure marked a 20.06% increase from the first quarter. After the iPad, the tablet PC from Lenovo held about 8.38% of the market share. Meanwhile, Samsung Group's tablet PC saw a 7.69% year-on-year decrease in its market share, which stood at 3.59% in the second quarter of 2012. Apple introduced the new generation of iPads in the Chinese market in March, but customers were unable to buy them until the second quarter.

## Lenovo closes gap with HP as market share and profit surges

Lenovo Group's second-quarter net profit surged 30% annually to USD141.4 million and its market share rose. Lenovo's revenue soared 35% to USD8.01 billion. On a quarterly basis, net profit jumped 112% from USD67 million in the three months ended March 31. The results cemented the Beijing-based company's No 2 spot in the global PC market and helped it to challenge Hewlett-Packard as the world's biggest supplier of personal computers in the last quarter. By the end of the second quarter, Lenovo had a 15% market share, close to HP's 15.7%, said U.S.-based research firm International Data Corp. Lenovo Chairman and Chief Executive Yang Yuanqing attributed that healthy profit to balanced growth across all of the company's markets, customer segments and product lines. Lenovo's core mainland market accounted for USD3.5 billion, or 44%, of total worldwide sales in the quarter. The company's gross profit margin dipped to 12% from 12.5% a year earlier, but that figure was still up from 10.8% in the quarter to March. Citing data from market research firm IDC, Yang said Lenovo achieved "its highest-ever quarterly [global] market share of 15%". Chairman Yang said the company was optimistic about its entry into the new category of "ultrabooks" that run Microsoft's Windows 8 operating system. Lenovo, which was founded in Beijing in 1984, is also betting big on the growth potential of its fledgling Mobile Internet and Digital Home (MIDH) Division, which was established in January last year to compete against other consumer electronics brands in smartphones, media tablets and internet-linked "smart" televisions. Lenovo became the No 2 smartphone brand in China in the quarter to June, the South China Morning Post reported. Lenovo for the first time sold more mobile phones – 6.8 million – than PCs in the second quarter of 2012. Liu Jun, Lenovo Senior Vice President and President of the MIHD Division, said Lenovo's share of the smartphone market had increased from about 2% at the beginning of 2011 to 13% in July this year. He said the company will introduce more than 40 new smartphones to the Chinese market by the end of this year, prior to entering overseas markets.

Lenovo launched a lighter, quicker ThinkPad notebook computer, the ThinkPad X1 Carbon. The latest ThinkPad has third-generation wireless connectivity and other features inspired by tablets and smartphones, said Dilip Bhatia, Vice President of the ThinkPad business unit. Lenovo also announced a three-year sponsorship deal with the U.S. National Football League (NFL) to be the exclusive provider of laptops, desktops and workstations for the 32-team American football league, which is the most popular among all the major professional sports associations in the U.S. The primary benefits for Lenovo as a major sponsor of the NFL is its right to use all league-owned trademarks in marketing and advertising activities for the next three years.

When asked how he feels about working for a Chinese company, Jeffrey Shafer, Vice President of Global Communications at Lenovo, responded: "It's a global company." There are six nationalities among Lenovo's top 10 executives and 17 nationalities are represented in the company's top 100. The company has a presence in more than 60 countries and regions. "When Lenovo purchased IBM most people expected it to fail. After seven years, we have become the world's second-largest PC maker," Shafer said. In 2010, Chinese companies employed nearly 1 million people overseas, and of these about 71% were part of the local workforce.

- Best Buy Co plans to introduce the Best Buy Mobile brand in the Chinese market as it sees rising demand for smartphones and tablets, and plans to open 14 outlets inside Five Star Electronics stores in Nanjing to sell the devices. The company closed all

nine Best Buy branded stores in China last year.

- The first 4G mobile phone based on homegrown technology is expected to debut in Shanghai in the first half of next year, when commercial use of 4G services will have begun, Mao Weiliang, Shanghai Mobile's Vice General Manager of the Data Services Division, said during the annual Shanghai Telecommunications Conference. China Mobile has begun commercial 4G services in Hangzhou but is only providing data cards at present. There are no TD-LTE phones ready for the market yet.
- Digital Realty Trust, the world's largest builder and wholesale provider of data centers, moved forward its expansion plans in China after completing the acquisition of a 164,000 square foot industrial site in Hong Kong's Tseung Kwan O. The San Francisco-based company and its joint-venture partner, information-technology services provider Savvis, are spending up to USD150 million to buy and redevelop the property into an advanced data center, which will cater to multinational companies with growing operations in Hong Kong.
- More than 42 million smartphones were shipped to Chinese retailers in the second quarter, a jump of 32% quarter-on-quarter. The increase also represents the second consecutive quarter of record-breaking volume, a report from IT research company Canalys said. China accounted for 27% of the 158 million smartphones shipped around the world.
- China exported about 457 million mobile phones in the first half of the year, an increase of 17.7% year-on-year, reaching USD35.8 billion in value terms, up 36% over the same period last year. Analysts expect the country to export more than 1.05 billion mobile phones this year, with a transaction amount of about USD80 billion. The country shipped 535 million mobile phones to stores in the first half, a rise of 5.5% year-on-year.
- Less than 10 days before the opening of the London Olympics, ZTE Corp unveiled its latest smartphone in the United Kingdom – the ZTE Grand X TECH dual-core 4.3-inch screen smartphone – as the company seeks a cellphone presence in Europe. The Grand X is the company's first big attempt to reach beyond Asia. The Grand X handset, combining an NVIDIA Tegra 2 dual-core chipset with the Android 4.0 operating system, will be available through stores of Phones 4u and Virgin Media across Britain. ZTE was ranked fourth in cell phone shipments in the world in 2011, with shipments reaching 15 million, surging 400% year-on-year.
- Foxconn International Holdings, the world's biggest contract manufacturer of mobile phones, reported a net loss of USD226 million in the first half, from a net loss of USD17.65 million a year earlier. Sales fell 16.4% over the period.
- Apple is buying back the used iPhone 4S in its home market in the United States. The refund paid for a used iPhone 4S 64 GB is USD349. On its Chinese website, Apple agrees only to recycle used devices "free of charge."
- Philips (China) Investment Co held a groundbreaking ceremony for its new LED Professional Lighting Solutions manufacturing facility in Chengdu, Sichuan province. The site will start production in 2013, according to Tommy Leong, President of Philips Lighting Greater China. As well as LED manufacturing, Philips is going to set up a 10,000 square meter Lighting Application Center at the site, which it claims will be the largest of its type in Asia, and one of the most advanced in the world.
- China Fiber Optic Network System, the biggest Chinese manufacturer of fiber optic patch cables, plans to expand production capacity to 18 million sets of patch cables per annum from 16 million sets by the end of this year to meet market demand. It posted a 14.4% increase in revenue for the first six months to HKD714.6 million, while net profit rose 11.5% to HKD111.2 million.
- Acer canceled the launch of its new mobile phone CloudMobile A800 due to "pressure" from Google, as the device runs on the Aliyun operating system, developed by Aliyun Computing Co, a subsidiary of Alibaba Group, and a competitor of Google.
- Lenovo Group expects to triple its share of the global server computer market to 10% by 2015, up from 3% now, ranking it as one of the top three server computer makers globally. The more advanced server computer market offers higher profit margins. By 2015, Lenovo's server computer sales will surpass 1 million units annually.
- Of the 69.1 million smartphones sold in China in the first half, IHS estimated Samsung shipped 14.4 million units to seize a market-leading 20.8% share. Lenovo grabbed an

11% share to follow Samsung. Yulong Computer Telecommunication Scientific (Shenzhen), maker of the Coolpad-brand smartphone, took the No 3 spot with a share of 10.4 %, followed by Huawei Technologies (9.8%); Nokia (9.1%); Apple (7.5%); and ZTE (8.4%). Smartphone sales in China this year are expected to reach 160 million units.

