

ASIA INVESTMENT RESEARCH

Tracking Global Investment Flows Into China & Asia

• December 2021 Issue •

Six Case Studies Of Chinese Minority Equity Investments: Biotech, EV Batteries and Electric Air Mobility

Attracting Minority Chinese Equity Investments

Checking Out The Partner: China Investor Due Diligence

AIR

REAL VALUE IN SECURING CHINESE INVESTORS AS MINORITY SHAREHOLDERS

Strategic Partnerships Cemented With Chinese Minority Stakes Can Produce Above Average Market Returns

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INTRODUCTION

From Flying Taxis to Electric Cars to Healthcare, Chinese Outbound Investment Has Become More Sophisticated



Data & Case Studies: Henry Tillman, China Investment Research

At a time when many Western governments continue to raise barriers to international acquisitions of controlling stakes by Chinese investors, our research has shown that over the past three years, the majority of these investments have not been of controlling stakes. Also, many of them have been smaller investments - between 35-45% of Chinese outbound investments (with disclosed values) have involved US\$10 million or less.

This is in response to European strategies such as the 2021 'Golden Powers' strategy that seek to limit non-EU acquisitions to less than 10% of the equity. For example, one of our sources has stated that Rome, plans to extend this by six months until June 30, 2022. This would include a measure forcing EU and non-EU suitors to seek government approval when buying a stake of 10% or more in strategic companies. This now accounts for a more subtle Chinese approach in dealing with overseas investments and has partially changed the thinking from controlling acquisition to a more considered search for assets to which Chinese investment can add value and be rewarded from either annual dividends or cashing in value from future public listings.

Most of these investments have also been focused on new, high growth industries, and is in keeping with the theme of Dual Circulation. This is a China government policy that equates to a strategic advisory for Chinese investors when making an outbound investment - there ideally needs to be a use within China. This means an increasing number of Foreign-China strategic partnerships - JV's - now function both as outbound and inbound investment vehicles, directly or indirectly. The funding may be in Europe or the United States, but the strategy may often involve bringing that business or its products to China.

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These partnerships contain both a commercial component, underpinned by a financial component. In our experience when tracking this data, the financial component can frequently produce financial returns far above market returns to knowledgeable investors who understand how these deals are designed.

The Case Studies

In this month's issue of AIR, we set out six case studies of these new partnerships, two in biotech, two in electric air mobility, and two in new electric vehicles, all announced since mid-2019. None of the outbound investment stakes were over 30% in any of these partnerships, with most around 20% (Chinese stakes are greater within China based JVs).

In this analysis we focus on both the commercial uplift as well as the financial returns, which frequently are in multiples (such as 2X) rather than in percentages (%). In many cases, we identify the investors. All six involve Chinese investors somewhere within the partnership; three involve Southeast Asia, in particular Singapore, and one in North Asia. Several also involved the USA and the EU and one, Brazil. There are several we have not included, and new partnerships are being formed each quarter: Bosch/Boyuan Capital in Q3/Q4 and Roche/Chinese accelerator in Q4, which we continue to monitor and will address in upcoming issues.

Attracting Chinese Investment

China has been very specific and well-coordinated about what types of businesses it will look to invest in, as laid out in numerous policy speeches and comments made from the senior leadership, in addition to economic strategy and tax related incentives. These do vary on a regional basis, however there are defined pointers as to what is attractive to investors. We provide analysis of what types of businesses Chinese investors are looking at and where.

Regulatory And Free Trade

Finally, we examine upcoming incentives as concerns the China and regional markets in addition to available China tax specific incentives. We also look at the basics of handling Chinese investment and provide a regulatory checklist.

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CASE STUDIES



In this section we provide six case studies of recent Chinese minority stake partnerships, two in biotech, two in electric air mobility, and two in new electric vehicles. All have been announced since mid-2019. None of the outbound investment stakes were over 30%, with most around 20%. In this analysis we focus on both the commercial uplift as well as the financial returns, which frequently are in multiples (such as 2X) rather than in percentages (%). All six involve Chinese investors somewhere within the partnership. Share prices were taken via the relevant company and/or stock exchange data.

Biotechnology

Case Study 1: BeiGene and Amgen



To help develop Amgen's Chinese oncology portfolio, in January 2020, Amgen closed its strategic collaboration with BeiGene, designed to significantly accelerate Amgen's plans to expand its oncology presence in China. BeiGene is a commercial-stage research-based oncology company with an established and highly experienced team of 1,500 personnel in China.

