

ACCESSING LIQUIDITY AMID UNCERTAINTIES IN CHINA INTERNET SECTOR

This report summarizes some of the key factors which have impacted the share price of China Internet companies, including the regulatory headwind and pressure from SEC to delist Chinese companies over US audit demand. Some investors also believe this correlates with the rising interest rate.

The share price of China's Internet companies dropped by more than 3x on average since February 2021 (proxy from KraneShares SCI China Internet Fund). However, many shareholders remain bullish in their long-term outlook given the market size and the growth prospect of China's Internet sectors (i.e. online retail, online gaming, and online advertisement, etc.)

We present a solution to the listed company shareholders of China's Internet companies who may have short to medium term liquidities needs which:

01



Diversify their systemic risk

02



Limit the downside risk in the worst-case scenario

03



Retain 100% upside in the best-case scenario

REGULATORY HEADWIND PRESSURING THE SHARE PRICE OF CHINA'S INTERNET COMPANIES:

The market sentiment for China Internet has been weak since mid-2021 due to several regulatory headwinds. This includes:

- The anti-monopoly policies published by The State Administration for Market Supervision (SAMR)
 - Companies like Alibaba Group (BABA.US, 9988.HK) were fined for anti-monopoly violations
- New guiding opinions on Safeguarding the Rights and Interests of Workers in New Employment Patterns
 - This impacted food delivery platforms (i.e Meituan - 3690.HK) regarding riders' social insurance, increasing operating costs for these platforms
- The order from Ministry of Industry and Information Technology (MIIT) for technology platforms to bring down the walls between them in order to encourage competition
 - This impacted companies including Tencent (700.HK), which Weixin started allowing links to its rivals to be shared in one-to-one chats in September 2021
- The Cyberspace Administration of China announced that Didi (DIDI.US) would undergo cybersecurity investigation

