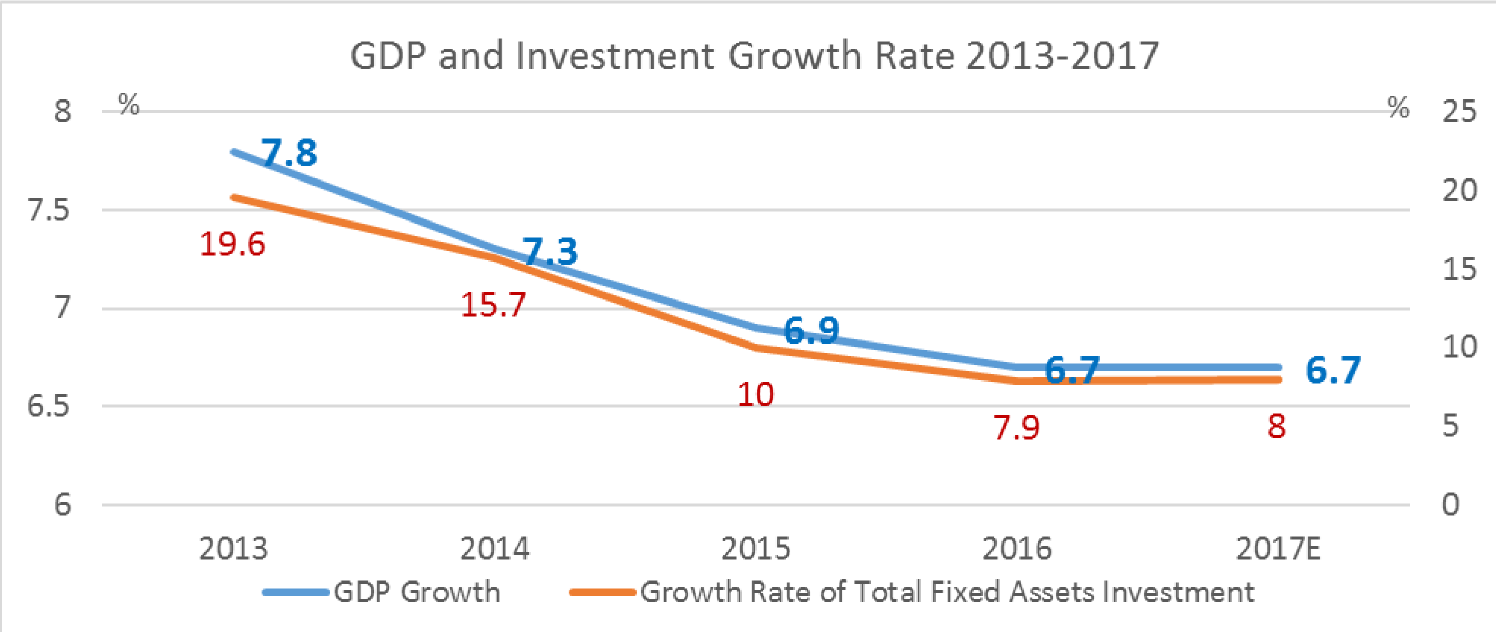
Chinese investment strategies and energy perspectives