The key terms of the collaboration were:

- Amgen acquired a 20.5% stake in BeiGene for approximately US\$2.8 billion in cash. This represented a purchase price of US\$174.85 per BeiGene share, a 36% premium to BeiGene's 30-day volume-weighted average share price prior to the initial announcement. In addition, one executive from Amgen joined BeiGene's board of directors.
- BeiGene agreed to commercialize XGEVA® (denosumab), KYPROLIS® (carfilzomib) and BLINCYTO® (blinatumomab) in China, during which time the parties will equally share profits and losses.
- Amgen and BeiGene agreed to collaborate to advance 20 medicines from Amgen's innovative oncology pipeline in China and worldwide. BeiGene will share global research and development costs and contribute up to US\$1.25 billion to advance these medicines. Amgen will pay royalties to BeiGene on the sales of these products outside of China, with the exception of AMG 510, Amgen's first-in-class KRASG12C inhibitor.

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- Of the 20 oncology medicines in development, BeiGene will assume commercial rights in China for seven years after launch for those that receive approval in China. After this time, BeiGene will retain rights to up to six of these products in China, excluding AMG 510, while rights on remaining products revert to Amgen. Amgen and BeiGene will share profits in China equally on these products until the rights revert to Amgen, after which Amgen will pay royalties to BeiGene on sales in China for five years.
- Amgen agreed to continue to commercialize its non-oncology product portfolio in China.

A year later, in January 2021, Novartis signed a strategic collaboration agreement to in-license tislelizumab from BeiGene in major markets outside of China, accelerating the potential for Novartis to enter the large and growing checkpoint inhibitor field.

Under the terms of the agreement, Novartis obtained the development and commercialization rights to tislelizumab in the United States, Canada, Mexico, the EU, UK, Norway, Switzerland, Iceland, Liechtenstein, Russia, and Japan in exchange for an upfront payment of US\$650 million plus royalties and milestone payments (which ultimately could reach US\$1.55 billion). BeiGene will retain the rights to tislelizumab in China and other countries.

As at November 15, 2021, BeiGene's share price was HK\$226.8 a share, a 29.7% increase since its initial investment in January 2020. The current share price represents a value of US\$7.2 billion to Amgen – a valuation uplift of US\$4.5 billion in less than two years.

Case Study 2: BioNTech and Fosun Pharma

In May 2021, BioNTech (Germany) and Fosun Pharma (China) announced a strategic partnership in which both companies agreed to jointly conduct clinical trials of BNT162 in China, leveraging BioNTech's proprietary mRNA vaccine technology and Fosun Pharma's clinical development and commercialization capabilities in China. This has produced a JV-enhanced China based vaccine manufacturing facility.

The major terms of this were:

- Fosun Pharma will commercialize the vaccine in China upon regulatory approval, with BioNTech retaining full rights to develop and commercialize the vaccine in the rest of the world.
- Fosun Pharma agreed to pay BioNTech up to US\$135 million in upfront and potential future investment and milestone payments, while the two companies will share future gross profits from the sale of the vaccine in China.

As a result of this agreement, vaccine manufacturing within China will be increased by one billion doses per annum, from an expected base of three or more billion in 2021.

At this time, BioNTech also announced that it would establish a Singapore based plant and an Asian regional operation - after it has been working with Hong Kong and Macau for the past year.

BioNTech's market capitalization increased from circa US\$30 billion in April 2021 to slightly over US\$80 billion in August. In light of the declines in Asian biotech shares, current market capitalization (as of November 15, 2021) of circa US\$58 billion still represents a 100% share appreciation in only six months.

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Electric Air Mobility

Case Study 3: Lilium and Qell



Lilium GmbH is a German aerospace company and is one of the global leaders in regional electric air mobility.

Founded in 2015 by three engineering students at the Technical University of Munich, Lilium has grown to a company of over 700 world-class engineers. It is also developing and building the world's first fully electric vertical take-off and landing (eVTOL) jet, which they aim to reach an estimated range of up to 300km and a

cruising velocity of up to 300 km/h, all while achieving zero emissions, creating both a highly efficient and environmentally friendly means of transportation.

Lilium's focus is its prototyped seven-seat Lilium Jet, which is designed to serve as a high-speed regional shuttle service for both passengers and cargo, a service which foregoes rail and road but is just as competitive in price. Since the Lilium Jet takes off vertically, it minimizes the ground infrastructure needed – permitting it to land in areas that are relatively more populated.

The first prototype of the aircraft flew in May 2019 as a five-seater eVTOL vehicle. Management intends to operate an inter-city flying taxi service by 2025. The company has projected that by 2027 it will have 1,000 jets in operation with 30,000 tickets sold. The plan is for these to be flown by humans, with autonomous “flying vehicles” coming onto the market about a decade later.