TIMELINE OF KEY REGULATORY EVENTS IN CHINA INTERNET INDUSTRY

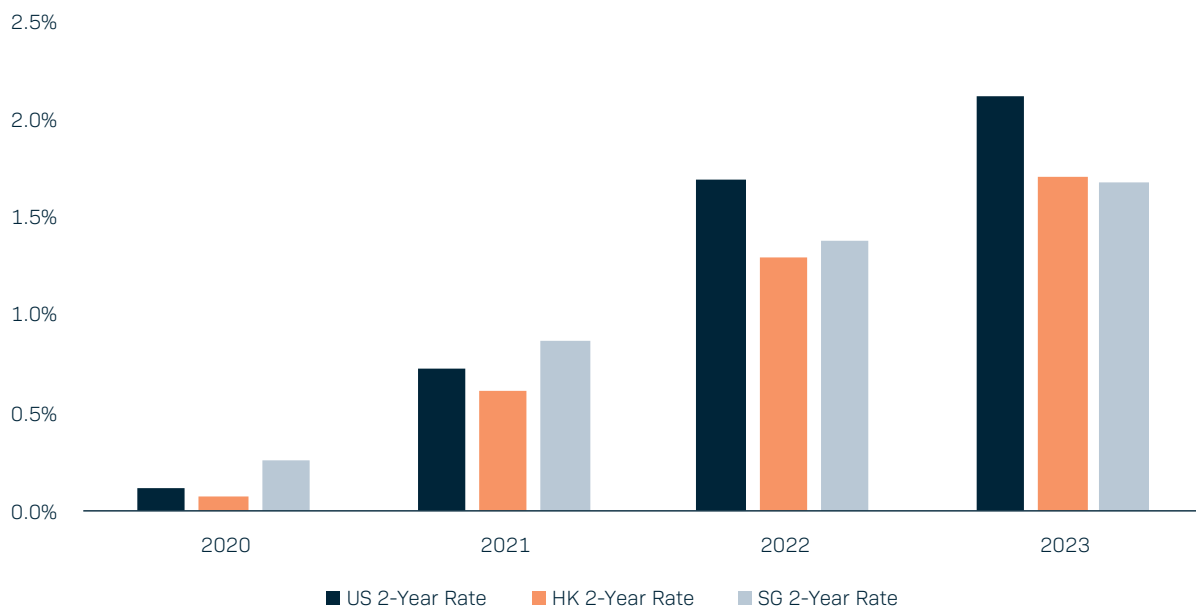
DATE	EVENT
2022	
16 Mar	Chinese officials signal the market of an ease of regulatory crackdown and support property and technology companies. The Nasdaq Golden Dragon China Index jumped 33% on the following day.
5 Jan	Provisions on the Administration of Mobile Internet App Information Services.
4 Jan	China revised Cybersecurity Review Measures to order cybersecurity reviews for some firms seeking overseas listings.
2021	
30 Nov	Guiding Opinions on Protecting the Labour Rights and Interests of Workers Employed in New Forms
14 Nov	Regulations on the Management of Online Data Security. It requires the data handlers, which wants to be listed outside China, to file for a cybersecurity assessment
29 Oct	Measures for Data Export Security Assessment. It lists out the criteria for data export security assessment
13 Sep	MIIT ordered technology platforms to bring down the walls between them in order to encourage competition and curb monopolistic behaviour
27 Aug	Provisions on the Management of Algorithmic Recommendations in Internet Information Services. China plans to ban US IPOs for data-heavy tech firms
28 Jul	The Ministry of Industry and Information (MIIT) orders Tencent and 13 other developers to rectify "harassing" pop-up windows
26 Jul	Guiding Opinions on the Implementation of the Responsibility of Online Catering Platforms to Effectively Safeguard the Rights and Interests of Food Delivery Riders
16 Jul	Guiding Opinions on Safeguarding the Rights and Interests of Workers in New Employment Patterns
2 Jul	Cyberspace Administration suspends Didi app for violating data security protocols
10 Jun	China adopts Data Security Law and requires all companies to categorizes the data they are handling and treat them differently.
26 Apr	Tentative Provisions for the Administration of the Protection of Personal Information in Mobile Applications
13 Apr	China Orders 34 Internet Providers (including Tencent, Meituan, and ByteDance) To Rectify Anti-Competitive Practices within a month.
22 Mar	Four departments jointly issued the Provisions on the Scope of Necessary Personal Information for Common Types of Mobile Internet Applications
7 Feb	China unveils antitrust guidelines on platform economy. It specifies behaviours that constitute abusing market dominance, such as unfair pricing, sales below cost, refusal-to-deal.
2020 - 2016	
24 Dec	SAMR commenced an anti-monopoly investigation into Alibaba. On 10 Apr 2021, Alibaba received the Administrative Penalty Decision issued by the SAMR with a penalty amount of CNY 18.23bn (USD2.75bn) for anti-monopoly violations
1 Dec	China drafts rules on mobile apps' collection of personal data. "Scope of Necessary Personal Information for Common Types of Apps" to limit the scope of mobile apps' collection of personal data
10 Nov	The State Administration for Market Regulation (SAMR) published "Antitrust Guidelines for the Platform Economy Industry (Draft for Comments)". to strengthen its antitrust enforcement in the Internet platform sector.
20 Aug	China passes new personal data privacy law on Aug. 20, to take effect Nov. 1. China has instructed its tech giants to ensure better secure storage of user data
27 Apr	Measures of Cybersecurity Review to regulate the companies' information infrastructure
28 Nov 2019	Measures for Determining the Illegal Collection and Use of Personal Information by Apps
7 Nov 2016	Standing Committee passes cybersecurity law, bans most data from being stored outside the country

WEAK MARKET SENTIMENT ON TECH STOCKS FROM RAISING INTEREST RATE AND DE-LISTING PRESSURE FROM THE SEC

On top of the regulatory headwinds, some investors believe the weak sentiment also correlates with the rising interest environment. Historically, when the market expected the interest rate to go up, certain investors would rotate the investment from growth stocks to value stocks.

According to Bloomberg, the market expects the 2 years benchmark rate across major economies to reach 1.68% - 2.12% in 2023, from below <1% in 2021.

INTEREST RATE EXPECTATION AMONG MAJOR MARKETS



In addition, there is increasing pressure from the SEC to de-list Chinese companies listed in the United States over a US audit demand. KraneShares SCI China Internet Fund (KWEB.US) tracks the performance of publicly traded China-based companies whose primary business is in Internet-related sectors. Its share price peaked at around USD 103 level in February 2021 and has since dropped more than 3x to below USD 30 level, according to Bloomberg. This has factored into the regulatory headwind and weak market sentiment.