- Shanghai's average broadband bandwidth will grow to 16 megabytes per second (Mbps) by the end of this year from the current 12 Mbps, making it the city with the fastest network in China, China Telecom said. The user base of the faster fiber optic network will reach 2.5 million, covering 70% of the city's broadband users. At present, 2 million households use the fiber optic network. China Telecom's average broadband bandwidth in Shanghai will hit 50 Mbps by 2015 to catch up with the level of South Korea and Japan, which currently lead the broadband market in Asia, said Hua Ruiqiang, Shanghai Telecom's Marketing Director.
- Lenovo said it will start selling smartphones in India, the Philippines and Indonesia to gain more experience before entering developed markets such as the United States. The company was ready to expand outside its home market, said Milko Van Duijl, President for the Asia-Pacific and Latin America regions. He said smartphones would eventually be Lenovo's principal product in emerging markets as the devices took on more of the functions of televisions and PCs.
- NEC Corp sold its 2.7% stake in Lenovo Group to raise cash. Lenovo Spokesman Brion Tingler confirmed the company granted a waiver to NEC so it could sell the shares, which were under lock-up. The share sale would not alter the long-term, ongoing strategic partnership between the two companies.

## OPERATORS

### China Telecom to acquire network from parent

China Telecom, the world's largest fixed-line network operator, saw its share price climb to the highest in three months in early August, on news that it plans to pay more than CNY120 billion to acquire the mobile infrastructure of its parent company. China Telecommunications Corp is currently leasing out its domestic mobile network, which supports the 2G cdmaOne and 3G CDMA2000 standards, to its Hong Kong-listed subsidiary. Lisa Soh, Analyst at Macquarie Securities, said the reported purchase price of more than CNY120 billion was "about 10% higher than the CNY104 billion amount we had estimated" for the proposed transaction. The acquisition would allow China Telecom to cut expenses by avoiding the escalating costs of leasing the network. In 2010, China Telecom, which is a carrier-partner for Apple's iPhone, renewed the "CDMA Network Capacity Lease" deal with its parent for a further term, which will expire on December 31. The lease fee last year amounted to CNY19.01 billion, a 42.7% increase from 2010. Reuters said that China Telecom would fund the planned acquisition with its own resources and debt. China Telecom had 144.18 million mobile subscribers, including 50.96 million 3G network users, and 167.49 million local-access lines at the end of June. The deal would allow the carrier to boost operating efficiency and cut expenses by avoiding the escalating costs of leasing the network. The company reported a disappointing 8.3% fall in first-half net profit to CNY8.8 billion. First-half revenue climbed 14.8% to a record CNY138 billion. As more users accessed the internet through their 3G smartphones, China Telecom's first-half mobile data revenue rose 46.7% to CNY19.3 billion from CNY13.1 billion a year ago.

### Shanghai to expand the number of Wi-Fi spots

Shanghai will upgrade its Wi-Fi network with more hot spots and higher security levels as it seeks to establish itself as a "wireless city" under the city's 12<sup>th</sup> Five Year (2011- 2015) Plan. By 2013, Shanghai will have more than 22,000 Wi-Fi hot spots, covering all major public areas, according to the Shanghai Radio Administration Bureau. China Mobile aims to use Wi-Fi network construction to improve the "user experience" before it upgrades to a 4G network in 2014. There are now around 6,000 China Mobile hot spots citywide serving up to 20 million mobile phone users. From 2012 to 2014, China Mobile will build 90,000 access points in the city. Each wireless hot spot required four to five access points on average. Rival Shanghai Unicom plans to establish up to an additional 7,000 Wi-Fi hot spots, up from 2,000 at present. The third operator, China Telecom, has 7,500 Wi-Fi hot spots, and the number is expected to hit 25,000 by 2015. Shanghai plans to adopt the new frequency of 5.8 GHz for Wi-Fi spots, compared with the current frequency of 2.4 GHz.

## China Mobile reports lower-than-expected results

China Mobile reported lower-than-expected first half profit growth. The company, which had 683 million mobile subscribers at the end of June, announced a modest 1.5% increase in net profit to CNY62.2 billion from a year earlier due to intense domestic competition. China Mobile's revenue, however, rose 6.6% to CNY266.53 billion from the previous year. The company's earnings before interest, tax, depreciation and amortization (ebitda) decreased 0.9% to CNY123.05 billion. The first-half ebitda margin was also down to 46.2%, from 49.6%. In the first six months of the year, China Mobile added 33.51 million customers, including 15.87 million subscribers to its 3G network that is based on the Beijing-backed TD-SCDMA standard. It had a total of 67.08 million 3G subscribers at the end of June, which was more than the 3G subscription numbers of rivals China Unicom, with 57.53 million, and China Telecom, with 50.96 million, in the same period. To stay competitive, China Mobile planned to raise full-year handset subsidies to CNY26 billion from the previous goal of CNY21 billion. It spent CNY12 billion on handset subsidies in the first half. Chairman Xi Guohua said China Mobile would not partner with Apple any time soon because the U.S. company had no plans to launch an iPhone that supported the operator's TD-SCDMA 3G network at this time. Chief Executive Li Yue added the company would become the largest operator of advanced high-speed 4G networks next year, when the number of its 4G base stations was expected to reach 200,000, the South China Morning Post reported.

## Short message service (SMS) loses steam

More than 30 billion short messages were sent in China during Spring Festival this year. From 2000 to 2008, the volume of short messages (SMS) sent over the network of China Mobile rose to 607 billion from a mere 500 million at the very beginning. However, the rapid growth has dramatically slowed in the past three years. With a little year-on-year increase, the number of short messages sent via China Mobile network reached 736 billion in 2011. China Mobile's revenue from SMS fell to CNY46.5 billion last year from a peak of CNY53.6 billion in 2009. Wireless data traffic has replaced SMS to become the biggest revenue source for China Mobile's data business in the first half of the year. As the smartphone penetration rate increased in China, together with advanced 3G and 4G mobile technologies greatly improving network speed, customers have migrated to more cost-effective services, including instant messaging tools and Weibo. Analysts said the SMS business in China, if it remains in its current format, will face a steady decline, the China Daily reported.

- More than 70% of new mobile phone owners were 3G users in the first five months. There were 166.67 million 3G users by the end of May, an increase of 38.3 million in five months. This represented a penetration rate of 16%. The rate may rise to 20% by the third quarter, the Ministry of Industry and Information Industry (MIIT) said. The falling prices of 3G phones have also fueled the popularity of 3G.
- China's market for so-called connected devices and services is forecast to grow six-fold to USD707 billion by 2020 from USD116 billion this year, according to a study jointly released by consultancy Machina Research and GSMA. China is introducing innovative M2M technologies, enabling electronic devices, other than mobile phones, to communicate with other devices or systems using the mobile-phone network. China Mobile and China Unicom are among the world's leading proponents of M2M services, according to Machina Research.
- Hong Kong's Hutchison Telecom, which operates both wireless and fixed-line networks, posted a 15% increase in first-half net profit to HKD568 million from a year earlier, on the back of brisk smartphone sales and higher use of data services. Total revenue rose 12% to HKD6.73 billion. Revenue from mobile services grew 15% year-on-year to HKD5.24 billion in the first half. The monthly ARPU of Three Hong Kong's 3G and 4G subscribers reached HKD253 in the first half, up from HKD245 a year ago.
- China United Network Communications Group Co, the parent company of China's second-biggest telecom operator, China Unicom, said the company had completed the world's largest wide-band code division multiple access, or WCDMA, 3G network by the end of 2011. China Unicom said it owned 237,000 WCDMA base stations in 2011 after obtaining a 3G network operation license from the Chinese authorities in 2009.
- More than 10 models of handsets supporting home-grown 4G technology will make their debut next year and by 2014 there will be more than 100 available on the domestic market, China Mobile said. The handsets will include models made by ZTE,

Huawei and probably Apple. They will support the China-developed TD-LTE technology. The lack of handset models is a bottleneck in 4G's development, Li Zhengmao, China Mobile's Vice President, said. Apple will probably launch an iPhone that supports TD-LTE before 2014, Li said. The first 4G mobile phone using TD-LTE technology is expected to debut in Shanghai in the first half of next year.

