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HARDWARE

Construction starts on Samsung plant in Xian

Construction of the first phase of Samsung's NAND flash plant in Xian, Shaanxi province, has started, involving a total investment of USD7 billion. The facility is expected to become fully operational by the end of 2013, when it will have a monthly output of 100,000 chips and annual sales of CNY66 billion. The South Korean company's plant, the biggest ever overseas investment in western China, is located in the Xian Hitech Industrial Development Zone. It will produce nanometer chips, mainly used in smartphones and tablet PCs. Lou Qinjian, Executive Vice Governor of Shaanxi, said that the project will greatly benefit the province's future development, noting that it will attract more than 160 supporting businesses to the zone, creating more than 10,000 jobs. "It lays a solid foundation to build a world-leading information industry cluster in the province," he said. Samsung's Xian project is its second semiconductor manufacturing factory established overseas after its plant built in 1996 in Austin, the United States. Kim Yong-kwan, Senior Vice President of Samsung Electronics, said that the first

phase of the factory included some chip production lines and supporting facilities with a total floor area of 448,000 square meters, which will be expanded to 1.1 million sq m in the future. Mass production is due to start at the plant in 2014. Kim added that power and water supplies, as well as waste water treatment in Xian, were some 20% to 30% cheaper than in other cities, and its labor costs were around 40% cheaper. Xian's more than 80 universities and colleges, and around 100 research institutes, turn out more than 17,000 IT graduates annually. Xian's Northwestern Polytechnical University and Samsung Electronics signed a memorandum of understanding for the two sides to work together to train senior personnel for the semiconductor industry. Samsung will also provide scholarships and internships for outstanding graduates, and carry out research cooperation projects. Xian's IT industry will reach CNY300 billion in 2015, said Xian Mayor Dong Jun. The city has more than 2,600 enterprises engaged in the IT industry, including world-famous companies such as Applied Materials, Qualcomm, GE, and Ericsson, the China Daily reports.

China awaiting iPhone 5 release

The iPhone 5 may debut in China earlier than expected after the company received the 3C (China compulsory certification) mark for both the WCDMA and CDMA 2000 models, just five days after the iPhone 5 started selling in the U.S., Hong Kong and Singapore. The certification used to take one or two months for previous iPhone models. Hong Kong, where iPhone models used to arrive later than in the United States, was included in the first list of countries and territories where the iPhone went on sale on September 21. Apple's new mobile phone is not yet officially available in mainland China and a release date has not been announced. China Telecom is selling the iPhone 4S at up to CNY2,000 cheaper after Apple released the iPhone 5 in the U.S. and China Unicom also cut the price of its non-contracted iPhone 4S by CNY500 to CNY700 in a bid to clear inventory before the iPhone 5's release in China. Both China Mobile and China Unicom say they can provide the smaller nano-SIM cards used in the iPhone 5 for customers who have bought the phone abroad. It took little more than five hours for the first Apple iPhone 5 to go on sale in the Chinese mainland after being smuggled across the border from Hong Kong, but supplies were short and prices high. In Hong Kong small groups of people waited on September 21 to buy iPhones for resale on the mainland, but the "grey trade" became more difficult after buyers were compelled to sign up online with Apple using an Apple ID, and being allowed to order a maximum of two phones.

Apple opened its third store in Beijing, three weeks after launching a new outlet in Hong Kong. The latest Apple Store is located at Beijing apm, a shopping mall and office complex built by Sun Hung Kai Properties in Wangfujing street. It is Apple's eighth retail store in the China market, where it has three shops in Shanghai, two in Hong Kong and two other stores in Beijing. "In the past 12 months, we have welcomed over 350 million people to our stores," Denny Tuza, Apple's Retail Market Director for Greater China, said.

Nokia's market share shrinking, hopes set on Lumia

Nokia ranked fifth with a 9.1% share of China's smartphone market in the first half of this year, slipping from the top position during the fourth quarter of 2011, according to a report by research firm IHS. Samsung Electronics Co shipped more than double the number of smartphones, gaining a market share of 20.8% in the first six months of this year. Nokia has pinned great hopes on its newly unveiled Nokia Lumia 920 and the Nokia Lumia 820, the first devices in Nokia's Windows Phone 8 range, to grab a bigger share in China's market. "The two phones have the ability to sync content between Windows Phone 8 smartphones, Windows 8-based PCs, tablets and the Xbox. It means files, music, pictures and video can be accessed in whatever way is most convenient," said Flann Gao, Nokia China Communications Manager. Nokia has so far introduced six Lumia Windows Phone devices to the Chinese market, including the Lumia 610 and 900, plus two models running on China Telecom's CDMA 3G network. China is also Nokia's global hub for innovation and Beijing is the only city that has both global research and development (R&D) for Nokia feature phones and smartphones. Despite the drop in market share, China is the biggest single-country market for Windows Phone devices manufactured by Nokia. According to research firm Localytics, Nokia is the world's biggest Windows Phone vendor, with a worldwide market share of 59% in July, but according to research firm Gartner, fewer than 3% of smartphones sold in the second quarter ran on the Windows Phone operating system. Smartphones using Nokia's legacy Symbian operating system still outsold the Lumia Windows-based phones, indicating that Nokia still had a long way to go to regain its foothold in the market. Nokia's net sales fell by 19% to USD9.22 billion year-on-year in the second quarter.