Sep. 2017 Bodo, Norway

GDP growth rate in 2017 is positive 6.7%



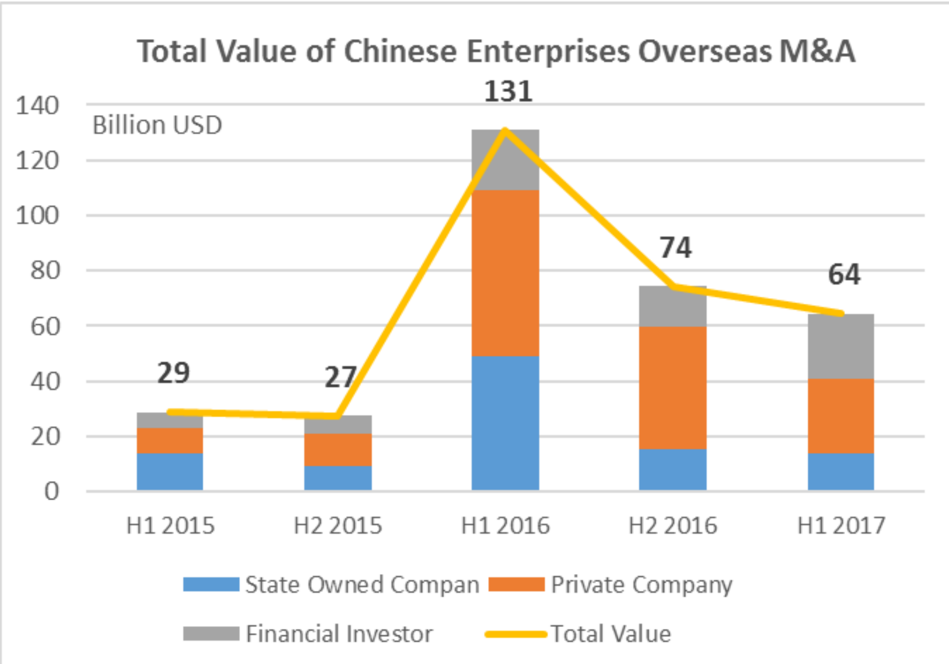
Source: National Bureau of Statistics

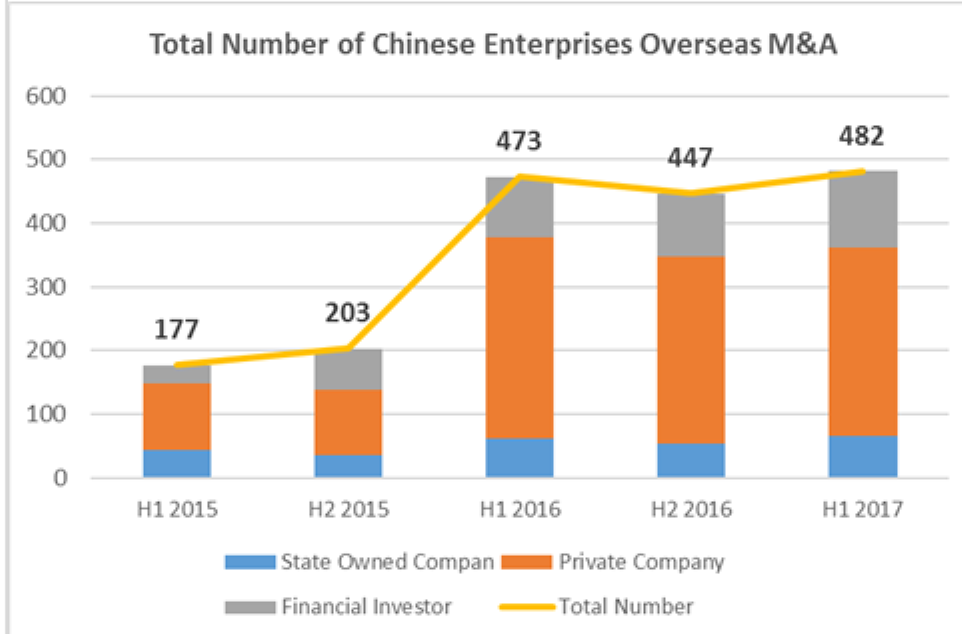
- Investment growth will be mainly driven by stable infrastructure investment and improved manufacture industry investment.
- Service consumption has big potential to develop; decreasing of growth rate of cars and houses consumption will slower down the overall total consumption in 2017.
- Exports will get improved from global economy recovery. Even though trade protectionism and trade conflicts have certain negative impact, potential of exports to Emerging Economies are huge.

Investment growth in 2017 will focus on regional infrastructure investment and service industry investment

- **General growth rate of fixed assets investment in 2017 will be slightly increasing from 7.9 in 2016 to 8.1%.**
- **Growth rate of real estate industry investment will decrease from 6.8% in 2016 to 5.1%;**
- **Growth rate of infrastructure investment will slightly decrease from 15.8% in 2016 to 14%;**
  - ✓ After rapid growth of infrastructure investment in past years, growth of infrastructure investment may gradually decrease in following years.
  - ✓ Infrastructure development will focus on the new economy development regions according to national new regional economy development plans such as Xiong An new district, western cities along " the Belt and the Road".
- **Growth rate of manufacture industry investment will rebound from 4.1% in 2016 to 5.5%.**
  - ✓ Following supply side reform and improving profits of manufacture industry, investment of manufacture industry start to pick up.
- **Growth rate of services industries will remain similar growth rate as 2016 at 7%**
  - ✓ According to long term development plan, China will transform to relying more on service industry. The new round investment increasing will focus on service industry. To accelerate service industry investment it's required to further implement China's reform and opening up policy for service industry.