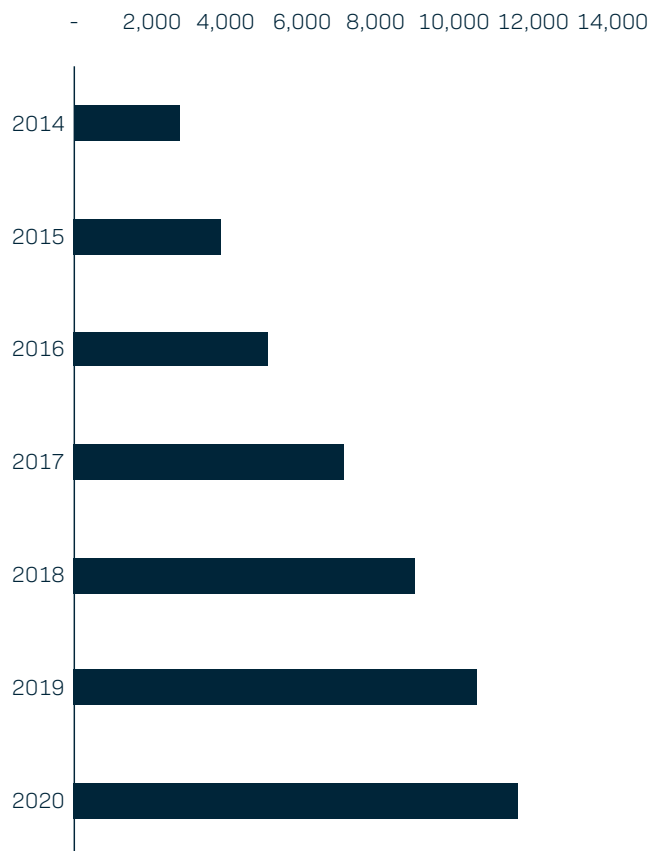
SHARE PRICE PERFORMANCE - CHINA INTERNET INDEX



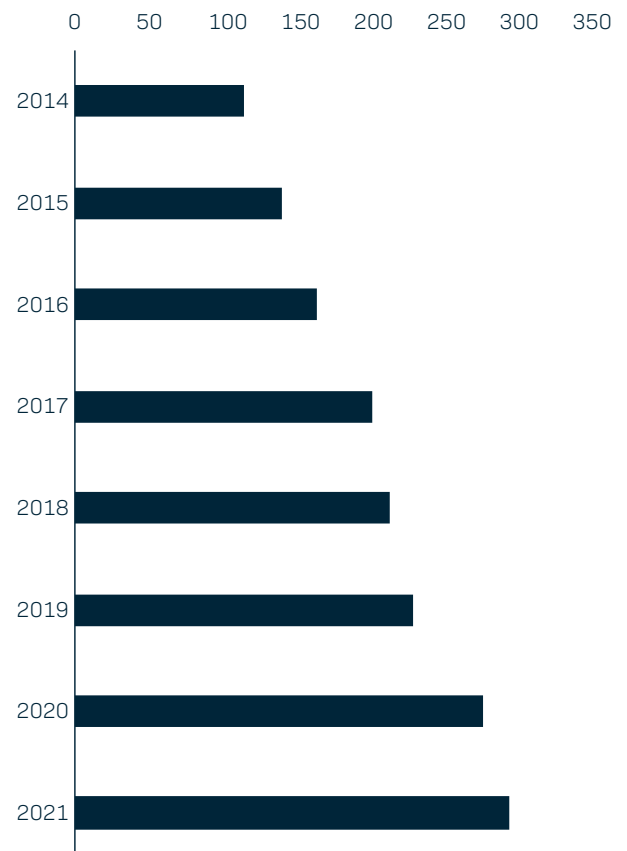
FINANCING SOLUTIONS FOR COMPANY SHAREHOLDERS OF CHINA INTERNET COMPANIES

We understand the uncertainties faced by the China Internet companies on the lingering effects from regulations. However, many shareholders and investors remain bullish in the long-term outlook of China's Internet sector. This is on the back of the market size and growth trajectory of China's Internet sectors, including China's online retail, online gaming, and online advertisement, etc.