- Huawei Technologies is in talks with Gulf Etisalat, Saudi Telecom and several other Middle Eastern operators to manage their fixed-line networks. Outsourcing network maintenance typically cuts telcos' operating costs by 13% to 20%. The company estimated the Middle East's managed services sector was worth USD1 billion last year, claiming Huawei's market share was 55%.
- China Mobile said that it has developed the first TD-SCDMA 3G mobile phone supporting Near Field Communication (NFC) technology to perform functions such as paying for goods or swapping information. The operator also plans to acquire or invest in Anhui USTC iFlytek Co, a voice assistant tool often regarded as China's version of Apple's Siri. The iFlytek products are widely used in Android devices, which help users to search and react on mobile phones through voice requests.
- China Mobile has selected Ericsson and ZTE to build an TDD-LTE network for its Hong Kong unit, which will combine that new infrastructure with its existing high-speed network that supports the other 4G standard known as frequency division duplex long-term evolution (FDD-LTE). The integration of FDD-LTE and TDD-LTE networks would allow the carrier to provide dual-mode 4G services by the end of this year. China Mobile Hong Kong is licensed to run 4G services on both the 2.3-gigahertz and 2.6GHz frequency bands.
- China plans to unveil a detailed policy on allowing private capital in the telecom sector, the Ministry of Industry and Information Technology (MIIT) announced. Private investors will be able to invest in eight areas, including mobile communications resale, broadband services, value-added telecom services and basic operating services. Presently, private investment is restricted in the sector, which is regarded as a national strategic industry.
- China Unicom (Hong Kong) posted a second-quarter profit that surpassed analysts' estimates. Net income fell 2% to CNY2.42 billion. Chairman Chang Xiaobing has turned to cheaper smartphones from Chinese suppliers Lenovo Group, ZTE and Huawei Technologies to trim subsidy costs and reduced reliance on Apple's iPhone to lure new users. First half profits rose 32% to CNY3.42 billion, as revenue increased 20% annually to CNY121.7 billion. The operator added 3.4 million mobile subscribers in July, bringing the total number to 222.66 million users. Its 3G user base hit 60.6 million by July, giving it a high average revenue per user (ARPU). Unicom's total wireless and fixed-line capital expenditure this year is set at CNY100 billion, but the company spent only CNY38.9 billion in the first half.
- China Mobile is on track for its slowest annual profit growth in at least 13 years. Second-quarter net income fell to CNY34.40 billion from CNY34.42 billion a year earlier. Chief Executive Officer Li Yue is boosting capital spending to invest in a fourth-generation network and invest CNY20 billion in handset subsidies to maintain its lead in smartphone users over rivals China Unicom and China Telecom.
- China Mobile plans to offer a cloud storage service to Chinese users by the end of the year. The Mcloud service, which is similar to Apple's iCloud service, is now being tested. The carrier plans to provide users with up to 16 gigabytes (GB) of storage space for free, while Apple offers 5 GB. "In the past, people deposited valuables in banks. Now, as we enter a digital period, we have new demands for keeping our information safe, such as messages, files and photos," said Shen Hongqun, Deputy General Manager of the Data Business Department at China Mobile.
- China Telecom posted better than expected net profit in the second quarter of CNY4.55 billion, down 10% percent from a year ago. The company generated CNY70.1 billion in revenue in the quarter, up 14% year-on-year. China Telecom's earnings fell because of rising handset subsidy on iPhones. But in the longer term, new iPhone users will help the carrier to generate profit and compete with bigger rivals China Mobile and China Unicom, industry insiders said.
- All five Hong Kong wireless network operators now offer advanced 4G services, after SmarTone Telecommunications launched its 4G network at the end of August. SmarTone's LTE network uses the 1800-megahertz band, which provides better coverage, especially inside buildings, compared to 2600 Mhz. The four other operators

– CSL, Three Hong Kong, PCCW Mobile and China Mobile Hong Kong – use the higher frequency band. CSL meanwhile launched what it touted as the world's first fully operational, dual-band 4G LTE network on 1800 MHz and 2600 MHz under its premium “1010” brand.

## **RADIO, FILM & TV**

### **Acquisition of AMC by Wanda approved**

Dalian Wanda Group Co, the operator of China's largest movie theater chain by box office revenue, completed the acquisition of AMC Entertainment Holdings. Wanda paid USD2.6 billion for the acquisition and promised to invest up to an additional USD500 million in AMC to fund its strategic and operating initiatives. Wanda Cinema Line currently owns 86 cineplexes and 730 screens, of which 47 are IMAX screens, and it intends to expand its chain to more than 200 cineplexes with 2,000 screens by 2015, according to a statement on Wanda's official website. AMC operates 346 multiplex theaters with 5,028 movie screens. Wanda generated revenue of CNY56.21 billion in the first half of the year, a year-on-year decline of 9.1%, and its total revenue for the whole year is expected to reach CNY140 billion. However, its cinema chain arm reported year-on-year growth of 61%. The deal with AMC, the second-largest cinema owner in the U.S., will make Wanda the world's biggest cinema owner.

### **Online video to be censored**

The State Internet Information Office and the State Administration of Radio, Film and Television (SARFT) have issued restrictions on online serials and short films for the first time, in an effort to ensure that all content run on video websites has passed the censors. Internet video service providers would now be held responsible for all original programming posted on their websites. Unlike television series or films screened in cinemas, online drama series and short films have until now existed in an uncensored world, except for the general censorship applied to everything shown online. SARFT said 325 million Chinese watched video websites, with video or audio websites accounting for nearly 70% of website traffic. China now has 617 online video or audio providers, including five that are listed companies. Professor Zhou Xing, from Beijing Normal University's College of Art and Communication, warned the new regulation may impede the development of the creative industry.

### **Foreign movies drive China's market revenue**

Domestic movies did not fare well in the first half of the year, but imported ones helped drive the entire market, the State Administration of Radio, Film and Television (SARFT) said. Box office sales in China in the first six months of the year reached CNY8.07 billion, a 41.7% year-on-year increase. Ticket sales for imported movies increased by 90.4% to CNY5.27 billion, while sales for domestic films dropped by 4.3% to CNY2.8 billion. Film ticket sales totaled CNY10.17 billion in 2010 and more than CNY12 billion last year. “Despite the expanding size of the film market in China, the market share of Chinese films is shrinking,” said Gao Jun, General Manager of Beijing Shengshi Huarui Film Investment & Management Co and a former Deputy General Manager of the theater operator New Film Association. With box office sales of CNY215.99 million by the end of June, the fantasy epic “Painted Skin: The Resurrection” was the biggest domestic film in the first half of the year. It is still far from the CNY934.03 million grossed by Titanic 3D, the most popular foreign movie in China in the first six months of the year. Analysts said the low quality of Chinese movies was responsible for the poor performance. 34 foreign films are allowed to be released in movie theaters in China every year, 14 of which must be in the 3D or IMAX format. According to Gao, most of the more than 80 domestic films released in the first half of the year did not make a profit, and the domestic movie-making industry is facing its biggest challenge since China's reform and opening-up in the early 1980s.