In order to fund this growth, the company conducted several rounds of financing. In March 2020, Lilium raised US\$240 million in a round which included Tencent (14%), Atomico (24%), and LGT (6%). In June 2020, Lilium added US\$35 million in funding from Baillie Gifford (UK), which had previously invested in Tesla and SpaceX, Spotify, and Airbnb, among others.

The US\$275 million round (plus a previous US\$90 million round in 2017), together with the latest financing gives Lilium a valuation over US\$750 million, making the company the highest valued next-generation aviation firm. This funding arrived following a period of uncertainty in production with a combination of an older prototype, increased headcount, and travel issues related to COVID each creating stresses.

In April 2021, Lilium Aviation merged with a special purpose acquisition company (SPAC) called Qell Acquisition Corp. (Qell). SPACs are essentially shell companies and have no commercial operations. They are formed by investors - who are called sponsors - with the sole purpose of raising money through an IPO to acquire another company, also known as a de-SPAC transaction. The process is often faster than a traditional IPO and has exploded in popularity in the US with 358 SPAC IPOs recorded by September of this year. These also account for the majority of global SPAC IPOs (379). In the process Lilium became the second electric aviation startup to go public via a SPAC. Qell is led by Barry Engle, a former President of General Motors (GM) North America,

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who now focuses on developing the next generation of e-mobility.

Through the SPAC transaction with Qell, Lilium tripled its valuation from its previous US\$750 million to US\$1 billion range to an implied US\$3.3 billion pro forma equity value for the combined company. Lilium is also expected to generate approximately US\$830 million of gross proceeds from a private investment in public equity (PIPE) offering of US\$450 million and US\$380 million in cash from a consortium of investors, including Baillie Gifford, BlackRock, Tencent, and Palantir.

In August this year, Lilium announced a new partnership with Azul S.A., a Brazilian airline, which includes a purchase order totaling US\$1 billion. The new partnership will build an exclusive network for Lilium's eVTOL aircraft.

In September, Lilium announced that it had completed its business combination with Qell. On September 15, Lilium's Class A ordinary shares and redeemable warrants began to trade on the Nasdaq (USA) under the symbols "LILM" and "LILMW", respectively.

At listing, Lilium received US\$584 million, well below the expected US\$830 million in March, due to the fact that around 65% of Qell shareholders chose to redeem their shares rather than remain invested in the combined company. The US\$584 million in total proceeds will be used to fund development of its eVTOL Lilium Jet.

Countries outside of Europe and the US are making significant progress in preparing for eVTOL operations as well, including China. In 2020, the Civil Aviation Administration of China (CAAC) granted the world's first commercial license to an eVTOL manufacturer, focused on passenger drones, to carry out commercial operations and passenger testing. The approval was based upon previously accepted protocols and is expected to be expanded once operational experience will be gained.

Investors in the US\$275 million 2020 round have seen a 3-4X valuation uplift in under 18 months.



The eVTOL Lilium Jet

Case Study 4: Volocopter and Geely

Volocopter was also founded in Germany and has since been developing two eVTOL aircraft, the VoloCity and VoloConnect, as well as a heavy-lift drone, VoloDrone.

In 2011, Volocopter carried out flight demonstrations of the Volocopter VC1 (the first crewed multirotor) and Volocopter VC2 technology. In 2013, the company moved from the early single-seat Volocopter VC2 prototype flown in 2011 to building a two-seat project, which eventually became the Volocopter 2X. The two-seat prototype was designated as the VC-200X. In 2013, the company raised €500,000 in less than three hours, which was then used to fund the development of the VC200 prototype.

In 2017, Volocopter announced it had raised €25 million, led by Daimler AG, and including a number of other investors. Volocopter said it will use the new funding to develop the Volocopter up to production maturity and secure commercial licensing through aviation authorities worldwide. The engineering staff will be expanded to add specialists in the development of flight systems, software, and electric propulsion.

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Volocopter flew an unmanned 2X in Dubai in September 2017, which the company said was the “first-ever public flight of an autonomous urban air taxi.” In September 2019, Volocopter raised €50 million in a new financing round led by Geely Group. The new funds will be used to bring Volocopter’s electric aircraft to commercial launch in the next three years. In addition to leading this series C funding round, Geely also agreed to enter into a joint venture with Volocopter to bring its aircraft to China. Volocopter then conducted a handful of public demonstrations of its eVTOL aircraft, including one in the airport in Helsinki.

