

# BUSINESS



A worker at the car production line of FAW-Volkswagen in Changchun, capital of Jilin province. ZHU WANCHANG / FOR CHINA DAILY

## German firms eye innovation

By SHI JING in Shanghai  
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German manufacturing companies in China will shift from product to business model innovation in the next three years to sustain growth in the country, a new survey said.

Innovation in all its forms will, however, continue to be the key driver for business activities in China with Chinese companies leading the way, according to the Innovation Survey of the Greater Shanghai Region that was released on Wednesday.

For German companies, innovation was ranked among the top three priorities as it was necessary to meet customer needs, to differentiate from competitors, and to attract new customers.

Nearly 80 percent of the surveyed companies expect an increase in their innovation output over the period, but only 41 percent have a well-defined innovation strategy.

The survey was conducted earlier this year by the German Chamber of Commerce in China, Shanghai, in association with Tongji University and global market consultancy Goetzpartners.

The survey received 111 valid responses, most of which were from senior executives of German manufacturing companies in the Yangtze River Delta region. About two-thirds of these companies have been in China for 10 years and 50 percent of them had an annual turnover of 250 million yuan (\$377 million) last year.

Lin Tao, a partner at Goetzpartners, said that Chinese companies had focused their efforts on business model

innovation instead of competing on costs in recent years. The ongoing transformation has also impacted German companies in China, with up to 23 percent of the surveyed companies being involved in research and development activities in China that generates improved or new products for world markets. "We expect this trend to accelerate in the mid-term," he said.

To further drive innovation, nearly 50 percent of the polled companies said they would seek external tie-ups in the next three years, including working with startups and even competitors.

In terms of cooperation with Chinese companies, 45 percent of the respondents opted for acquisitions while the second best choice was investment in a Chinese company. Mergers seemed to a less preferred option for German companies due to the unwanted technology transfer and intellectual property protection concerns.

"Digitalization has pushed most of the German companies to their limits and hence they have to open up," said Lin.

Bettina Schoen, chairwoman of the board of the German Chamber of Commerce in China, Shanghai, feels that the Chinese authorities should promote a wide-ranging innovation eco-system that offers institutional and cultural support to foster a transparent and accessible innovation culture.

In addition, steps are also needed to enhance the educational efforts in schools with an added focus on vocational training to stimulate creativity and boost innovation capabilities.

**\$37.7 million**

annual turnover of 50 percent of surveyed firms

### Alibaba among top R&D spenders

Alibaba Group Holding Ltd was included in the world's top 10 most innovative companies, the first time for a Chinese company, according to the results of a survey released in Shanghai on Thursday.

The survey by PwC Strategy&, a consultancy services provider, which polled 562 global executives on research and development, said that China's companies were among the world's top 1,000 R&D spenders (all are public companies), spending a total of \$45.2 billion, or 6.4 percent of the world-wide total in 2017.

Alibaba spent \$2.5 billion for an R&D intensity of 10.8 percent, a measurement that calculates spending on research and development related to sales revenue. The average intensity of the world's top 1,000 was below 5 percent. It was ranked in 10th place among the world's most innovative companies.

China has 130 public companies among the world's 1,000 most innovative companies, according to the report.

Adam Xu, partner with PwC Strategy&, said Huawei is also a big spender on R&D.

"According to its full-year 2017 annual report, Huawei spends 76.4 billion yuan, or \$11 billion approximately on R&D in 2016, making it the highest spender in China and the eighth largest spender among the Global Innovation 1,000 (compared to ninth in 2016)," said Xu.

In China, industry remained the number one sector in R&D spending, with combined \$15.9 billion spending on innovation in 2017, followed by software and internet at \$10.28 billion.

Healthcare is the sector with the fastest growth in spending on innovation, which recorded 10.4 percent year-on-year growth in 2017, at \$610 million.

The world's top three innovative companies are Alphabet Inc, Apple Inc, and Amazon.com Inc.

Total spending on innovation among the top 1,000 most innovative companies was \$700 billion in 2017.