- China is the world's biggest producer of television serials, churning out 469 television serials with nearly 15,000 episodes last year.
- A large state-owned group from Changchun in Jilin province plans to build a movie theme park in Haikou. Changchun Film Group will spend CNY43.6 billion on the project, which is expected to cover more than 2,800 hectares.
- Microsoft announced a cooperation deal with Beijing-based PPTV on internet video.

PPTV will provide paid online video services overseas through Microsoft's cloud platform, Windows Azure.

- Hon Hai Precision Industry is negotiating with Sharp Corp to buy a bigger stake in the struggling Japanese TV maker and paying less per share as part of a renegotiated investment deal between the two Apple suppliers. Sharp's deteriorating earnings outlook has battered its share price and allowed Hon Hai to squeeze Japan's TV pioneer for a better deal than the one agreed in March, under which it would buy around 1% of Sharp for USD844 million.
- U.S. animation company DreamWorks Animation SKG and its Chinese partners will set up a CNY20 billion theme park in Shanghai and produce the movie "Kung Fu Panda 3" in the city by 2016. With an initial investment of USD330 million, Oriental DreamWorks, a joint venture between DreamWorks and three Shanghai government-backed investors – China Media Capital (CMC), Shanghai Media Group and Shanghai Alliance Investment – aims to become a world-class animation studio. The U.S. company will hold a 45% share.
- Avatar Director James Cameron's company Cameron Pace Group is launching a joint venture in China. The venture with two Chinese partners will supply 3-D filming technology and production services. The company is discussing possible collaboration with state broadcaster China Central Television on developing 3-D TV. The partners are Tianjin North Film Group, a state-owned film and television production company, and Tianjing Binhai Hi-Tech Development Group, which operates a technology park in Tianjin.
- Celestial Pictures, the Hong Kong entertainment company that owns the Shaw Brothers Film Library, has started offering selected titles to the iTunes Store, weeks after Apple rolled out the service in Hong Kong, Macao, Taiwan and nine other markets across Asia. The first Shaw Brothers titles to debut on the iTunes Store are: "The 36<sup>th</sup> Chamber of Shaolin", starring Gordon Liu; "Out of The Dark", with Stephen Chow; and "Behind the Yellow Line", starring late Canto-pop star Leslie Cheung.
- China Broadcast Corp (CBC) said it has built the world's biggest mobile multimedia network. CBC, which was founded by the State Administration of Radio Film and Television (SARFT) in 2005, operates a national network that allows people to watch TV programs on various devices, including mobile phones, tablets and global positioning systems installed in vehicles.
- Taobao Marketplace and Hollywood's Motion Picture Association (MPA) have agreed to halt the sale and distribution of bootleg movies, television shows and other audio-visual content on the Taobao website. The pact included a requirement for online shops on Taobao.com to hold a valid and active "publication license" issued by the Chinese government.

## SOFTWARE

### Rovio opens Angry Birds stores, builds theme parks

Rovio Entertainment, the developer of the Angry Birds mobile game, expects its China revenue to triple in 2012, thanks to booming license income from Angry Birds products such as T-shirts, toys and amusement parks, Paul Chen, Rovio China's General Manager, said. Rovio opened an Angry Birds brand store in Shanghai in July, the first one outside Finland. 24 more are scheduled to open in China by the end of this year. Rovio also plans to launch 10 to 20 Angry Birds theme parks in China, with the first one expected to open in Haining, Zhejiang province, in October. "The products (sold in stores and parks) are uniquely designed for Chinese consumers," Chen said. China is Rovio's second-biggest regional market contributing almost 150 million downloads. Still, Rovio's revenue from the mobile game is relatively limited because of piracy and lack of effective payment methods in China, analysts said. Rovio plans to raise the portion of license income to 30% of its total income in China by the end of this year, compared with 10% now, Chen added in a mid-July interview. Rovio will have more than 100 employees in China by the end of 2012, compared with 11 now, as the company also plans to set up research centers for online games for Chinese users. Rovio's launched its new game "Amazing Alex" in July.

- Beijing has ordered thousands of county-level governments to only use genuine and authorized computer software by the end of next year. The move will help ease

international pressure over intellectual property rights (IPR) infringements and improve the nation's image, Yan Xiaohong, Deputy Director of the General Administration of Press and Publication (GAAP) and Deputy Director of the National Copyright Administration, told a press conference. Many local governments had yet to be cleared of using pirated software, Yan said. A website with more than 1,300 items of software from 162 domestic and overseas brands has been set up for all government departments and agencies to buy legal software.

- SAP, the largest maker of business management software, said it plans to double its China workforce by the end of next year. The plan is being driven by the company's rapid expansion in serving small and medium-sized enterprises. In the first half of this year, SAP added about 1,000 employees to beef up its sales team in China, as part of the company's four-year USD2 billion investment plan. The Germany-based company now has more than 3,500 employees in China. SAP's revenues in China jumped by 30% year-on-year in the second quarter. "The number of SMEs accounts for 79% of our total customers in China, and they helped to generate about half of the revenue," said Hera Siu, President of SAP China.
- China's software industry grew at a slower pace in the first half of the year amid the economic slowdown both at home and abroad, the Ministry of Industry and Information Technology (MIIT) said. The sector's combined profits totaled CNY117 billion in the first half, up 10.6% from a year earlier, but the pace of growth slowed from the same period last year, the Ministry said. Business revenue climbed 26.2% year-on-year to CNY1.1 trillion in the January-June period, down 3.1 percentage points from the growth in the same period last year. In the first six months, the sector's exports rose 11.7% to USD16.24 billion, 6 percentage points lower from the same period last year.
- Chinese iPhone and iPad users do not seem willing to pay for applications although they may have paid several thousand yuan for the mobile devices. Apple's China App Store has become the second-biggest, but the revenue generated by the apps is limited. Every iOS app download in China generates only one-tenth of the revenue in the U.S. The popular jailbreaking of iPhones and users' preference for free apps have crimped the revenue of paid apps, industry insiders said. The top 10 domestic Apple app developers depended mainly on overseas income, which made up nearly 90% of their total revenue.
- The iPad game "Defend the Diaoyu Islands", in which players defend a disputed chain of islands from hordes of invading sumo wrestlers, ninjas and samurai, has been pulled from the Chinese version of Apple's App Store in July. Ownership of the Diaoyu islands is disputed by several countries. Developer Shenzhen ZQGame Network encouraged Chinese gamers to "vent your frustration" at "saber-rattling" by Japanese "devils" around what it described as the "inalienable territory of China". The company said it was given "no explanation" by Apple for the removal. Apple's App Store rules state: "Enemies within the context of a game cannot solely target a specific race, culture, a real government or corporation, or any other real entity."
- Microsoft China in July initiated legal proceedings against nine computer retailers in China over pre-installed pirated Windows operating systems. The retailers in seven Chinese cities including Beijing, Shenzhen, Guangzhou and Nanjing sold Lenovo, Dell, Acer and HP computers already loaded with illegal software, according to the complaint. Microsoft also unveiled the result of a test on more than 100 computers with pirated Windows operating systems that found 94% were infected with malicious software.
- Oracle Corp, a major enterprise information technology service provider, will increase its investment in China for sales channel expansion and research and development (R&D), said President Mark Hurd. He visited Shanghai to look for local partners in the fields of financial services and cloud computing. Oracle now employs 4,500 people in China while it has had 25,000 enterprise clients since its entry into China in the 1980s.
- China was an important market but mobile messaging application WhatsApp would not focus on a single country, the company's Chief Executive and co-founder, Jan Koum, said. WhatsApp is a cross-platform mobile messaging application that allows users to exchange messages without having to pay SMS charges. Koum said the app had been very successful in Hong Kong, where 3 million people – or about 45% of the population – were WhatsApp users. But in mainland China, an application called Weixin, or "WeChat" in English, developed by Tencent, is expected to have 200 million users this month. Weixin is focused on the mainland, and for the moment poses no challenge to WhatsApp internationally.