In December 2020, Volocopter, the pioneer in Urban Air Mobility (UAM), announced its commitment to launch air taxi services in Singapore after two years of close collaboration with the city, which included a successful test flight in October 2019. Working together with the Economic Development Board of Singapore (EDB) and the Civil Aviation Authority of Singapore (CAAS), Volocopter plans to make air taxi services a reality in Singapore in the next three years. Volocopter said it will build a team of 50 pilots, engineers, operation specialists, and business managers in the next three years leading up to the launch of its commercial operations. The company also expects to hire more than 200 full-time employees in Singapore to manage a network of routes by 2026.

Volocopter also partnered ride-hailing firm Grab in February 2020 to conduct a joint feasibility study on the prospect of offering airborne rides in Southeast Asia.

In March 2021, Volocopter announced that it had raised €200 million (about US\$241 million) in a Series D round of funding, which was oversubscribed.

Series D included new investments from funds managed by BlackRock, global infrastructure company Atlantia SpA., Avala Capital, Continental AG, NTT’s venture capital arm, Tokyo Century (Japan), and many others. Volocopter also said that all its existing investors had participated.

In September 2021, Volocopter announced a JV with a subsidiary of China’s Geely Technology Group, Aerofugia, to bring its UAM aircraft to China. The announcement included the purchase of 150 Volocopter aircraft and a member of Geely joining Volocopter’s advisory board. The company will operate under Volocopter Chengdu.

Volocopter will also produce its aircraft in China with a contract manufacturing agreement with Volocopter Chengdu and General Aviation Manufactory Base of Geely Technology. Volocopter Chengdu is expected to accelerate the deployment of air taxis and UAM business, possibly enabling aircraft to come to mainland China in the next three to five years.

On November 11, Volocopter completed the first crewed public test flight of its 2X aircraft in Seoul, South Korea. It was the first ever crewed public test flight of an eVTOL air taxi in South Korea. At this point,



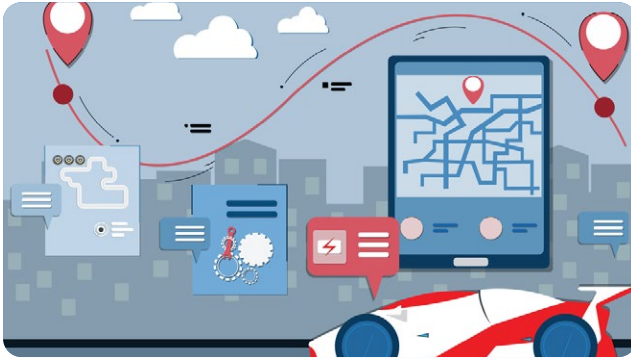
Volocopter test flights in Singapore

Volocopter is still private, but due to larger capital needs - like Lilium - it is likely to seek an IPO, possibly through the use of a SPAC, in the next year. Financial returns for investors are expected to be multiples of their original investment.

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New Energy Vehicles

Case Study 5: Northvolt and Volkswagen



Northvolt's predecessor, based in Sweden, was founded in 2015 by a former executive of Tesla with the goal of supplying the auto industry with EV batteries. In 2017, the company changed its original name to Northvolt. In May 2019, the European Investment Bank (EIB) offered a loan of SEK 3.5 billion (about €350 million) for Northvolt to build a gigafactory as a stepping-stone towards building a competitive, sustainable, and innovative value chain, with battery cells manufactured at scale in Europe. Also in 2019, Northvolt raised

US\$1 billion from international investors, including Goldman Sachs, BMW Group, AMF, Folksam Group, and IMAS Foundation, to start building a battery factory in Skellefteå, Sweden, with the aim to start production of EV batteries in 2021.

In June 2019, Volkswagen announced that it was investing €900 million (US\$1.075 billion) in a strategic partnership focused on EV batteries with Northvolt. The investment consisted of a 20% stake in Northvolt (parent), supported by a Board seat and a 50/50 JV with Northvolt to build a (second) factory for lithium-ion batteries. Construction of the production facility, called Northvolt Zwei, was scheduled to start in Salzgitter (Lower Saxony, Germany) in 2020. Start of production was planned for the end of 2023 or beginning of 2024. The initial annual output was to be 16 GWh, with the aim to increase to 24GWh over time.

As part of its electrification strategy, the Volkswagen Group alone will have an annual electricity demand of more than 150 GWh from 2025 in Europe, and the same level in Asia..