- China Mobile, Huawei and China Putian displayed the latest 4G or LTE (Long Term Evolution) products at the PT/EXPO Comm China 2012 in Beijing. Huawei now owns 9% of the patents on LTE technologies, ranking it No 1 among domestic telecom companies. China Mobile is building trial 4G networks in major cities including Shanghai, Hangzhou and Shenzhen. The operator displayed several LTE mobile products, including 4G data cards, and for the first time two LTE phones. China has not issued LTE licenses yet.
- Forty people were injured in a brawl which broke out at a Foxconn factory in Taiyuan, Shanxi province, which employs about 79,000 people. Police said workers began arguing over a personal matter and the situation soon erupted into an all-out brawl involving around 2,000 workers. Around 5,000 riot police were mobilized to quell the violence. Online comments suggested the factory's security guards may have been to blame for the dispute. A strike also broke out at a Foxconn plant in Zhengzhou, Henan province, triggered by stricter quality standards for the iPhone 5.
- Huawei Technologies Co may surpass U.S.-based Cisco Systems to become the leading tele-presence equipment firm by sales. The company plans to tap the market for tele-presence equipment, which refers to high-quality video conference systems. Huawei's sales of tele-presence equipment doubled to about USD200 million last year, giving the firm about 20% of the global market, according to Li Jun, General Manager of Products at Huawei's enterprise unit. Cisco has 50% of the global market, which is worth about USD900 million. Huawei said its top telepresence product, the TP3106, costs USD160,000 while Cisco charges USD300,000 for a similar product.
- Lenovo Group plans to begin manufacturing computers in North Carolina next year – its first U.S. production line and one that could add 115 jobs in the state. Starting next year, workers at the facility in Whitsett – an hour's drive from Lenovo's main U.S. offices outside the Raleigh-Durham technology hub — will assemble Think-branded notebooks and desktop PCs, tablets, engineering workstations and servers for business, government and education customers in the U.S. The company, which has “co-headquarters” in Beijing and Morrisville, North Carolina, employs about 27,000 people worldwide. Lenovo's U.S.-based staff totals 2,100, about 90% of whom were hired locally.
- Microsoft will debut its Surface tablet computer on October 26 on the Chinese mainland, hoping to challenge Apple's iPad dominance in the market. Cooperating with Chinese retailer Suning, Microsoft will sell the 32-gigabyte Surface tablet from CNY3,688, the same price of an entry-level 16 GB new iPad. The Surface tablet will also be offered at CNY4,488 for a 32 GB version that comes with a black Touch Cover, which is a thin cover that doubles as a keyboard and attaches to the tablet magnetically, and CNY5,288 for a 64 GB black Touch Cover version.

OPERATORS

China Mobile to procure TD-LTE 4G terminals

China Mobile said it will begin procuring more than 200,000 TD-LTE 4G terminals, including data cards and mobile phones, in the fourth quarter this year. On September 19, China Mobile invited public bidding for 34,700 TD-LTE terminals to be put into network service tests. By August, the operator had 693 million mobile users, almost twice the combined client number of China Unicom (Hong Kong) and China Telecom Corp, the other two telecom operators in China. China Mobile had 72.1 million 3G users as of August, while China Unicom and China Telecom had 63.7 million and 56.4 million clients. Analysts blamed the lackluster 3G market performance of China Mobile on the domestic TD-SCDMA technology it had adopted. Li Yue, General Manager of China Mobile, predicted the company would sell more than 100 million TD version terminals next year, of which more than 80% will be smart terminals. China Mobile is set to sell 60 million TD devices this year, up from 9.4 million in 2010, he added. Tang Jianfeng, Assistant General Manager of China Mobile Device Co, said it will increase terminal subsidies and invest further in distribution channels in order to boost sales. China Mobile recently signed strategic cooperation agreements with Suning Appliance Co, Gome and other distributors. Jin Ming, President of Suning, said he expected to help sell 5 million TD terminals in the following 12 months. “China Mobile will not gain a real upper hand until it receives a 4G license,” said Wang Ying, Analyst at Beijing-based research firm Analysys International, the China Daily reports.