- Microsoft aims to expand its work force by more than 1,000 employees in China by the end of June next year, and boost its investment in research by 15% in coming years from USD500 million now. At present, it has 4,500 employees in China. "In this new era, China will become the source of global innovations," Ralph Haupter, Microsoft's Vice President and Microsoft China's Chairman and Chief Executive, said. The new employees will help Microsoft develop new operating systems, the Office software package and cloud computing services.

## **TELECOM MFG. CO.**

### **Fast-growing Meizu seeks to rival major smartphone makers**

Meizu Technology, one of the world's fastest-growing mobile-phone manufacturers, aims to become the third-largest Chinese smartphone brand by the end of this year and start its foray into international markets next year. The company launched an exclusive partnership with 3G network operator PCCW mobile in Hong Kong. Meizu's Flyme 1.0 mobile operating system, which is based on Google's free Android operating platform, also made its global debut in June on the newly introduced Meizu MX quad-core smartphone. The handset runs an advanced chip, with four processing cores, generating faster performance doing multiple tasks, while consuming less power. Founded in 2003 by Chinese entrepreneur Jack Wong Cheung, Meizu initially made portable music players for the Chinese market. The Zhuhai-based company shifted gears in 2008, when it started producing and supplying premium-priced, Android-based 3G smartphones with an industrial design reminiscent of Apple's popular iPhone. It operates almost 400 stores on the mainland, while its flagship Hong Kong store opened in Mong Kok in January. "We aim to excel in the high-end market segment in China, not in the segment where smartphones cost CNY1,000 or lower," Mok Chui-tin, General Manager of Meizu in Hong Kong said. The price for the top-of-the-line, 64-gigabyte Meizu MX quad-core smartphone is HKD4,099. Its 32GB version sells for HKD3,099. "Our target is to be the number three domestic smartphone brand this year, when the country's total mainland smartphone sales are forecast to reach 150 million units," Mok said. "That is highly doubtful because Meizu was ranked No 10 last year," Bernstein Research Senior Analyst Alberto Moel said.

### **ZTE ensnared in kickback scandal in Philippines**

ZTE is accused of paying tens of millions of dollars in kickbacks in connection with a 2007 contract in the Philippines and has led to graft charges against former President Gloria Arroyo, her husband and two other former senior officials. The criminal prosecution, which follows a lengthy investigation into ZTE's business practices by the Philippine Senate, puts a spotlight on the role played by Chinese companies. ZTE is also under scrutiny in Washington, where the House intelligence Committee is investigating whether it and Huawei Technologies, pose a threat to national security through their equipment sales in the United States. Mitchell Peterson, Spokesman for ZTE in the United States, said the company will be "transparent, candid and cooperative" with the Intelligence Committee's inquiry. According to testimony during hearings by the Philippine Senate, Benjamin Abalos Sr., former Chairman of the Election Commission, took large kickbacks from ZTE in connection with a contract for the construction of a broadband network and fed some USD30 million into the campaign coffers of Philippine politicians ahead of a 2007 election. His Manila Attorney, Gabby Villareal, said Abalos "categorically denies receiving any money" from ZTE. ZTE did not address specific allegations raised in the Philippines but said that "abiding by Chinese and local laws is a basic principle that ZTE has always followed," the Washington Post reported.

### **Huawei now world's biggest telecom equipment manufacturer**

Huawei Technologies has become the world's biggest manufacturer of telecom equipment, after its first-half revenue beat that of Swedish rival Ericsson. First half revenue was CNY102.7 billion, up 5.1% year-on-year. The figure was USD850 million more than that of Ericsson's first-half revenue. Ericsson is still by far the largest cellular infrastructure maker in the world. Its market share in the mobile equipment market reached 38% with USD34.9 billion in 2011, twice as big as its closest competitor in the segment. Huawei held 16.5% of the world market for mobile network infrastructure in 2011, bringing in USD13.5 billion in revenue, according to Gartner. Ericsson has the upper hand over Huawei because it has full access to the North American market, while Huawei was blocked from this profitable region due to security concerns by the U.S. government. By contrast, Huawei has a sizable handset and enterprise businesses. Huawei's smartphone shipments soared 500% to 20 million units in 2011. Total

mobile phone shipments hit 55 million units, according to its annual report. Huawei expects its sales of consumer devices to reach USD9 billion this year, up more than 32% from the USD6.8 billion in 2011.

## ZTE probed for sales of U.S. surveillance equipment to Iran

U.S. FBI and Commerce Department investigators are probing ZTE and its U.S. subsidiary ZTE U.S.A. for allegedly selling banned U.S. surveillance equipment to Iran. The Commerce Department has been looking into ZTE since at least March, when it served an administrative subpoena on Dallas-based ZTE U.S.A. for information on monitoring equipment allegedly supplied to the Telecommunication Co of Iran. U.S. federal law bans the sale, export or re-export of goods, technology or services to Iran. Those who knowingly export goods to Iran are subject to criminal prosecution, and those involved unwittingly face civil penalties. Reuters obtained a "packing list" dated July 2011 that identified products bound for Iran and manufactured by Cisco, Dell, Hewlett-Packard, Microsoft, Oracle and Symantec. The article said the USD130.6 million contract between ZTE and the Iranian company was signed in December 2010.

## Huawei issues report on cyber security to clear its name

Telecoms equipment maker Huawei Technologies has issued a report on cyber security that includes a pledge never to get involved in spying, in a effort to allay international concerns that threaten to hurt its expansion. The report, written by Huawei Executive John Suffolk who is a former British government Chief Information Officer (CIO), calls for global efforts to create legal and technical security standards. It makes no recommendations for what standards to adopt, but says existing laws are inconsistent or fail to address important threats. "We have never damaged any nation or had the intent to steal any national intelligence, enterprise secrets, or breach personal privacy; and we will never support or tolerate such activities, nor will we support any entity from any country who may wish us to undertake an activity that would be deemed illegal in any country," the report says. The author of the report is now Huawei's global cyber-security officer. Based in Shenzhen, Huawei says its equipment is used by 45 of the world's 50 biggest phone firms. It reported profit of CNY11.6 billion last year on sales of CNY209.9 billion.

