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SOEs told to beef up scrutiny

Ministry's new guideline tightens up requirements on a slew of measures

By LI XIANG
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China has tightened scrutiny of overseas investment by State-owned enterprises, ordering them to improve investment decision-making, strengthen internal auditing and carry out responsible due diligence, according to a guideline issued by the Ministry of Finance on Wednesday.

The SOEs are required to set up proper decision-making systems and to carry out financial feasibility studies on overseas projects before making any investment decision. They are also ordered to send on-site inspection and auditing teams to evaluate overseas projects that involve major losses and risks, the guideline said.

$48.19 billion
non-financial outbound direct investment in H1

Companies are also asked to better manage their capital flow, cost control, dividend distribution, foreign exchange and financial information for their overseas projects. The ministry also required SOEs to set up an evaluation system on overseas investment and increase accountability of poor and failed investment decisions.

The guideline is aimed at strengthening the management of SOEs' overseas projects, increasing investment efficiency and lifting State capital's capability to serve the "going global" strategy and the Belt and Road Initiative, the ministry said in a statement published on its website.

Poor asset quality, weak profitability and low investment returns are the main problems related to SOEs' overseas investment and they are directly related to SOEs' poor management of financial risks and careless decision-making, the ministry said.

Xu Baoli, director of the research center at the State-Owned Assets Supervision and Administration Commission, said the move is of "great significance" as the country is pushing the Belt and Road Initiative that will involve massive SOE investment in countries and regions with high political and economic risks.

"Greater outbound investment by SOEs is going to take place and many of them lack the ability to properly manage risks," Xu said.

"And the lack of accountability of senior executives for poor or failed investment is one of the reasons that lead to radical decision-making and loss-making deals."

The tighter regulation on SOEs' overseas investment also showed the government's intention to address the declining foreign exchange reserves and contain cross-border financial risks, Xu added.

China's non-financial outbound direct investment fell 45.8 percent year-on-year to $48.19 billion in the first half of the year, the first decline since 2015, official data showed, as the government moved to curb radical and risky investment by Chinese companies in sectors such as property, hotel, sports and entertainment.

A customer looks at an Apple Inc iPhone at a Maxim Store in Buenos Aires, Argentina. BLOOMBERG

Rivals take bite out of Apple as China sales fall 9.5 percent

By MA SI
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Apple Inc saw a nearly 10 percent decline in its China revenue in the latest quarter ending in July, as local consumers switched to newer domestic phone offerings and its 10th anniversary iPhone edition is yet to be released to invoke user enthusiasm.

The US tech giant's revenue from China fell 9.5 percent to $8 billion, amid mounting competition from brands such as in the world's largest smartphone arena.

The decline stands in sharp contrast to Apple's overall strong earnings report. Globally, its profit climbed 12 percent to $8.7 billion, and revenue increased 7 percent from last year to $45.4 billion, beating analysts' projections.

"Sales in the Chinese mainland were actually flat year-over-year and, were it not for currency fluctuations, would have been up 6 percent," Apple CEO Tim Cook told a conference call with analysts.

The company attributed the decline in China to weak sales in Hong Kong, which were affected by a reduction in tourism.

Neil Shah, research director at consultancy Counterpoint, said China remains the problem child for Apple partly because of iPhone fatigue in the country.

"Apple is losing share in the $300-$500 price band, as older iPhones fail to compete with affordable premium Chinese flagship models," he said.

The iPhone's share of China's smartphone shipments fell to 9 percent in January-June, from a peak of 14 percent in 2015, according to Counterpoint.

> **Apple is losing share in the $300-$500 price band..."**
>
> **Neil Shah,** research director at consultancy Counterpoint

Apple is expected to unveil its 10th anniversary iPhone edition later this year, a crucial product aiming to outcompete local players, analysts said.

The financial report came as the Cupertino-based company is stepping up investments in China, in a move to boost revenue from services, after its smartphone market share slipped.

Apple announced in July that it will invest $1 billion to build its first China data center in Guizhou province, to meet local consumers' growing demand for better cloud services.

CEO Tim Cook said on Tuesday that services in China "grew extremely strongly" during the most recent quarter, continuing the robust momentum in the January-March period.

Jia Mo, an analyst at global consultancy Canalys, said Apple's service revenues were surging, partly because there was still a big user base for iPhones.

"Hardware is the corner stone for Apple's business. As its China R&D facilities start operations, Apple can offer better localized products," Jia said.

Huawei launches Guizhou data center

By OUYANG SHIJIA and **MA SI** in Beijing and **YANG JUN** in Guiyang

Huawei Technologies Co Ltd, one of the world's largest telecom equipment markers, launched its data center project in southwestern China's Guizhou province on Wednesday, responding to the company's growing need to build facilities that store online data and support global services.

The move is part of a deal Huawei signed with the Guizhou provincial government last November and came as the technology juggernaut intensifies resources to compete globally.

The first phase of the new data center is located in Guian New Area in Guizhou province. Covering 400,000 square meters, it will operate around 600,000 servers to store Huawei's global management data.

"Guizhou province offers an ideal climate for operating data centers. It is also an important energy base in China, alongside its favorable data center polices. Taking these advantages, we aim to build an industrial park, which serves as a global management data storage center and a base to train the talents," said Ren Shulu, Huawei's senior vice-president.