- Citic Telecom International, a subsidiary of Hong Kong conglomerate Citic Pacific, plans to acquire a 51% controlling interest in Macao's main telecommunications network operator, Companhia de Telecomunicações de Macau (CTM). The proposed acquisition would increase Citic Telecom's shareholding in CTM to 71%. In February, it bought its parent's 20% interest in CTM for HKD1.4 billion. Established in 1981, CTM provides mobile, fixed-line and broadband services in Macao. It is also a major supplier of telecommunications-related services to businesses in the world's largest casino market.

RADIO, FILM & TV

ZTE to sell set-top boxes for 3D TV with Android OS

ZTE Corp plans to release digital set-top boxes for 3D television services that will use Google's Android operating system. The boxes to be sold "in the near future" will allow video-calling functions, and support the HTML5 language for displaying internet content. The announcement comes after ZTE reached an agreement allowing the company access to the digital-TV systems of Kudelski's Nagra division. The agreement enables the Chinese company to sell intelligent set-top boxes to customers of Nagra, which has a 70% share of Europe's market for cable-TV devices, and 18% globally, ZTE said.

- Digital Domain, the bankrupt digital production company founded by Director James Cameron, will be sold to a joint venture between a U.S. subsidiary of Beijing Galloping Horse Film & TV Co and Mumbai-based Reliance Media-Works for USD30.2 million. Galloping Horse will own 70% of the joint venue, with Reliance owning the other 30%. Digital Domain, best known for its work on Cameron's "Titanic", has produced visual effects for more than 90 movies, but defaulted on a series of loans. The joint venture, known as Galloping Horse-Reliance, will acquire all assets of Digital Domain.
- Home appliance maker Hisense is working with Google on a TV that could be released in the next few months. The two sides have already showed a set-top box for the new smart TV at a trade show in Germany.

SOFTWARE

CMB and HTC release CMB wallet mobile payment service

China Merchants Bank (CMB) and Taiwanese cell phone manufacturer HTC Corp together released the mobile-payment product "CMB wallet", which will allow consumers to spend money by placing their phones near a point-of-sale (POS) terminal. The "wallet" can be used for small payments, but CMB is planning to make it capable of processing larger payments of as much as CNY50,000 next year. Customers will be able to use their credit cards to directly recharge the "wallet" through their mobile phones. The People's Bank of China (PBOC) is expected to publish new mobile payment standards for financial institutions at the end of December, and the "CMB wallet" will be the first product to meet the new standard, said Hu Tao, Deputy General Manager of Retail Banking at CMB, which is helping to draft the rules. Ma Weihua, President of CMB, said the bank would like to reduce its credit card business in the coming years and promote mobile payments. Other banks are also developing mobile payments products. By 2013, CNY200 billion worth of mobile payments are expected to be taking place in China annually, up from CNY48 billion last year, Ma said. Chai Hongfeng, Executive Vice President of China UnionPay, said the company will install as many as 1 million point-of-sale terminals that can process "mobile wallet" payments by the end of October. 1.2 million terminals will be accepting payments from the product by the end of the year. The agreement between CMB and HTC over the "wallet" project is not an exclusive one, and both companies are in negotiations with other lenders or handset manufacturers such as Samsung Group and Apple, and CMB is also in talks with mobile carriers to incorporate the "wallet" function directly into SIM cards, the China Daily reports.

Microsoft asks 4 SOEs to stop using pirated software

Microsoft Corp has asked China to stop the alleged use of pirated versions of its Office software by China National Petroleum Corp (CNPC), China Post Group, China Railway Construction Corp and TravelSky Technology. Microsoft alleged that more than 40% of Office and Windows server client software used by CNPC is pirated. Xu Zhaohui, who is in charge of

hardware and software at China Post, said Microsoft's allegations were "inaccurate". Microsoft's estimates "greatly exaggerated" the use of unlicensed software by China Railway Construction, the company said. China's illegal software market was worth almost USD9 billion last year, compared with a legal market of less than USD3 billion, according to the Business Software Alliance (BSA). In its complaint, Microsoft alleged that almost all of TravelSky's Office software was unlicensed, while 93% of China Post's and 84% of China Railway Construction's came from pirated versions. For Windows server client software, the company alleged that almost 100% of China Post's, 97% of China Railway Construction's and 87% of TravelSky's applications were unlicensed. The allegations were based on Microsoft's own estimates and calculations.