- Chinese smartphone maker Xiaomi Corp has secured USD216 million during its latest round of financing, Founder and President Lei Jun said. He said the firm may sell 5 million Xiaomi phones by year's end. Xiaomi is mostly funded by venture capital and has yet to turn a profit. Despite the intense competition, Xiaomi, which has about 1,300 employees, won its position in the market quickly thanks to its accurate positioning, innovative business model and strong backup services.
- Less than a year into the job, Cheng Tien Chong, Chief Executive of Foxconn International Holdings, retired with more than two years of his contract still to run. From 2007 to December 31, 2011, Cheng worked for Foxconn International's Taiwanese parent, Foxconn Technology Group, where his latest post was corporate Executive Vice President. From 1997 to 2007, he was the Asia President of Texas Instruments, and earlier still, from 1992 to 1997, China President of Hewlett-Packard.
- Nokia has closed two regional sales offices, in Chengdu and Shanghai. Nokia didn't specify how many people it will lay off because of the closures, but said it will increase the size of its operations in its remaining two offices in Beijing and Guangzhou. Nokia's once commanding share of China's smartphone market has withered as users have increasingly opted for models sold by Apple and Samsung at the high end, or one of the growing number of cheap smartphones offered by Chinese vendors. In the first quarter this year, Nokia had an 11% share of China's smartphone market, down sharply from the 30% share it had in the second quarter of 2011.
- Motorola will lay off 700 of its 1,600 employees in its Beijing research and development center. Motorola's Nanjing R&D center, which has 500 staff, would also be shuttered and the Shanghai branch office closed. About 200 Motorola employees protested in August in Beijing near the company's office building, calling it a "violent laying-off". Yang Changlong, Industry Analyst at Beijing's Bayes Consulting, said Motorola was in an awkward place in the Chinese market. "Their branding is [old], the price is high, and the products have no attractive qualities," Yang said. "Motorola is still a big name but they are not selling, [they're] without competitive products," he added.

- Huawei Technologies is set to challenge Samsung and later Apple in the USD219 billion smartphone market by offering inexpensive handsets. Huawei probably leapfrogged Nokia and Research In Motion (RIM) in the second quarter to become the world's third-biggest seller of smartphones behind Apple and Samsung, said Horace Dediu, of equity research firm Asymco.
- The United States International Trade Commission (USITC) announced that it had launched a patent probe or "Section 337 investigation" into Huawei Technologies Co and ZTE Corp involving wireless consumer electronics devices and components. In addition to Huawei and ZTE, some of the world's leading consumer electronics companies, including Nintendo Co of Japan and Amazon.com of the U.S., also appeared on the list. The investigation is based on a complaint filed by three California-based manufacturers on July 24.
- Huawei Technologies will invest USD150 million in its research and development (R&D) center to be built in Bangalore, the state capital of India's southern state of Karnataka. The center will occupy more than 92,903 square meters and can accommodate about 4,000 people. "We see demand coming from 4G rollout in India, and the center will work on our next-generation smartphone handsets," said Scott Sykes, Vice President of Corporate Media Affairs at Huawei Technologies. The Indian center will also work on technologies that can increase battery life in smartphones.

## WEB

### Tradesparq to help businesses find the right partners at lower costs

Tradesparq, a start-up aiming to provide buyers and suppliers with a more efficient and cost-effective way to verify potential trade partners, is taking on Alibaba.com on its own turf. Established in 2010, the Shanghai-based business-to-business (B2B) trading platform is trying to get a step ahead of Hangzhou-based Alibaba.com, the world's largest B2B e-commerce service provider, envisioning a new online marketplace where Alibaba meets LinkedIn, a social networking site for professionals. Tradesparq enables registered users to search a directory of suppliers and match those results against their own social networks. Membership costs USD150 a year, including product and company profiles. Brian Hager, Chief Executive of Tradesparq, touts the use of matching capabilities as an efficient method to save traders' advertising costs. "As we began to see the rises of Facebook and LinkedIn, we realized that there was a great opportunity to utilize the social media network to match potential buyers and suppliers," he said. "We realized there was a big problem with Alibaba in finding the right partners" because it was difficult to narrow the search. Tradesparq is looking to cash in on China's increasingly active social media population. Users can share suppliers' contacts and product comments with their connections within the website. "What we focus on is being the collection point for a buyer or a seller to view the reputation of potential trade partners and to manage the reputation. Tradesparq wants to be a clearing house of information about the suppliers," Hager said, as reported in July by the South China Morning Post. Tradesparq now has 650,000 products from 82,000 suppliers. It expected to handle 3.5 million enquiries this year, Hager said. About 2% of the enquiries would lead to transactions, he estimated.

### Alibaba.com is split into two operations

Alibaba Group has split its recently privatized flagship company Alibaba.com into two separate firms in a restructuring designed to boost its operating efficiency. Alibaba.com was transformed into two new operations: Alibaba.com International Business and Alibaba.com Small Business. Wu Minzhi was appointed President of the English-language international trading business, which had 27.34 million registered users as of March 31. Ye Peng is President of the Chinese-language, small business arm, which had 52.44 million users by the same date. Both executives will report to Jack Ma, Chairman and Chief Executive of parent Alibaba. With the reorganization of its business-to-business unit into two subsidiaries, Alibaba now runs seven major operations, including consumer-to-consumer online-shopping subsidiary Taobao Marketplace, business-to-consumer retail platform TMall, shopping search engine provider eTao, group-buying platform Juhuasuan, and Alibaba Cloud Computing, its information technology services division. Alipay, China's leading third-party online payments company, is majority owned by Ma and remains an affiliate of Alibaba. Ma said in an e-mail to Alibaba employees that the group's adjusted structure would allow for business and IT systems to be shared by all subsidiaries.

## Youku and Tudou shareholders agree to merger

Shareholders of Youku and Tudou Holdings Co, China's top two online video websites, have approved their merger. The two companies have officially formed a new entity called Youku Tudou. The new company will maintain the two brands independently as well as marketing and sales teams after the USD1.1 billion share swap deal closes in the third quarter, but back-end operations would be integrated. Youku's shareholders will own 71.5% in the new company with Tudou's getting the balance. Tudou's Founder and CEO Gary Wang will be a board member in the new entity. Youku Tudou is expected to become China's second-biggest internet company by users. In the second quarter, Youku posted a net loss of CNY62.8 million, while Tudou registered losses of CNY154.7 million due to rising costs for internet bandwidth and content. Qiu Lin, Internet Stock Analyst at Guosen Securities in Hong Kong, said it will be interesting to see how the new company can differentiate itself from Sohu, Tencent Holdings and Baidu's video offerings. The newly created company said it has no plans to lay off any of its 2,000 employees. Only one member of the original management teams of Youku and Tudou, Evelyn Wang, Tudou's former COO, left the company due to personal reasons.

## Cloud computing offers limited opportunities to foreign players

The cloud computing market in China alone is expected to grow at a compound annual rate of 91.5%, according to DatacenterDynamics, a business-to-business information provider, reaching an estimated value of USD160 billion in 2015. The government is to invest up to USD154 billion by 2015 to support the development of 25 cloud computing centers. The central and local governments are also imposing specific restrictions and protections regarding security and privacy, which could hinder the sector's development. The major market for foreign companies is in infrastructure rather than services, which are largely restricted to local companies. Foreign companies cannot operate independently in China, and need a Value-Added Service Provider license from the Ministry of Industry and Information Technology (MIIT). They are also prohibited from having their own data centers. IBM, Cisco Systems and others suppliers are actively prospecting the market. A Cisco Spokesman predicted that cloud computing would become the next stage in the internet revolution. China's largest search engine provider Baidu will invest about CNY10 billion to build cloud computing centers to attract web-based software developers.