The key investment decisions were as follows:

- In May 2020, Volkswagen announced that it would build the factory largely on its own and invest €450 million in the construction. On July 16, 2020, it was announced that Northvolt and BMW had signed a deal of €2 billion for Northvolt to deliver batteries starting from 2024.
- In March 2021, Northvolt announced that it was selling its JV share in that plant to Volkswagen as the carmaker scales up its battery manufacturing efforts in Europe. That plant is due to open this year.

Northvolt Zwei will produce lithium-ion cells exclusively for Volkswagen Group electric vehicles over the next decade. Salzgitter will produce a new 'prismatic unified cell' for Volkswagen Group's high-volume segment from 2025. The new unified cell is set to be launched as of 2023 and will be installed across brands in up to 80% of all EVs in the Group by 2030. Volkswagen is planning production capacity of up to 40 GWh per year at Salzgitter.

Together, Volkswagen and Northvolt are also expanding capacity at the Northvolt Ett gigafactory in Sweden to achieve further economies of scale, reduced complexity, and a better environmental footprint for the battery products made there.

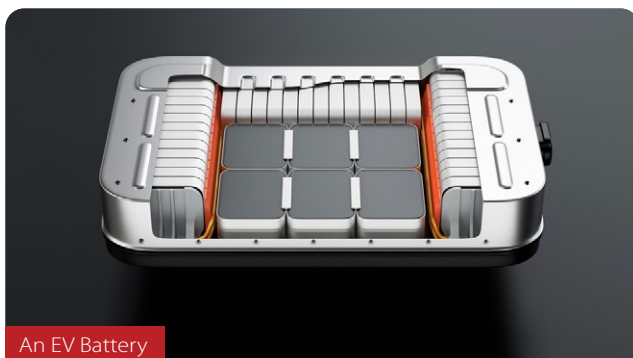
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Volkswagen is aiming to gradually reduce battery costs in entry-level segment vehicles by up to 50% and in the volume segment by up to 30%. On average, Volkswagen plans to drive down the cost of battery systems to significantly below €100 per kWh. This will finally make e-mobility affordable and the dominant drive technology. The production of battery cells there for Volkswagen Group contracts is set to commence in 2023 and will be expanded gradually to an annual capacity of up to 40 GWh.

In June 2021, Northvolt, raised US\$2.75 billion in a private placement funding round, which was co-led by Goldman Sachs and Volkswagen alongside new investors, including Swedish pension funds AP1, AP2, AP3, AP4, and the Canadian pension fund OMERS. Previous investors, such as Spotify CEO Daniel Ek and Baillie Gifford, also invested in the round. Total investment in the company now stands at US\$6.5 billion. The latest round of funding values Northvolt at US\$11.75 billion (according to private sources).

Northvolt said that it has signed deals worth US\$27 billion with major companies such as BMW and Volkswagen. It is aiming to produce “the world’s greenest batteries” by drawing on renewable energy sources and recycled raw materials. Northvolt said it will use the funding to expand capacity at its factory in the far north of Sweden from 40 GWh to 60 GWh, which is enough to supply batteries for around one million electric vehicles. Production is expected to start at the factory later this year. At a valuation of US\$11.75 billion, Volkswagen’s 20% stake is worth US\$2.35 billion, more than doubling over the past 24 months.

Case Study 6: Volkswagen and Guoxuan High-Tech



In May 2020, Volkswagen became the largest shareholder of China EV battery maker Guoxuan High-Tech Co Ltd (also known as Gotion High-Tech) with a 26.5% stake. After Volkswagen bought the stake, Gotion announced that it was planning to build a factory for cathode materials with high nickel content in Hefei. The plant will have an annual capacity of 30,000 tonnes and will start test operations in 2023. Gotion High-Tech already has the contract for the 23-hectare site.

With this investment, Volkswagen China intends to secure the future demand for battery capacity for the Chinese e-models. Volkswagen is the first international OEM to invest directly in a Chinese battery supplier (Volkswagen had already invested in Sweden’s Northvolt at this time).

In March 2021, Volkswagen announced a plan to set up six EV battery plants in Europe by 2030. The company aims to mass-produce standardized batteries to reduce costs and increase vehicle profitability. As a next step, Volkswagen extended its Gotion existing partnership to develop, manufacture, and industrialize the first generation of the unified cell for the volume segment in Germany, to be introduced to vehicles from 2023 and cover 80% of Volkswagen Group’s EV models by 2023.

Guoxuan also agreed to acquire 100% of the assets and equity of the Göttingen plant of Bosch Group to establish its first new energy production and operation base in Europe. Employees of Robert Bosch Aftermarket Solutions GmbH will be joining Gotion High-Tech Co.