- In its latest mobile operating system, Apple has added "China features" such as a Chinese-language Siri, Baidu's search service, Sina's Weibo service and Youku Tudou's video services. "People can now share video by iPhone and iPad quickly and easily, like overseas YouTube users," Youku Tudou, China's biggest online video sharing website, said in a statement. Beijing-based AutoNavi developed the map service.
- ZTE Corp, China's second-largest maker of phone equipment, will release a new mobile operating system with the developer of the Firefox web browser to compete with Google's Android software. The software will be available in the fourth quarter, ZTE Executive Vice President He Shiyong said. ZTE aims to reduce its reliance on the Android system.

TELECOM MFG. CO.

Xiaomi goes from 7 to 1,500 employees in two years

Starting with seven co-founders, Xiaomi Corp has taken less than two years to become one of the best-known smartphone companies in China. It now has some 1,500 employees in Beijing. "The fundamental reason for our fast growth is that we offer products that are beyond customer expectations," said Li Wanqiang, Vice President and one of the founders of the company. Xiaomi sold more than 3.52 million smartphones in 10 months following the launch a year ago of its first and only product, the Mi 1, which was priced at CNY1,999 at the time. It introduced an updated version in August, the Mi 1S, and will launch its second-generation product Mi 2 in October. "Cellphones in the future will replace computers to be the center of people's work and life, and the change will bring demand for new products," said Vice President Li. "We call it cellphone computerization." Xiaomi's sales are expected to grow 100% in each of the next three years. The company aims to sell 100 million units in 2016. Xiaomi may start exports to Taiwan at the end of the year, said CEO and co-founder Lei Jun. As in the domestic market, the company will either sell its smartphones online or cooperate with telecom carriers abroad, he added. Xiaomi aims to have half of its sales generated from overseas markets in 2016.

ZTE sees computer services as new growth focus

ZTE Corp said it projects sales growth exceeding 50% annually for the next few years from computing services for governments and businesses as the company further expands beyond making phone network equipment. Such sales rose 90% to CNY8.8 billion in 2011, and jumped 70% in the first six months of this year, Hu Jian, Vice President of ZTE's government and enterprise solutions unit, said. ZTE announced the start of commercial service for China's first fourth-generation wireless data network for the Beijing municipal government as part of its expansion into computing services. ZTE is expanding in mobile devices and cloud computing where sales growth is faster than in its traditional phone equipment business. "The 70% revenue growth for the first half of 2012 would make this one of the fastest growing segments of the company," said Lisa Soh, Hong Kong-based Analyst with Macquarie Group. "This does appear to be a source of profit growth for ZTE," she said. The company reported first-half sales rose 15% to CNY42.6 billion. The postponement of some Chinese carrier network contracts, as well as foreign exchange losses, led ZTE to post an 85% drop in second-quarter profit. The company in May 2011 forecast cloud computing would account for one-third of ZTE's sales within three to five years. The company started its computing services push with existing customers of network equipment gear such as China Mobile and China Unicom (Hong Kong). Now, ZTE is seeking out projects from governments and businesses to use computing power to improve areas including transport, energy, health care and education. The company

is using “icity” as its brand for the new services, the Shanghai Daily reports.

Huawei and ZTE reject espionage allegations

Executives from Huawei Technologies Co and ZTE Corp denied putting hidden spy code into their equipment at a rare public hearing of the U.S. House of Representatives Intelligence Committee. They rejected fears that their expansion in the United States poses a security risk, adding that they operated independently of the Chinese government. The Committee's 52-page report could be followed with proposed measures to exclude their products from the U.S. market. Both companies said they are frustrated by the obstacles such allegations pose to their U.S. business. ZTE said sales of infrastructure equipment in the United States accounted for less than USD30 million in revenue last year, compared with a combined total of USD14 billion by two Western competitors. Based in Shenzhen, Huawei is the world's second-biggest telecommunications gear maker after Sweden's Ericsson, while ZTE ranks fifth. “What they have been calling back doors are actually software bugs,” Zhu Jinyun, ZTE's Senior Vice President for North America and Europe, said, adding such glitches are not unlike those that require regular software patches from firms like Microsoft, Google and Apple. Ding complained that Huawei's business efforts in the United States had been hindered by “unsubstantiated, non-specific” security concerns. Huawei Technologies Co, which was banned from tendering for AUD1 billion of work on Australia's national broadband network (NBN), urged Australia not to discriminate against foreign communications companies.