- Tencent, China's biggest internet company, has agreed to merge its FTuan group-buying website business with Gaopeng, the China operation of Groupon. Tencent, which co-invested USD100 million with Groupon to form Gaopeng last year, expected the combined group-buying entity to offer more choices and lower prices to online buyers.
- Apple launched its iTunes Store in Hong Kong, Macao, Taiwan and nine other Asian markets, but not including China and India. Apple planned to add more Asian content, a spokesman said. Hong Kong-based Celestial Pictures is expected to become one of the major content providers from Asia. Celestial Pictures' Shaw Brothers Film Library is the world's largest Chinese film collection.
- Shanda is seeking outside investors for its CNY1 billion 18 Capital fund that invests in local developers of games for browsers and mobile phones. The 18 Capital fund had invested CNY700 million by the third quarter of last year.
- Shanghai's financial center has started offering free wifi services at 30 public venues. The service is part of a program to turn Shanghai into an "intelligent city", and has been launched by the municipal government together with the country's three major telecom operators, China Mobile, China Unicom and China Telecom. Shanghai will expand the WLAN services to 300 major public places across the city by the end of this year.
- A report released by the China Internet Network Information Center (CNNIC) on July 19 showed the number of Chinese people accessing the internet via mobile devices had increased to 388 million by the end of June. The total number of Chinese web users stood at 538 million in the first half.
- Baidu is offering its search engine on Sina Corp's mobile web portal as part of an agreement aiming to attract more smartphone users in the world's biggest wireless market. Baidu will also install Sina's Weibo micro-blogging service on software for mobile devices.

- New York-listed Chinese internet company Qihoo 360 has denied claims that it inflated its internet usage data and revenue. The allegations were levied by Anonymous Analytics. Qihoo describes itself as one of the top three internet companies in China as measured by user base, with 411 million active internet users at the end of March.
- Shanghai Bashi Group, the operator of bus services in Shanghai, is soon to provide free Wi-Fi aboard its buses.
- A Chinese court for the first time held a judicial sale on an open online retailing platform. More than 100,000 online bidders were attracted to the open online auctions of two vehicles held by two courts in Zhejiang province on the e-shopping platform Taobao.com. The Beilun District People's Court in Ningbo was selling a black BMW 730 while the Yinzhou District People's Court, also in Ningbo, was selling a Mitsubishi Outlander SUV. Legal analysts said the new practice would ensure more fairness, as higher prices are likely to be paid which is beneficial to debtors.
- One of China's bestselling novelists, Han Han, brought Baidu, the country's biggest search engine, to a Beijing court for publishing three of his books and offering downloads without his permission. Han demanded that Baidu Wenku, the company's online document sharing platform, halt the copyright infringement, publish an apology letter for a successive seven days on its website, and pay compensation of more than CNY760,000. The author, 29, also called for shutting down the platform.
- Soccer star Diego Maradona sued Beijing Sina Internet Information Service Co — operator of Sina.com — and Shanghai-based The9 in the Beijing Municipal No 2 Intermediate People's Court over the use of his name and image in the online game "Hot Blooded Soccer". Maradona is seeking CNY20 million in compensation. The9 claims it paid USD250,000 to Maradona as endorsement fees through a middleman and had a contract signed by Maradona himself. Separately, Maradona said he was interested in coming to China to help train young football players.
- The Chinese government has set a goal for the e-commerce transaction turnover to exceed CNY18 trillion by 2015, when online retail sales are expected to exceed 9% of total retail sales of consumer goods.
- The user base of mobile internet had surpassed that of personal computer users for the first time in China at the end of June, the China Internet Network Information Center (CNNIC) said. The number of China's netizens reached 538 million with a penetration rate of 39.3%, 1.6 percentage points more compared to the end of last year. Around 388 million of the netizens are mobile phone users. The number of China's total web users rose 11% from a year earlier to 538 million, representing almost 40% of the nation's total population. In March, China set the goal of having the internet penetration rate reach 45% during the 12<sup>th</sup> Five Year Plan (2011-15).
- China's largest small commodity wholesale market in Yiwu, Zhejiang province, joined hands with Alibaba to promote its online business. Zhejiang China Commodities City Group Co and Alibaba Group inked a deal in Hangzhou to improve cooperation in e-commerce. Dealers at the Yiwu marketplace will be able to open online businesses at Tmall.com, a popular B2C online marketplace for high-end goods.
- Baidu is plotting more strategic investments this year after posting strong gains in the quarter to June 30. The Beijing-based company reported a 70% increase in second-quarter net profit to CNY2.77 billion from CNY1.63 billion a year earlier as it added more online marketing customers during the period. Revenue rose 60% to CNY5.46 billion from CNY3.41 billion the previous year. Nasdaq-listed Baidu's total number of online marketing customers rose 18% to 352,000 in the quarter, while average monthly revenue per online marketing customer swelled 35% to CNY15,500. The company kept its dominant position in the USD1.1 billion domestic search market in the second quarter, with a 78.6% market share, far ahead of Google China's 15.7%.
- Baidu has agreed to a deal with Skyscanner, the British flight search engine, for travel services and information covering the Chinese market. Baidu will present Skyscanner's international flight results, which include more than 750 million airfares from about 900 airlines. Last year, Baidu bought a majority stake in Qunar.com, a Chinese online travel search engine, part of Baidu's effort to expand its services in niche sectors.
- Tencent Holdings, China's biggest Internet company, has posted a 32% rise in second quarter profits driven by increased game sales and rising web advertising. Net income climbed to CNY3.1 billion from CNY2.35 billion a year earlier. Tencent added social-

networking users to its sites including Qzone and Pengyou, helping the company boost web advertising sales even as economic growth in China slowed.

- Internet services provider NetEase generated CNY1.3 billion in gross profit in the second quarter, boosted by robust demand for online games and advertising services. Revenue increased 12.7% year-on-year, with online games growing 10.8% and advertising services up 20.4%.
- Online shopping transactions in China, which has 210 million online shoppers, reached CNY268.4 billion in value in the second quarter of this year, up 51.6% year-on-year, according to iResearch. In that period, the market value of sales from businesses to consumers surged more than 140% from a year earlier to CNY89.4 billion.
- Users of China's main microblogging site, Sina Weibo, posted 393 million messages about the London Olympics over the course of the two-week event, well over double the 150 million Games-related posts on Twitter. Sina Weibo has more than 300 million registered users, but it is not clear how many of these are active. Twitter says it has 100 million active users.
- Nasdaq-listed Sohu.com, which operates China's fifth-most visited website, reported a 71% drop in net profit in the quarter to June to USD12.78 million from USD55.26 million a year earlier, due to lower growth in advertising sales and higher operating expenses, attributed primarily to the addition of more employees, higher salaries and benefits expenses as well as an increase in marketing campaigns. Sohu.com's revenue was up 29% to USD255.73 million, including record quarterly revenue posted by its online games subsidiary, Changyou.com. Revenue rose 30% to USD147.34 million from a year ago.
- Travelers logging onto free Wi-Fi services at Shanghai's two airports now need to use their real identification to register, the Shanghai Airport Authority said. Cell phone users registered with a local mobile operator can go through the verification by logging in with the password automatically sent to the phone via text message, while roaming or foreign passengers can acquire a password by scanning identification documents such as passports and ID cards. The name of the server at the Pudong International Airport is SPIA-guest and the one at the Hongqiao International Airport is SHA-Airport-FreeWifi. Scanning machines for passports and ID cards are available at the airport terminals.
- Beijing police have detained three people working at Baidu over allegations that they abused their positions and deleted forum posts in return for money. The company confirmed that it had sacked the accused employees, along with a fourth person, who has not been included in the police investigation. Police said anyone who takes large bribes will face criminal punishment.
- The value of online sales in China reached CNY 511.9 billion in the first half of 2012, 46.6% more than in the same period a year earlier, a result in part of aggressive discounts offered by e-commerce companies to attract customers. China was home to 214 million online shoppers by the end of June, up 23.7% year-on-year. The number is expected to increase to 273 million by the end of the year. Tmall, the largest e-commerce company in China measured by sales, had a 47.6% market share.
- 7Road.com, a subsidiary of online game developer and operator Changyou.com, which in turn is a subsidiary of news portal Sohu.com, plans to sell American Depository Receipts (ADRs) in the U.S. 7Road has a strong reputation in research and development (R&D). Its best-selling product is "DDTank", a web game that was launched in 2010, and which has remained one of the top 10 most popular web games in China. Earlier this year it launched another game, "Wartune", also known as "Shen Qu", set in a magical, medieval era.
- The Beijing-based social networking firm Renren, which had 162 million activated users as of June 30, reported a second-quarter net loss of USD24.94 million, from a net profit of about USD800,000 a year earlier. It attributed the result to lower advertising sales, increased bandwidth investments and higher operating expenses. The firm's mobile platform also includes gaming, advertising and e-commerce, through its Nuomi.com social commerce site.
- Almost one out of three online shoppers in China have been tricked by fake websites over the past year, at a cost of more than HKD36 billion or about CNY500 per cheated customer. Most fraudulent websites cheated through selling fake products or making