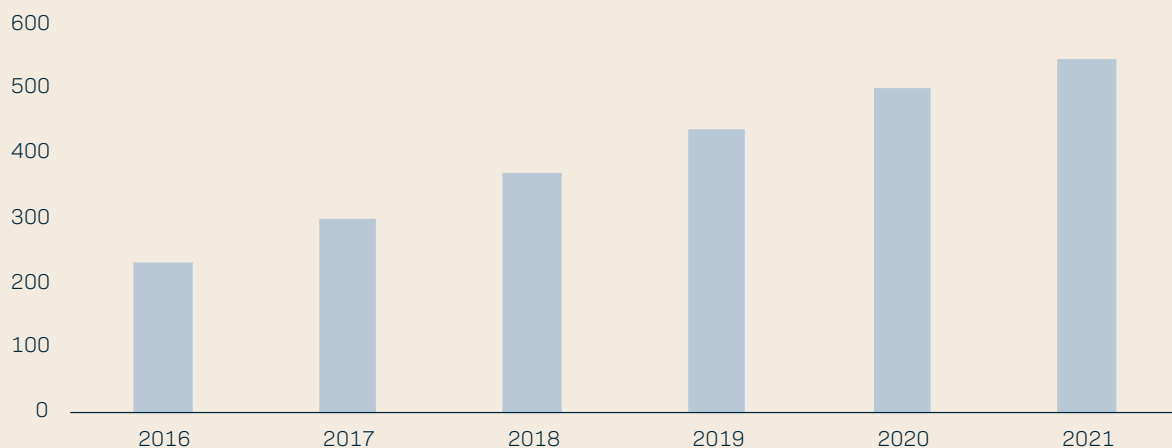
CHINA ONLINE RETAIL MARKET SIZE (RMB BN)



CHINA'S ONLINE GAMING MARKET SIZE (RMB BN)



CHINA'S ONLINE GAMING MARKET SIZE (RMB BN)



Amid the uncertainties, we present a solution to the listed company shareholder of China Internet companies who may have short to medium term liquidity needs:

01

Diversify their systemic risk;

02

**Limit the downside risk in the
worst-case scenario;**

03

**Retain 100% upside in the
best-case scenario.**

This is through a sale and repurchase agreement with EquitiesFirst with the following benefits:

Industry-leading loan-to-value (LTV) ratio:

- With USD100 worth of collateral, the shareholder can borrow USD65-70

Non-Recourse feature:

- This limits the downside risk of the shareholder. In the worst-case scenario, the shareholder has the option to walk away from the loan with no further liabilities (while keeping the loan proceeds)

Non-Purpose:

- The loan capital can be used for any purpose by the borrower and is not subject to restrictions. This helps the shareholders in diversifying the systematic risk by investing the loan proceeds in other assets

Upside Retention:

- The borrower retains the full upside price appreciation of the collateral in the best-case scenario

Margin Call Advantage:

- Our margin call threshold is calculated as 80% of the loan LTV. If the LTV is 65%, the margin call threshold would be $80\% \times 65\% = 52\%$. This means the share price needs to drop from 100 to below 52 (for 3 consecutive days) before there would be a margin call
-