Volkswagen will also build its second EV battery plant in Salzgitter in a joint effort with Guoxuan to produce low-cost batteries for economy EVs, with production commencing in 2025. Guoxuan High-tech will act as Volkswagen’s technology partner for the cell factory layout, machinery, and production processes.

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On July 20 this year, Guoxuan announced that Hefei Guoxuan and the Management Committee of Hefei Xinzhan High-tech Industrial Development Zone formally signed a cooperation agreement. It plans to build a 20 GW power battery production base in Xinzhan High-tech Zone. Guoxuan and Volkswagen will jointly carry out battery technology innovation and research and development and build Xinzhan High-tech Zone into an important base for the global new energy vehicle power battery industry.

This partnership helped lift the value of Volkswagen's investment from US\$1.5 billion in May 2020 to circa US\$16 billion in August 2021. It also secured a third source of EV batteries for Volkswagen globally.

Summary

We have illustrated through these six examples how Chinese investments - which includes investments along the Belt and Road Initiative - are becoming more sophisticated in nature, both in terms of the new technologies that are being invested in as part of China's national strategic development plans, but also in the nature of the partnerships involved. Through these are acquisition, China can acquire tomorrow's requirements today and assist in bringing these to the China market. They also represent an opportunity for significant return on investment for overseas investors looking to partner with China to help them drive and fly these new tech concepts into the China market and beyond. China's own domestic market continues to expand, and its number of middle-class consumers is on track to reach 1.2 billion by 2030. China has also joined the RCEP Free Trade Bloc, a market representing 30% of global GDP. Trade commences within this region from January 1st 2022, just three weeks away.

The following sections look at positioning businesses to attract Chinese investment and the free trade, tax incentives, and regulatory issues to be aware of.

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ATTRACTING MINORITY CHINESE EQUITY INVESTMENTS

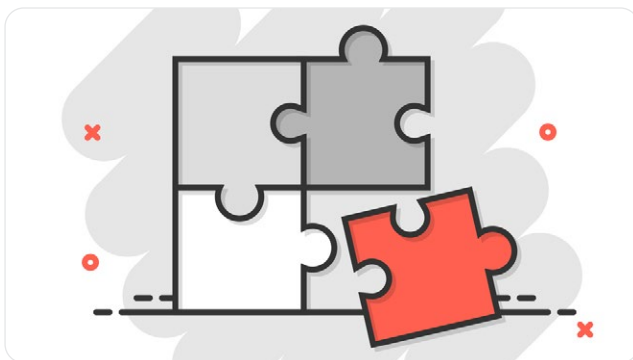


Despite the political and general media noise, China represents a significant market opportunity - its middle-class consumer base is still growing and is estimated to reach 1.2 billion by 2030 (data from World Data Lab) - by which time many of the technologies featured in this issue of AIR will be in use.

It is also pertinent to note that China has joined the RCEP Free Trade bloc, which also includes Australia, New Zealand, Japan, South Korea, and all ten ASEAN nations (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam). This commences on January 1, 2022 - just three weeks away - and represents, in conjunction with rules of origin and related trade obligations, a market of 30% of the world's total population and 30% of the world's total GDP. In this context, China should not just be seen as a singular market but as a platform to reach out to a far wider consumer audience.

Of note to businesses looking to attract Chinese investment are the following points:

Is my business compatible with China's strategic development policy?



China is a state-managed economy with thousands of academics, politicians, analysts, and business leaders all involved in devising a continually modified series of plans.

2021 has been a busy year in China in terms of defining its economic and development policies moving ahead and 2022, with a possible Covid recovery on the cards, can be expected to be just as active.

In this section we describe how Chinese State Policy filters down into corporate strategy and equity investment decisions.

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How China develops its policies



Key to these policy development meetings have been the Two Sessions conference, which took place in March. It included the 14th Five Year Plan, which is active through until 2025 and contains groundwork for the period until 2035. The 2021 Government Work Report set out annual deliverables, while the Sixth Plenary Session, which took place in October, outlined future foreign policy and the overall national direction.

Contained within these, and continually highlighted during the year within speeches given by both President Xi Jinping and the Foreign Minister Wang Yi, are the development structures and national policies that show the path the Chinese economy will take and how it will achieve it. Accordingly, it is worth paying attention to these as they can and do provide insights into where investment opportunities exist or are being explored.

Encouraged industries

The China Government's policy development program may sound rather long-winded, and it often is, but it is highly detailed and carefully coordinated. For example, policies such as China's commitment to reduce usage of fossil fuels go hand in hand with policies for EV battery development and production. China wishes to motivate the handover of technologies from old to new and does this by categorizing certain sectors as encouraged industries. EV battery production is one of these.