The bi-partisan Intelligence Committee of the House of Representatives recommended that both firms be barred from acquiring U.S. assets and from supplying any equipment to telecommunications network projects there, especially those funded by the government, for fear of possible spying and cyberattacks by China. The report claimed the two firms failed to fully cooperate with the panel to alleviate its security concerns. Committee Chairman Mike Rogers said that the panel was stopping short of urging a U.S. boycott of mobile phones and other handheld devices made by Huawei and ZTE. Its warning related only to devices that involve processing of data on a large scale, he said. Huawei and ZTE rejected the probe's findings. A Foreign Ministry Spokesman in Beijing, meanwhile, called on the U.S. Congress to “set aside prejudices, respect the facts, and do things that will benefit China-U.S. economic cooperation”. “Huawei is a business in the business of doing business,” William Plummer, Huawei's U.S. Vice President of External Relations, told Xinhua news agency. The report “is unfortunate political distraction from very real issues related to cyber vulnerabilities on the global basis,” he added. “Huawei made “USD32.4 billion in revenues last year across 150 different markets, 70% of our business outside of China. Huawei is not going to jeopardize its commercial success for any government, period,” he said. In the open part of the report, the Committee's main recommendations include that the Committee on Foreign Investment in the United States (CFIUS) be given additional responsibility to probe purchasing agreements rather than just investments, to block any mergers or acquisitions (M&As) involving Huawei or ZTE, and that the government investigate the alleged unfair trade practices of the Chinese telecom sector. “It is noteworthy that, after a year-long investigation, the Committee rests its conclusions on a finding that ZTE may not be 'free of state influence',” said David Dai, ZTE's Director of Global Public Affairs. “This finding would apply to any company operating in China. The Committee has not challenged ZTE's fitness to serve the U.S. market based on any pattern of unethical or illegal behavior.” ZTE separately announced that Cisco Systems severed a strategic cooperation agreement that dated to 2005 because of U.S. allegations the Chinese company sold equipment to Iran.

Canada indicated strongly it would exclude Huawei from helping to build a secure Canadian government communications network because of possible security risks. Still, Huawei is used by some other Western telecom companies. Stephane Richard, CEO of France Telecom-Orange, a Paris-based carrier with operations in 33 countries, said his company doesn't use Huawei gear in its core network in France, but it has used Huawei equipment in its operations in Belgium, the UK, Spain and parts of Africa. EU Trade Commissioner Karel De Gucht is gathering evidence in order to launch an anti-dumping or anti-subsidy case. His efforts have been hindered by the fact that no European producer, such as Ericsson and Alcatel-Lucent, has complained. A formal complaint is normally a prerequisite for an investigation. Huawei is well established in the UK, where it provides telecommunication equipment to key domestic companies such as British Telecom, and in Germany ZTE is involved in building the national broadband network. A White House-ordered review of security risks posed by suppliers to U.S. telecommunications companies found no clear evidence that Huawei Technologies had spied for China, two people familiar with the probe said. These findings support parts of the Congressional report that warned against allowing Huawei and ZTE to supply critical telecom

infrastructure, but it may douse speculation that Huawei has been caught spying for China.

HTC reports drop in quarterly profits

HTC Corp, Asia's second-largest smartphone maker, posted a record 79% drop in quarterly profit as competition from Samsung Electronics and Apple drove down sales of the company's devices. Third-quarter net income slumped to NTD3.9 billion, the Taoyuan, Taiwan-based company said. HTC, maker of the One, Sensation and Desire handsets, lacked a "sense of urgency" while "bureaucracy crept in," Chief Executive Officer (CEO) Peter Chou said in an e-mail to employees in August. Kevin Chang, Analyst at Citigroup in Taipei said "HTC is likely facing further share loss in the U.S. and Europe" in the fourth quarter. "While HTC was doing well in China in the third quarter, we believe the dramatic price declines and performance improvements of white box smartphones have dampened HTC's momentum in China." Third-quarter revenue fell 48% to NTD70.2 billion, while operating income slumped 76% to NTD4.9 billion, according to HTC.

Lenovo dethrones HP as top PC maker says Gartner

China's Lenovo Group edged out Hewlett-Packard Co to become the world's No 1 PC maker in the third quarter, according to new data released by research house Gartner. A rival to Gartner, IDC, still ranks HP in the lead – but by less than half a percentage point – in terms of PC shipments worldwide. Dell held on to the No 3 spot in the quarter. Worldwide shipments of personal computers fell over 8% last quarter, according to both research firms. PC demand growth has crumbled over the past year as more consumers flock to ultra-portable and increasingly powerful tablets and smartphones for basic computing. Lenovo's rise highlights the advance of China's technology firms on the world stage in recent years thanks to a combination of aggressive pricing, overseas acquisitions and a fast-growing home market. The Chinese firm, which vaulted into the PC market by buying IBM's personal computer division in 2005, took the top spot for the first time by growing its market share to 15.7%, shipping an estimated 13.77 million units during the quarter, up nearly 10% from a year ago, Gartner said. HP's global PC share stood at 15.5% after shipping 13.55 million units, down 16.4% from a year ago, Gartner said, adding that this is the first time HP has given up the top PC vendor position since 2006.