false advertisements. They paid search engines to have a higher rank on search results, or used similar web addresses to real brands to fool consumers. Without proper receipts, victims of online retail fraud find it difficult to lodge formal complaints with consumer associations or the police.

- Beijing police said 2,148 people were detained during a three-month anti-porn operation in the first half of the year targeting MM House, a Chinese language porn site registered in the U.S. 530 of the detainees would face criminal charges while the remainder would be fined or let off with a warning. Those found guilty could face a prison term of between three to 10 years.
- Top online retailer Jingdong Mall, often dubbed China's Amazon.com, is trying to raise more than USD1 billion from institutional investors, after the company was forced to delay its long-awaited listing plan this year. Several investment banks, including Bank of America-Merrill Lynch and JPMorgan, have been trying to line up potential investors for Jingdong in recent months. Jingdong Mall has 20 million registered users and 1,200 suppliers.
- Beijing-based Qihoo 360 Technology Co, the maker of China's most-popular web browser, said second-quarter profit fell 37% to USD7 million as the company boosted spending on new services such as a search engine, eroding higher advertising sales. Revenue more than doubled to USD72.8 million. Qihoo is working to gain more users for its search engine in China, challenging market leader Baidu, to generate advertising revenue from sales of keywords.
- Spending on online advertising in China reached CNY17.6 billion in the second quarter, up 54.2% on the same quarter last year, according to a survey by EnfoDesk, a unit of Analysys International. Portals and search engines Baidu, Alibaba and Google China continued to attract most of the online advertising spending in the second quarter, with their combined market share about 50% of total online advertising spending.
- Baidu has released an internet browser for mobile devices – the Baidu Explorer – running Google's Android system that allows users to play online games and watch videos without using a media player or installing additional software. Li Mingyuan, General Manager of the Mobile and Cloud Computing Division, announced the new browser at the company's annual developer conference in Beijing. The program was about 20% faster, on average, than previously available mobile browsers, he said.

## ONE-LINE NEWS

- A Tianlian I-03 satellite was launched on a Long March 3C rocket from the Xichang Satellite Launch Center in Sichuan province in July, completing China's first data relay satellite network. The first data relay satellite, Tianlian I-01, was launched in April 2008, and the second was launched in July 2011. Scientists from the manned space program used to rely on ground stations and ships to track and control spacecraft, but this allowed for the tracking of just 15% of the orbit of the spacecrafts. For the other 85%, there was no communication between the spacecraft and ground control. After a space station is assembled in 2020, astronauts on long missions will be able to contact ground control at any time.
- The 2012 Suzhou Electronic Manufacturers Exposition will take place in Suzhou, Jiangsu province, from October 18 to 21, offering IT businesses a platform to display their technologies. Sheng Lei, Deputy Mayor of Suzhou, said that her city is ready to welcome more than 500 companies, including some of the biggest names in the industry, such as Lenovo Group, China Mobile and AsusTeK Computer, at the exposition, which is the 11<sup>th</sup> of its kind. Suzhou is home to more than 9,000 IT companies and has been crowned "China's Silicon Valley".
- Tencent will buy one fifth of Caixin Media, set up less than three years ago by prominent business journalist Hu Shuli. Caixin said it welcomed Tencent as one of its new shareholders after an issue of new shares, adding that Hangzhou-based publisher Zhejiang Daily Media's 40% stake in the group remained unchanged. Tencent would pay CNY56.48 million for the 19.77% stake in Caixin. The investment would help Tencent improve its image by carrying Caixin's high-quality investigative stories.
- The first undersea telecommunications cables linking Taiwan and the mainland have

been completed, amid fast-warming ties between Taipei and Beijing. The two fiber-optic cables link Xiamen with the Taiwanese-controlled Kinmen island group, which lies just off the coast of the mainland. The cables went into operation on September 28.

- Venture capitalists with Chinese backgrounds invested in 28 U.S. companies last year, double the number in 2009, according to Dow Jones & Co. In Silicon Valley, Chinese venture capitalists have already teamed up with U.S. counterparts to compete against established incubators. In April, Eugene Zhang, President of InnoSpring, celebrated the launch of Silicon Valley's first U.S.-China tech incubator. InnoSpring is a partnership between Tsinghua University Science Park, Shui On Group, Northern Light Venture Capital and Silicon Valley Bank.
- In 2011, China's e-publishing market became a CNY137.7 billion business, Liu Binjie, Director of the General Administration of Press and Publications (GAPP), told a forum at the 19<sup>th</sup> Beijing International Book Fair. 38.6% of Chinese people aged 18 to 70 are e-readers, while hundreds of millions of people read books on their cell phones. "We're at a key stage of the switch to the digital age," he said.
- Shanghai's mobile internet industry's sales revenue is expected to exceed CNY80 billion and it is expected to employ more than 60,000 people by 2015, according to the latest plan for the industry, the Shanghai Mobile Internet Industry Development Plan (2012-15) from the Shanghai Municipal Commission of Economy and Information. Shanghai would pay more attention to developing processing chips used in intelligent mobile terminals, and increase its investment in internet infrastructure construction and Wi-Fi coverage to provide solid foundations for the industry.
- Thousands of students in Huai'an in Jiangsu province were being forced to work for 12 hours a day at a Foxconn plant after classes were suspended at the beginning of the new semester, as the plant couldn't find sufficient workers for the production of Apple's iPhone 5. Some schools canceled their internship programs with Foxconn after media exposure and pressure from the public.
- In the first half, Shanghai's information service revenue reached CNY171.3 billion, up 18.5% year-on-year. It accounted for 6% of the city's GDP in the period. The i-Shanghai Wi-Fi service, which provides two-hour free internet browsing, will cover 450 public areas by the end of 2013, compared with 30 now and 300 by the year-end. The Wi-Fi access-point number in the city will hit 200,000 by the end of 2013, compared with 130,000 now.
- Lenovo Group has agreed to buy Brazil's largest domestic manufacturer of electronics CCE in a cash-and shares-deal worth approximately BRL300 million (Brazilian reais, USD147 million). It will allow Lenovo to nearly double its share of the Brazilian PC market to about 8% from 3.7% and diversify its product portfolio from PCs to other electronic products, including mobile phones and televisions. The PC penetration rate in Brazil is only around 20%.
- Samsung forced employees at its Chinese factories to work up to five times the legal overtime limit, bans them from sitting down and denies basic labour rights, according to U.S.-based China Labor Watch's probe of eight factories. These include forcing workers at the Tianjin Samsung Mobile Display factory to put in as many as 189 hours of overtime in a month, when the legal limit is 36 hours. Samsung vowed to terminate contracts with any Chinese suppliers in violation of labor norms.

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