Qualifying industries are found every year in China's Catalogue of Industries for Encouraging Foreign Investment, which lists the status of permitted foreign investment in all industry sectors. The so-called 'Negative List', meanwhile, lists the industries in which foreign investment is currently prohibited or restricted.

Updated versions of these documents can be expected for release in 2022.

Identifying whether your business sector is included within these frameworks is a key initial step, as it also points the way for Chinese investors to search for potential foreign businesses. They may wish to invest abroad with an eye on developing either that business or its products for China, and possibly in the RCEP markets.

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Adding value by understanding trade agreements



In addition to these there may be applicable multilateral and bilateral incentives that can be utilized. These include Free Trade Agreements - from January 1st, China is a member of the RCEP bloc meaning China based businesses, including foreign investors, by having a China registered company can access these markets.

Qualifying trade conditions, such as Rules of Origin criteria apply, however sound business advisory will steer investors through these.

In terms of bilateral agreements, these include Bilateral Investment Treaties, Double Tax Treaties and other Trade Agreements that can be triggered and used for additional profits maximisation. All these avenues should be explored as applicable to your business as part of the pre-investment business plan and strategy. They can be worth millions of dollars in retained revenues.

Other financial incentives



Further downstream from the essential 'encouraged industry' status and the various bilateral agreements are the applicable China incentives that may partner with these. There are four main components to this:

Key industry incentives, on a sectoral basis

An example is this directive that permits Hainan Island to import a wider scope of medical equipment and drugs for the healthcare sector than are otherwise not permitted on the Chinese mainland. Another is the repositioning of Hong Kong to become a private wealth management services hub to assist with managing the estimated US\$3 trillion of privately held financial assets in mainland China.

Key regional incentives

An example is the Western regional incentive list, which includes tax and other motivations for investing in specific geographical regions of China.

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Other applicable incentives

Such as reduced utility or land use charges, which may often come hand in hand with incentives offered to set up in economic development zones and other similar areas.

Identifying each of these, as well as what is and what is not applicable to your business, should again be part of any business investment strategy. Full knowledge of your exact potential can be a useful way to convince Chinese investors to part with more of an investment premium for your equity. The more attractive you make your business, the more interested already state-encouraged Chinese investors are likely to be.

Conducting analysis on how your business can succeed in China and Asia and taking steps to understand these will impact upon your development portfolio, your equity prospectus, and your ability to raise capital.

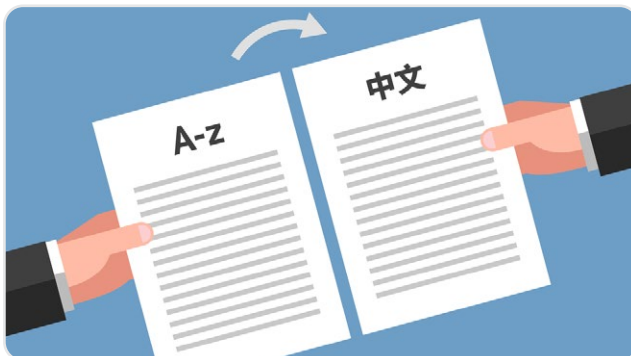
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CHECKING OUT THE PARTNER: CHINA INVESTOR DUE DILIGENCE



Overseas investors selling part of their equity to Chinese investors will need to conduct due diligence in China to verify certain important details. While your legal advisors will be able to handle the transaction on your end, some China advisory is recommended.

Legal & financial due diligence



The standard business licenses, and importantly, a certified capital verification certificate, should be requested from the Chinese side.

The latter is important, because although the business capital is noted on Chinese licenses, it is not a guarantee it has been fully injected.

Likewise, copies of land use rights and property certificates should be obtained, as should verifications of corporate structures, shareholders, members of the board, and senior management. It is important to be aware of - especially with Chinese MNCs - which legal business unit of the organization is actually investing and who represents them.

It is also important to track the origin of the financing and to ensure that this is also open, transparent, and complies with all money-laundering and related compliance issues.

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Trademarks & patents



Your business may well possess various intellectual property and especially if they are in new tech, you will need to protect them.

This means that your business, not the Chinese investors, must arrange for these to be registered in China - and any other pertinent territories. There are international protection protocols in place that can provide some reassurance, but these only apply when any infringement damage has already become apparent. We previously discussed trademark registration in China. China's patent law updates and application procedures,

and gave an overall perspective of China Intellectual Property issues affecting foreign investors. Get your IP protected and have your lawyers engage a China or Asian firm to take care of this for you, rather than the Chinese investors.