WU YIYAO

# BOE looks to upstage Samsung

## Chinese company starts production of AMOLED display panels at Chengdu facility

By FAN FEIFEI in Chengdu  
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BOE Technology Group Co Ltd, a supplier of display products and solutions, on Thursday commenced mass production of active-matrix organic light-emitting diode display screens ahead of schedule at its facility in Chengdu, Sichuan province.

The Chinese company said that the sixth-generation flexible AMOLED display panels have already been delivered to more than 10 smartphone manufacturers including Huawei Technologies Co, OPPO Electronics Corp, Vivo Mobile Communication Technology, Xiaomi Corp, ZTE Corp and Nubia Technology.

BOE has so far invested 46.5 billion yuan (\$7 billion) in the Chengdu production line, which is also the country's first such facility. It mainly produces display panels used in mobile products and smart wearable devices. It can turn out 48,000 glass substrate panels (at 1850mm x 1500mm) every month.

The commencement of mass production indicates that Chinese companies are slowly taking center stage in the global AMOLED industry and breaking the monopoly of South Korean companies in flexible and foldable panels for high-end smartphones.

"Mass production at the Chengdu plant will greatly enhance BOE's competitiveness in high-end smartphones and mobile displays and also meet the fast-growing demand for small and medium-sized display panels," said Chen Yanshun, CEO of BOE.

Chen added the move is of great importance to the fur-



**The flexible AMOLED display brings more possibilities to a phone's appearance."**

Zhang Yu, senior vice-president of BOE

ther development of the Chinese organic light emitting diode industry and the global flexible display industry. BOE has another sixth-generation flexible AMOLED line in Mianyang, Sichuan province, that is expected to start production in 2019.

Market research firm IHS Markit expects BOE to be the world's largest supplier of AMOLED display panels in 2019.

"The flexible AMOLED display brings more possibilities to a phone's appearance," said Zhang Yu, senior vice-president of BOE. He said AMOLED panels are in short supply, and the market is so big that there is virtually no competition. "We are now solving the problem of insufficient production capacity."

AMOLED technology is physically flexible with a fast response, high contrast and wide visual angles, compared with traditional liquid crystal display panels.

South Korean technology giant Samsung Electronics Co currently dominates in AMOLED technology and products, accounting for a market share of around 90 percent. These panels were used in its Galaxy series of smartphones.

Statistics from industry consultancy CINNO Research showed that shipments of flexible AMOLED smartphone panels reached 55 million units last year, and will rise to

160 million pieces by the end of 2017, with an estimated annual compound growth rate of 88.2 percent up to 2020.

Industry experts expect Chinese manufacturers to eat into Samsung's market share by 2019 as they increase investment and production in the sector. "China has become the world's largest producer and consumer of mobile phones, but the flexible AMOLED display market has been dominated by South Korean companies," said John Wang, an analyst at Sigmaintell Consulting Co Ltd, a panel industry consultancy.

Wang said the AMOLED technology is the future for smartphone panels, adding the flexible display technology will play a vital role in small and medium-sized display sector.

Around 23 percent of global smartphones had AMOLED display panels last year. The figure is expected to reach 64 percent in 2021, according to Sigmaintell.

# Moutai surges to record high on profit growth

By ZHU WENQIAN in Beijing and  
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Shares of Kweichow Moutai Co Ltd rose to a record high in Shanghai on Thursday after the Chinese liquor maker posted an impressive growth in third-quarter earnings.

The distiller from the town of Maotai, Guizhou province had earlier reported a 60 percent jump in net profit for the first nine months of the year and 138 percent growth in third quarter earnings on higher sales.

Kweichow Moutai shares rose 6.97 percent to close at 605.09 yuan (\$91.3) on Thursday. Its market value has exceeded 760 billion yuan, outnumbering that of China's oil giant Sinopec Group.

In the first three quarters of this year, the company's revenue rose 59.4 percent from the same period a year ago to 42.45 billion yuan. During the same period, the net profit attributable to shareholders reached 19.98 billion yuan, up 60.31 percent from a year ago. The distiller said the continuing hot sales of its products have supported the earnings growth.