$100 million
money that could be saved annually via the cooperation

The Shenzhen-based firm said around 600 to 800 IT service engineers will maintain the server system and then be sent overseas to support its global services. It also plans to use the center to train selected employees.

Last November, Huawei and the Guizhou provincial government signed a cooperation agreement to work on internet of things technology, construction of a smart city, intelligent manufacturing, and the application of big data and cloud computing.

The company said the cooperation may save as much as $100 million annually in electricity charges, due to the lower cost of energy.

Rolling out a range of preferential policies for the big data application and development, Guizhou province is becoming a new big data hub. Last month, Apple Inc announced it would open its first China data center in Guizhou province, which is part of a $1 billion investment in the area and will be operated by a local data management company.

James Yan, research director at Counterpoint Technology Market Research, said he was optimistic about the prospects for the center's future development, as it will benefit greatly from the local government's supportive polices and big investment.

JD.com opens first unmanned sorting center

By FAN FEIFEI
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JD.com Inc, China's second-biggest e-commerce player, said it has launched the first unmanned sorting center in Kunshan, Jiangsu province, as part of its strategy to build an intelligent and high-efficient logistics system.

The whole process, from parcel sorting to loading onto the trucks, are fully automatic in the Kunshan center, which is also the first of its kind in the world, JD said in a statement.

Compared with traditional automatic sorting centers, JD's is more intelligent and efficient, the company said. The coverage rate of automated equipment has reached 100 percent and about 9,000 parcels can be sorted every hour.

It said the increased parcel handling efficiency meant the new plant could handle four times the packages of the old human-run centers. JD has independently developed an intelligent equipment management and control system, including unmanned automated guided vehicles for loading and unloading goods.

The e-commerce giant said it will continue to increase its investments in technology innovation to provide high-efficient, low-cost and intelligent supply-chain solutions.

Recently the National Development and Reform Commission issued suggestions on "Internet Plus efficient logistics", which proposed building a logistics information sharing system, as well as improving the levels of intelligent warehousing and distribution.

JD is increasingly betting on its intelligent logistics operations to differentiate itself from Alibaba Group Holding Ltd.

Liu Qiangdong, its founder and CEO, said in July that the first unmanned warehouse would be built before the Singles Day shopping festival on Nov 11 next year, emphasizing the company will make its business predominantly intelligent in the next 12 years.

Last year, it successfully used drones to deliver online purchases to rural shoppers in Jiangsu province. In November, it finished its first drone delivery in Xi'an, Shaanxi province. Moreover, robots and driverless cars for deliveries were used during the June 18 shopping festival.

"JD has taken a leading position in the domestic intelligent logistics sector and has invested a huge amount in related intelligent equipment, such as unmanned sorting and handling equipment, drones and driverless deliveries," said Lu Zhenwang, CEO of Shanghai-based Wanqing Consultancy.

Lu added the unmanned sorting system still had some limitations because it could not sort out large-sized home appliance products.

Amazon.com Inc, JD's rival in the global market, has stepped up efforts in the intelligent logistics sector. In December, it successfully trialled its Prime Air drone delivery service in UK, which is designed to safely deliver packages to customers in 30 minutes or less.

Amazon' fulfillment centers are already partially automated, with a growing number of centers using Kiva robots to carry shelves of products to human workers, who then pick the items to be shipped.

Nation keeps top spot in express deliveries

China has remained the world's largest market for the express delivery business since 2014, driven by the booming of e-commerce.

Data from the State Post Bureau show that the number of delivered parcels reached 31.28 billion in 2016, up from 20.67 billion in the previous year. In 2012, there were around 5.69 billion delivered parcels.

The express delivery market is booming as its annual growth rate has remained more than 50 percent in the past five years.

The industry's revenue reached 397.4 billion yuan ($59.1 billion) in 2016, up 43 percent from 277 billion yuan in 2015.

A total of 84.62 percent of the parcels, traveling a distance of less than 1,000 kilometers, could be delivered within 48 hours. A robot could handle around 1,700 parcels every day.

The average delivery price per parcel declined from 18.6 yuan in 2012 to 12.7 yuan in 2016 amid fierce competition among major operators, including SF Holding Ltd, STO Express and YTO Express.

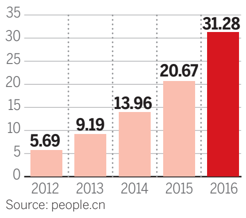
Moreover, the coverage rate of express delivery branches in counties and rural areas rose to 80 percent in 2016.

Analysts attribute the surge in express delivery services to the popularity of e-commerce, led by Alibaba Group Holding Ltd's Taobao, the country's largest online retail marketplace.

According to data from the China E-Commerce Research Center, China's e-commerce imports reached 1.2 trillion yuan ($174.17 billion) in 2016, growing 33.3 percent over 2015. The volume is expected to rise to 1.85 trillion yuan ($268.51 billion) this year.

FAN FEIFEI

China's express delivery volume
Unit: billion



Source: people.cn
LIU LUNAN / CHINA DAILY

A delivery worker of JD in Suzhou, Jiangsu province.
JI HAIXIN / FOR CHINA DAILY