Political & business risk



Some attention needs to be paid here to the nature of the investor's activities, their bankers, and key personnel.

This is because the United States and EU in particular are active in implementing sanctions and it is important to ensure that there is a distance between your investors and any potential risk of sanctions.

Operational due diligence



It is wise to check on any proposed China-based facilities to ensure they match up in capacity terms to what you are being told. This requires a site visit. If not, unexpected cash calls could be made later on you as an investor to make up for any shortfalls.

It is also important to identify that any assets listed, including employees, are fully identified and accounted for to ensure that a fair valuation is provided on their side, and has not been

exaggerated. It is also important to ensure that any operational assistance is clearly and legally defined, so you are not suddenly told that your business must now pay more to contract other Chinese entities.

ASIA INVESTMENT RESEARCH

Belt & Road Initiative due diligence



The Belt and Road Initiative (BRI) creates more complex due diligence issues as the differing nature of participating countries alters the procedural element significantly. The differing nature of BRI legal and financial systems is an issue we explored in this article while due diligence and adherence to Western compliance issues such as trade based money laundering (TBML), evasion of economic sanctions, money laundering, fraud, corruption, wildlife trafficking, abuse of worker's rights, human trafficking and slavery, and illegal

mining, logging, fishing, or other environmental crimes.

It is extremely important that businesses investing in BRI projects and countries operate a robust due diligence process to identify high risk trade participants and take mitigating action.

There are many other aspects to conducting due diligence for your business in China, depending in part on the nature of the perceived investment. Here we have provided just a few. An experienced China firm will be able to further advise on these matters. Attention to detail at this stage removes the chances of future unforeseen problems and increases the likelihood that your China equity shareholders become successful business partners.

ASIA INVESTMENT RESEARCH



WHO WE ARE & WHAT WE DO

China Investment Research have been providing China financial data since 2008 and are based in London.

Asia Investment Research provides unique, primary source reconciled data related to China and Asian inbound investment on a quarterly basis in addition to specific monthly country profiles. We monitor all Asia inbound investment on a global basis, by country of origin, industry and by type, including both equity and debt. This is combined with pertinent regulatory updates to illustrate where current investment trends are appearing and where future trends will appear.

METHODOLOGY

Our M&A/equity investment numbers are comprised of three components; FDI, below FDI/venture and/or growth capital and announced China inbound.

The FDI component is drawn from data sources which virtually all major consultants, accountants and bankers use. However, we take the extra step of verifying what a reporter states and what actually makes it onto the data run. In Q3, we found one discrepancy of over US\$1.3 billion. We also have China based sourcing and verification as sometimes the data is only reported in China and in Mandarin.

Below FDI and venture growth capital – we draw from numerous PE and VC specialty databases – Preqin, Crunchbase, Pitchbook, Tracxn to name a few. We then (systematically) remove all non-Chinese investors from these investments – which can frequently involve syndicates of 5+ non-Chinese investors, to provide data for China only.

China inbound – is built daily globally with input from China and the master data based held in London. It is literally announced deal by deal, JV by JV, day by day. All entries are linked to an specific announcement. For example, the Q3 inbound had 41 pages of backup data and story links.

The combination of these 3 components makes AIR unique among data providers.

We also provide notable regulatory updates that preclude investment. These provide a window into future investment trends are likely to be and include G2G intelligence on bilateral, free trade negotiations, trade impact analysis and track amendments to existing agreements. This is especially important when considering future global and regional trade flows and developments within them. The upcoming RCEP and CPTPP free trade agreements are examples of this ongoing tracking and analysis.

On a G2B basis we track industry-specific regulatory updates pertinent to new market opportunities in addition to where Government policy may discourage investment. This allows our subscribers to take remedial action on negative developments and potential investment action on positive regulatory developments.

Research is conducted from our permanent offices in the United States, European Union, United Kingdom, China, India, Russia, the ASEAN6 (Indonesia, Malaysia, Philippines, Singapore, Thailand & Vietnam) Hong Kong and allied partners within the Middle East (Dubai, Qatar), South Asia (Bangladesh, Sri Lanka, Pakistan) and East Asia (Japan, Mongolia, and South Korea).

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CONTACT US:

Asia Investment Research is a monthly publication and is designed for Government, Banks, Financial Institutions, PE, Equity & Pension Fund Managers, Lawyers and Corporate Financiers and Executives looking for the latest Asian investment trends.

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