CONTACT US



GORDON CROSBIE-WALSH

CEO Asia

+852 3958 4589

gcrosbie-walsh@equitiesfirst.com

BANGKOK

+66 2059 0242

THinfo@equitiesfirst.com

HONG KONG

+852 3958 4500

HKinfo@equitiesfirst.com

SHANGHAI

+86 21 8033 3601

info@equitiesfirst.com

BEIJING

+86 10 5929 8670

info@equitiesfirst.com

SEOUL

+82 2 6370 5180

info@equitiesfirst.com

SINGAPORE

+65 6978 9100

SGinfo@equitiesfirst.com

DISCLAIMER

Hong Kong and Singapore - Equities First Holdings Hong Kong Limited holds a Hong Kong Securities and Futures Commission Type 1 License and licensed in Hong Kong under the Money Lenders Ordinance (Money Lender's Licence No. 2199/2021). EquitiesFirst ("EquitiesFirst" refers to Equities First Holdings LLC, and all subsidiaries of such company in all countries where they are engaged in business activities of any nature). This document is prepared by EquitiesFirst. It is not intended as an offer to sell securities or a solicitation to buy any product managed or provided by Equities First. It aims to provide general information on the EFH loan facility which is not authorized for retail use in Hong Kong and is only available for Professional Investors. This document is not directed to individuals or organizations for whom such offers or invitations would be unlawful or prohibited. Past performance is not a guarantee or a reliable indicator of future results. All investments contain risk and may lose value. The information contained herein may be incomplete or incomprehensive. Accordingly, the information is qualified in its entirety by the terms applicable to the facility as set out in its constitutive documents (Loan Documents) and should be read together with such Loan Documents. This presentation has been prepared without consideration of the investment objectives, financial situation, or particular needs of any individual investor. You should consider your own investment objectives, financial situation, and particular needs before taking any action with respect to a financial product referred to in this presentation. In preparing this presentation, EFH is assuming your organization is capable of evaluating the merits and risks of any financial transaction described herein and its suitability for your organization's purposes and its legal, taxation, accounting, and financial implications and that in making this evaluation you are not reliant on any recommendation or statements made by EFH. Before entering into any transaction EFH strongly encourages you to independently assess these things and fully understand the transaction in its entirety. EFH does not act as an adviser in any capacity and strongly recommends all borrowers seek independent advisement when assessing the transaction and its suitability. To the extent it is permitted by applicable law, Equities First, its affiliates, and any officer or employee of Equities First or its affiliates do not accept any liability whatsoever for any direct or consequential loss arising from the use of this presentation or its contents, including for negligence. Trading in equities, futures, options, commodities, currencies, or derivatives can have risks and is not appropriate for all persons. Under some market conditions, it may be impossible to liquidate a position. Copyright protections exist in this presentation. The contents of this presentation are strictly confidential and may not be disclosed, reproduced, distributed, or published by any person for any purpose without the expressed written consent of EFH, LLC. EFH makes no guarantee, representation, or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of Equities First only and are subject to changes without notice. Further information is available upon request.

Thailand - EquitiesFirst ("EquitiesFirst" refers to Equities First Holdings LLC, and all subsidiaries of such company in all countries where they are engaged in business activities of any nature). The foregoing is intended solely for certain, or certain class of, recipient who is qualified to independently consider and act on the information provided herein pursuant to laws and regulations applicable to such recipient. As such, the information provided herein is for information purposes only and does not constitute an offer to sell (or solicitation of an offer to purchase) the securities or investments referenced herein, to participate in any particular trading strategy, or to provide any particular advisory services ("Offer"), in any jurisdiction in which such Offer would be illegal. Any Offer shall only be made through the relevant offering or other documentation which sets forth its material terms and conditions pursuant to applicable laws and regulations. The foregoing and any non-public information contained therein are confidential and have been provided solely for the benefit of the intended recipient and for the limited purpose of the potential transaction that the intended recipient has already discussed with the Company. Except with the Company's prior written consent, such confidential information may not be shared with any party other than with professional advisors and affiliates of the intended recipient, in which case the information may be shared for such limited purpose and on a need-to-know basis. If you are not the intended recipient of the foregoing, any disclosure, copying, distribution or use of its content is strictly prohibited. The foregoing does not provide or purport to provide investment advice and has been prepared by the Company based on or derived from sources the Company reasonably believes to be reliable. The Company has not independently examined or verified the information provided herein and no representation is made that it is accurate or complete. Before acting on any information, the recipient is thus encouraged to seek independent financial and/or legal advice. Opinions and information herein are subject to change without notice.

South Korea - The foregoing is intended solely for sophisticated investors, professional investors or otherwise qualified investors who have sufficient knowledge and experience in entering into securities financing transactions such as securities repo or securities loan transaction. It is not intended for, and should not be used by, persons who do not meet that criteria. Information provided herein is for information purposes only and does not constitute an offer to sell (or solicitation of an offer to purchase) the securities or investments referenced herein ("Offer"). Any such Offer shall only be made through a relevant offering or other documentation which sets forth its material terms and conditions. The foregoing does not provide or purport to provide investment advice, nor does it provide or purport to provide any legal or financial advisory or other professional advice or services which are regulated in jurisdiction in which EquitiesFirst (Equities First Holdings, LLC and its subsidiaries) operates, does business, resides, including, Republic of Korea or that may otherwise have regulatory authority over EquitiesFirst. The foregoing has been prepared by EquitiesFirst based on or derived from sources EquitiesFirst reasonably believes to be reliable. However, EquitiesFirst has not independently examined or verified the information provided herein and no representation is made that it is accurate or complete. Opinions and information herein are subject to change without notice.
