

NetEase may expand its Web search business

NetEase.com Inc, China's third-biggest online games provider, said it may acquire companies to expand its Internet search business, after Google Inc moved its Chinese service offshore.

"If an acquisition can help the development of our search business, then why not go for it," NetEase Chief Executive Officer William Ding said during a conference call on Thursday. The Beijing-based company will also consider acquisitions beyond Web search, he said.

Google, owner of the world's most-popular search service, lost market share in China after redirecting its Google.cn service to a Hong Kong site. NetEase's Youdao search service now accounts for 0.4 percent of the local search-engine market, according to researcher Analysys International.

NetEase, trailing Tencent Holdings Ltd and Shanda Games Ltd in China's \$3.95 billion online games market, on Wednesday reported first-quarter profit rose 8.5 percent to 452.3 million yuan (\$66.2 million), from 416.7 million yuan a year earlier. The earnings missed the 545 million yuan average of five analysts' estimates compiled by Bloomberg.

NetEase American Depositary Receipts (ADRs) fell less than 1 percent to \$31.11 in Nasdaq Stock Market trading on Wednesday before the earnings announcement. The receipts have declined 17 percent this year, compared with a 10 percent drop in the Hong Kong-traded shares of Tencent, China's biggest Internet company by market value.

Profitability slumps

Google accounted for 30.9 percent of China's online search market last quarter, compared with 35.6 percent in the previous three months, according to data from Analysys. Baidu Inc increased its market share to 64 percent from 58.4 percent, according to the Beijing-based researcher.

The 0.4 percent market share for NetEase's Youdao service ranks it below Sohu.com Inc's Sogou service, the third-most-popular Web search service in China, according to Analysys.

Revenue from online games rose 50 percent to 1.09 billion yuan in the quarter, NetEase said. Sales of online advertising more than doubled to 91.5 million yuan.

Profitability declined last quarter as NetEase incurred higher marketing expenses and royalty fees for its "World of Warcraft" role-playing game, licensed from Activision Blizzard Inc. Gross profit margin for the online games division narrowed to 72.1 percent in the first quarter, declining from 90 percent a year earlier.

Source: China Daily

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