- ZTE Corp aims to increase the number of smartphones it produces this year to 35 million, Executive Vice President He Shiyong, said. "We will secure our position as the world's No 4 mobile phone manufacturer," he added. According to the market research firm IDC, ZTE sold 66.1 million mobile phones in 2011, securing a 4.3% share of the global market that year. In the first six months of 2012, ZTE shipped more than 13 million devices. The company hopes to receive a further boost in the second half of 2012 with the release of its quad-core, ultra thin Grand Era smartphone. ZTE is also developing its own mobile operating system. The company now uses Android on about 90% of its smartphones with the rest using Microsoft's Windows mobile platform.
- ZTE Corp forecast CNY1.9 billion to CNY2 billion of net losses in the third quarter of the year, compared with net profits of CNY299 million in the same period of 2011 and CNY245 million in the first half. For the first three quarters, the Hong Kong-listed firm expected a net loss of CNY1.65 billion to CNY1.75 billion, in contrast to a net profit of CNY1.07 billion in the same period last year. The loss was blamed on delays in various telecommunications network projects overseas, the change in buying method adopted by China's three major carriers, a backlash over the firm's alleged deals with Iran, and "a larger number of low-margin contracts in Europe, Asia and the domestic market". The company still hopes to break even for the full year.
- Nokia Corp set up its Experience & Innovation Center in Beijing to help 30 Chinese mobile internet startups become listed in three to five years. The center will select 3,000 entrepreneurial ideas, help set up 300 technology startups and aid 30 companies to be listed in major stock markets across the world, said Lin Qizhong, Vice President of Nokia (China) Investment Co.
- Foxconn Technology Group will invest USD494 million to build factories near Sao Paulo, Brazil. Foxconn will have as many as five plants in Itu city and will create 10,000 jobs. The new facilities, where production will begin in 2014 and reach full capacity in two years, will enable most aspects of iPad and iPhone assembly.

- Foxconn said it found underage interns as young as 14 working at one of its factories in Yantai, Shandong province, China. China's minimum legal working age is 16. Foxconn said it was investigating with schools how the interns were sent to its factory. "Our Yantai facility has no association with any work we carry out on behalf of Apple," a Spokesman said. Yantai Engineering & Technology College said it had sent more than 2,000 students to a Foxconn factory for a one-month internship program earlier this month in response to an appeal from the city government to help ease labor shortages.
- Huawei Technologies has contacted investment banks for advice on issuing stock to the public, as the company considers ways to make itself more transparent and improve its odds of winning big contracts in markets like the U.S. The company hasn't made a decision to proceed with an IPO or chosen a bank to handle such a transaction. The company is leaning toward a U.S. listing over Hong Kong or London, people familiar with the matter said.

WEB

Alibaba buys back half of Yahoo's stake

Alibaba Group said it bought back half the stake Yahoo owned in the company for about USD7.6 billion, moving closer to an initial public offering (IPO). Alibaba received USD1 billion in funding from eight international banks, including Barclays, Citi, Cr dit Suisse, Deutsche Bank and Morgan Stanley, and another USD1 billion from China Development Bank (CDB), and raised the remaining funds through an issue of preferred shares, bank loans and the sale of a stake to existing shareholders. Alibaba has the right to buy back Yahoo's remaining stake if it holds an initial public offering (IPO) before 2016. The company said it paid Yahoo about USD6.3 billion in cash and USD800 million in preferred shares in Alibaba Group and made a one-time cash payment of USD550 million in connection with an amendment to their intellectual property license agreement. Alibaba, which reached an agreement with Yahoo in May to buy back its shares, took its business-to-business e-commerce platform Alibaba.com private for USD3 billion in June. "The completion of this transaction begins a new chapter in our relationship with Yahoo," Alibaba Chief Executive Jack Ma said. Yahoo acquired its stake in 2005 in exchange for USD1 billion and its Yahoo China business. The deal cuts Yahoo's stake to 23%. External shareholders, including Softbank Corp and Yahoo, will have less than 50% of voting rights, handing more control over the company's future strategy to Alibaba's management and help speed up Alibaba's strategy shift. Investors led by China Investment Corp (CIC) have paid USD2 billion to buy a 5.6% stake in Alibaba Group. The group of investors includes CIC International, Boyu Capital, CITIC Capital and China Development Bank (CDB). The deal is the largest to ever involve private financing for a private Chinese company, according to Alibaba. "We are grateful for Yahoo's support of our growth over the past seven years, and we are pleased to be able to deliver meaningful returns to our shareholders, including Yahoo," Jack Ma said. Yang Weiqing, Founder of the Beijing-based iResearch Consulting Group, said Alibaba would be wiser to organize a separate listing of some its units rather than holding an IPO for the whole company, saying Taobao and Alipay both appeal to investors.