The company also had one of the best cash flows and net profit margins among listed Chinese companies, Moutai plans to revitalize its idle funds by entering the finance sector and setting up a financial business entity that involves loans, insurance and asset management.



An employee of Kweichow Moutai Co Ltd puts labels onto bottles of the Chinese liquor. PROVIDED TO CHINA DAILY

Li Baofang, general manager of Moutai Group, said the company hopes to forge a new growth area, and make finance the second-largest backbone business of the company. By 2020, the finance operation will account for 15 percent of the total revenues of Moutai Group, Li said.

In the year to date, shares of Moutai have surged about 70 percent, and many agencies have continued to raise their earnings forecasts. China

International Capital Co Ltd said in its report on Wednesday that it maintains a "recommend" grade for Moutai, and has increased its target price for the share to 845 yuan per share.

"In the third quarter, Moutai expanded the supply of its spirits to 11,000 metric tons. The high-end spirit market in China led by Moutai is expected to embrace an explosive growth," said Xing Zhiting, an analyst from China International Capital.

"From 2018 to 2020, the prices of Moutai's classic Feitian liquor are expected to increase by 22 percent, 15 percent and 15 percent each year, respectively. The sales channels of Moutai will continue to expand to more smaller Chinese cities and e-commerce platforms."

Meanwhile, shares of many other Chinese spirit companies, including Sichuan-based Wuliangye and Sichuan-based Luzhou Laojiao Group jumped on Thursday, and the bench-

mark index turned in a positive performance.

In addition, on Oct 31, Moutai airport in the city of Renhuai, Guizhou province will start operation, and it will launch flight routes to most major Chinese cities. Besides some preferential fare prices introduced by airlines, those who fly to Moutai airport on the first day of its operation will get free memorial liquor.

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# Zhongwang acquires majority stake in SilverYachts

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Hong Kong-listed China Zhongwang Holding Ltd announced the completion of its acquisition of a majority stake in SilverYachts, an Australia-based all-aluminum superyacht builder, on Thursday, a strategic move to expand aluminum application in the high-end marine sector.

China Zhongwang, the world's second-largest aluminum extruder, said the acquisition is meant to advance the Chinese aluminum maker's deep-processing strategy to the marine sector, while boosting its international expansion.

"We are delighted to join hands with SilverYachts to

navigate the high-end marine sector at full speed, as both companies share the same vision of offering best-in-class products that exceed client expectations," said Lu Changqing, president of China Zhongwang Holding Ltd.

While the cooperation will allow Zhongwang to further broaden its product applications in the marine segment with comprehensive coverage in the lightweight transportation domain including aviation, railways, automobiles, and navigation, the partnership will also give SilverYachts a stronger presence in Asia, it said.

"The partnership with China Zhongwang marks a new page for SilverYachts," said Guido Alexander Krass,



**China's metal producers are working hard to upgrade their product mix ..."**

Zhu Yi, analyst at Bloomberg Intelligence

founder of SilverYachts.

"China Zhongwang's strong backing will enable us to accelerate our pace of expansion and broaden our market reach, and SilverYachts has plans to expand its

team in Australia as well as in China."

Analyst said the acquisition of SilverYachts signifies the Chinese aluminum maker's resolution to directly enter the downstream-end product manufacturing business.

"China Zhongwang's acquisition of shares of SilverYachts shows the company's decision to target high-value added aluminum products, to gain higher margins instead of some low-margin industrial products," said Zhu Yi, a Hong Kong-based analyst at Bloomberg Intelligence.

"China's metal producers are working hard to upgrade their product mix, to gain exposure for high-end products."

Zhu said China is currently

oversupplied with low-end commodity-grade metals such as aluminum, but in supply deficit for high-end products, such as high-end aluminum alloy for auto, airplanes, yachts and others.

The transaction complements China Zhongwang's recent acquisition of Alunna in Germany, and is another international acquisition that helps the company to expand its business segments and optimize its product mix, it said.

In September, China Zhongwang announced that it had bought a controlling stake in a German aluminum extrusion firm to add to its portfolio of high-value-added automotive and aerospace products and get exposure to Europe and the US market.