Separately, the Aliyun OS business under subsidiary Alibaba Cloud Computing (AliCloud) will be spun off as an independent operation and receive a USD200 million investment from the group. "This suggests Alibaba is serious about moving forward with its mobile operating system based on open-source Linux software," a source familiar with the initiative said. Alibaba had earlier announced Aliyun mobile platform agreements with Beijing Tianyu Communication Equipment and Haier. Jonathan Lu, previously Chief Executive at subsidiary Alibaba.com was named President of Aliyun. Lu will also continue to serve as the group's Chief Digital Officer (CDO), a post he has held since July. Wang Jian, Chief Technology Officer (CTO) at Alibaba was appointed as Aliyun Chairman. Ma said Aliyun had a long way to go after being in business for only two years. ChinaSoft International, a leading software and information-technology services provider based in Beijing, will collaborate with Alibaba Cloud Computing (AliCloud), a subsidiary of Alibaba Group, in a major cloud-computing initiative targeted at companies and government agencies. It will make available over the internet ChinaSoft's flagship Resource One middleware platform, which is a set of programs for connecting disparate software applications used in an organization. ChinaSoft and AliCloud will co-develop what they describe as a platform-as-a-service (PaaS) solution, which both parties can market to their corporate customers.

Youku Tudou forecasts lower costs after merger

Youku Tudou, China's biggest online video company, forecasts that next year's earnings will be boosted by lower costs for content and bandwidth after their merger. The combination of the two biggest online video companies in China was aimed at reducing content licensing and network costs, and should produce savings of as much as USD60 million annually, Youku said in March. Youku's second-quarter revenue rose 96% from a year earlier to CNY387.4 million before completion of the merger. The acquisition of Tudou would be fully integrated by the fourth quarter and would not lead to any layoffs, Liu Dele, Youku's President, said. In the first quarter, Youku accounted for 20.9% of China's online video market by revenue, compared with 11.5% for second-placed Tudou, according to Analysys International. In the second quarter, Youku had 21.5% of the online video market in China, followed by Iqiyi.com's 10.2% and Sohu.com's 9.8%, while Tudou ranked fourth with 8.6%. Both brands will be kept. Tudou.com will position itself as a video website for "fashion" and "youth", while Youku will be more of a "mainstream" online-video provider. Youku Tudou said only 14% of the two websites' users are overlapped on a daily basis. In the second quarter, Youku posted a net loss of CNY62.8 million, while Tudou registered a loss of CNY154.7 million.

Price war among online travel agencies to leave few survivors

China's biggest online travel agent, Ctrip, says the fierce price war being waged by online agencies will leave only a few survivors in the industry. "This is the first time we have encountered such a cut-throat price war since we set up business 13 years ago," said Fan Min, Chief Executive of Ctrip International, the biggest online ticketing portal in China. "The profitability of all the players is under great pressure, and the longer the price war persists, the deeper the consolidation will go. At the end of the day, only a few players will remain," he added. Ctrip took up the challenge from rival eLong in July when it began offering cash rebates on bookings made through its portal for more than 10,000 hotels. Other competitors then joined the fray, offering similar promotions. Mangocity.com, which is operated by China Travel International, offered CNY80 million in subsidies to lure customers to its online service, prompting two other players – 17u.cn and Uzai.com – to also set aside similar amounts to subsidize bookings made on their platforms. "There will be some consolidation, but not with the big players," Alicia Yap, Analyst at Barclays Capital Asia, said. The price war would squeeze out the smaller offline travel agents, which collectively took up the biggest share of hotel bookings, Yap said. Although Ctrip dominates the online market for hotel room bookings, it only accounts for 3% of total hotel room nights in China because most bookings are done by traditional offline agencies. Yap said online agencies such as Ctrip and eLong were seeking to take business away from these traditional agents at the expense of profit margins.

Internet access on all Chinese airplanes promised by 2016

Passengers on Chinese airliners will be able to surf on the internet, make phone calls and watch realtime television in the air by 2016 when domestic carriers will have installed satellite communication facilities on all passenger aircraft. The data transmission speed to ground stations would reach 100 megabytes per second. Some 20% of Chinese passenger aircraft will be equipped with the satellite system by the end of next year, while 70% of the Chinese fleet will be covered by the end of 2015. The satellites would also improve communication between the pilots and air traffic control. Air China began providing in-flight wi-fi service on its Boeing 737-800 serving the Beijing to Chengdu route last week. "Based on the current technology, access will be free, but internet searches will be limited to certain entertainment and tourism services including shopping, room reservations and car rental," said Bao Lida, Spokesman for the Southwest Branch of Air China. Connection fees on foreign airlines are around USD5 per hour. China has 1,810 passenger aircraft, including 838 from Boeing and 758 from Airbus, according to the Civil Aviation Administration of China (CAAC).

- Shanghai's bus operator Shanghai Bashi Group is testing wi-fi services on its buses in response to passengers' demands. The bus operator signed an agreement with China Telecom after noticing increasing demand from passengers in June.
- The Haidian District People's Court ordered search engine Baidu to pay CNY95,800 in compensation to Han Han, one of China's bestselling authors, for publishing three of his books online and offering downloads without his permission. The court said Baidu did not prevent netizens putting Han's books online for free downloading and acted slowly to stop the piracy. The court rejected Han's demands for publishing an apology

letter for seven days on Baidu.com and shutting down Baidu Wenku, its online document-sharing platform. Han had asked more than CNY760,000 in compensation. Authors Murong Xuecun and He Ma also received compensation.

- Lenovo Group has agreed to buy Stoneware of the U.S. to gain cloud-computing products in its first acquisition of a software vendor. Stoneware produces software used mainly by governments and schools to synchronize data across multiple mobile devices. Lenovo will use Stoneware to offer cloud services in competition with Apple's iCloud. The company previously focused on hardware acquisitions. Lenovo launched a new strategy this year called "PC Plus", which means "on top of its PC business". It plans to focus on other product lines such as mobile internet, and grow its cloud-computing offerings.
- The online payment platform Shenzhen Tenpay Co said it will provide mobile payment services for users of Weixin, a smartphone-based social networking application that attracted 200 million users in 14 months. The service will be available in the fourth quarter, said Jim Lai, General Manager of Tenpay, which was founded by Tencent Holdings. Competition between online payment platforms is about to heat up as more players enter the market.
- Google will shut down its online music download service on October 19 because of competition from local rivals such as Baidu and Tencent's QQ. Google admitted that the service had less of an impact than expected. Google's music website made its debut three years ago, offering free and legal music content to Chinese consumers. Later, Baidu and Tencent began similar services which gradually came to dominate the domestic online music market.
- Orange Business Services, the France Telecom-Orange branch that provides integrated business communications, has set up a solution center in Beijing, in an important step toward expanding in the Asia-Pacific region. The new center is its eighth globally. Orange Business Services already has a Beijing R&D center with about 120 staff.
- China has the world's largest number of microbloggers – 274 million – according to the annual report on China's media developments published by the Social Sciences Academic Press. The number increased sharply from about 63 million in 2010. The report added that there is still no law on the internet and many related articles in existing laws need revision.
- Microsoft's Bing is gearing up to compete with Baidu and Google in China. Bing China recently launched a new version of its search engine that claims to provide a better English-language search service. The strategy aims to attract high-end internet users, who deal with English information more than others. Bing is still looking for the best suitable social networking site in China to work with. According to Beijing-based research company Analysys International, Baidu dominated the search market with a 78.6% market share in the second quarter of 2012. Google's share dropped to 15.7%. Bing, which went online in 2009, has a market share of less than 1%. Windows phones will help Bing reach more mobile users.
- Most broadband users in Shanghai paying for faster bandwidth are not enjoying the speed promised by broadband service providers, a Shanghai Daily investigation shows. Shanghai's consumer protection commission received 3,618 complaints about broadband access between January and September, accounting for about 5% of the total number of complaints. Many involved slow broadband speed, frequent disconnections and the gap between actual speed and the speed claimed by service providers.
- About 30 million mobile phones are expected to be sold online in China this year, up 68% from 2011, according to a report issued by SINO Market Research. The growth rate is more than 10 times that of mobile phones sold in offline outlets during the period, the report estimated. The online sales will account for 10% of total handset purchases this year, up from 2% two years ago. It is expected to increase to 15% next year, the report said. The most important reason for choosing a device online is because mobile phones are on average 10% cheaper on the web. China is likely to surpass the U.S. as the world's biggest online retail market around 2015.

ONE-LINE NEWS

- Global data center services firm Equinix opened the first phase of an advanced new facility in Shanghai, about two months after it completed its USD230.5 million acquisition of information-technology services provider AsiaTone, a Hong Kong company with operations in Shanghai. Preparations are now under way for new infrastructure projects in other major cities. Founded in 1998, Equinix operates about 105 data centers in 13 countries, serving more than 4,000 firms. Frost & Sullivan expects the data center services market in China to have a capacity of 1.86 million square meters by 2016.
- Forrester Research, an independent market analysis firm based in the United States, cut its growth forecast for China's enterprise spending on information technology goods and services to about 10% from the 13% estimated in January, to reach CNY662 billion this year, up from CNY605 billion last year. Forrester expects Beijing's economic stimulus efforts to deliver a boost in technology spending next year. China is the world's third-largest information technology market behind the U.S. and Japan.

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