Overseas M&A in H1 2017 was down in deal values but up in deal numbers



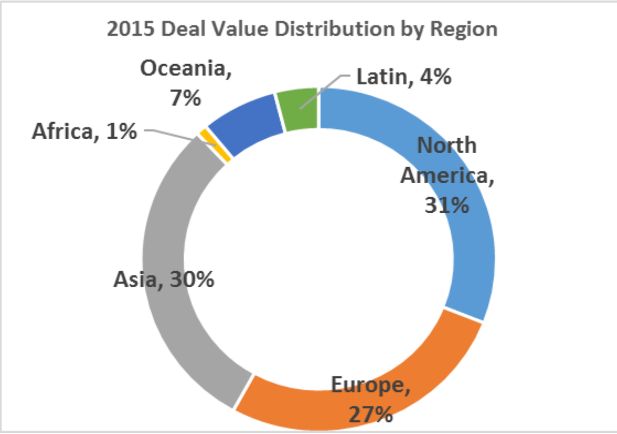


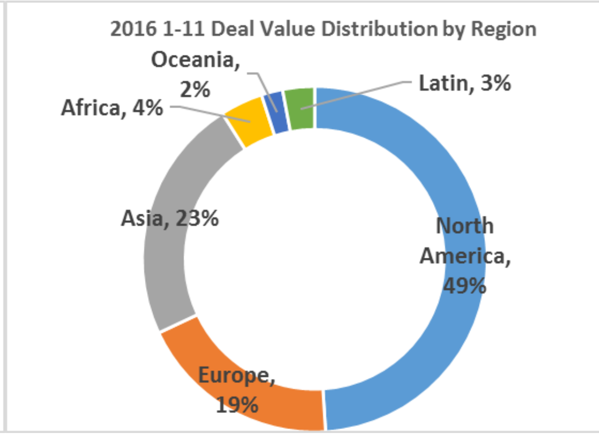
Note : Financial investors here mainly include Private Equity investors and Venture Capital investors.

Source: PWC

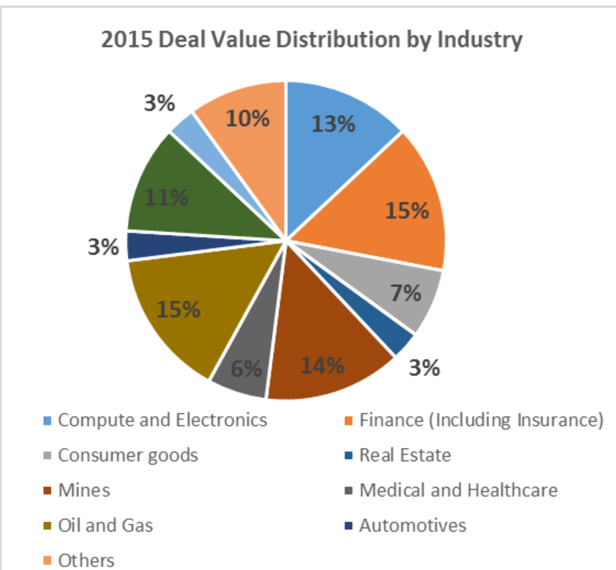
- Total value of overseas M&A for H1 2017 decreased by 13% compared with H2 2016. But deal numbers for H1 2017 increased by 8% compared with H2 2016.
- Total value decreasing comes from less mega-deals with value more than 10billion USD. The biggest deal for H1 2017 is with value of 7 billion USD in medical and healthcare industry.
- Value decreasing is due to more strict control on deals in entertainment industry, real estate and hotels.

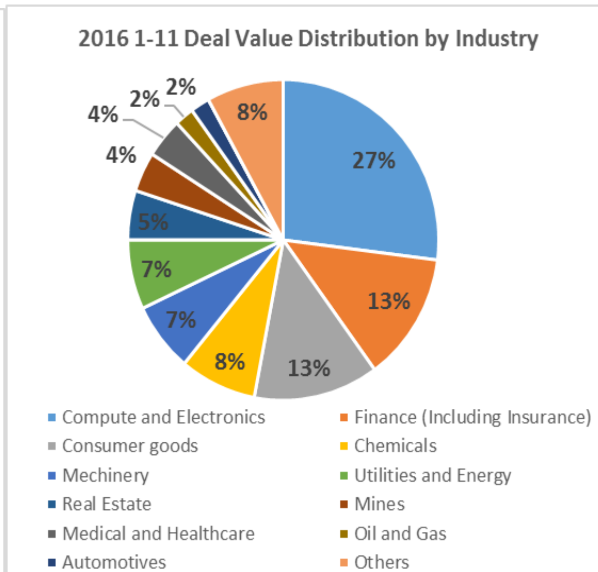
Overseas M&A distribution by region and industry





- Top 3 regions of overseas M&A deals are North America, Asia and Europe according to total value of M&A deals in 2016.
  - ✓ ChemChina acquired Syngenda for 43 billion USD.
  - ✓ Haier acquired household appliances department of GE for 5.4 billion USD.
- Top 3 industries of overseas M&A deals are Computer and electronics, Finance service and Consumer products in 2016.





Overseas M&A covers more diversified industries and not only aim at seeking for good resources but also leading technologies, famous brands and global market share expansions.

Source: KPMG

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Deals of oversea M&A will remain active for enterprises' own needs and government's supports

- Drivers from enterprises' development:
  - ✓ To pursue leading technology, intellectual property and brands;
  - ✓ To pursue company growth by expanding in global market;
  - ✓ There are abundant capital and financing channels available for overseas investment;
  - ✓ To hedge risks of Chinese Yuan depreciation and possible downturn of China's economy.
- Drivers from central government's macro policy:
  - ✓ "Go global" strategy;
  - ✓ Belt and Road relevant investment;
  - ✓ Supply side reform;
  - ✓ To support enterprises overseas investment, government introduces a bunch of favorable policies regarding to improving tax services for overseas investments, simplifying approval procedures for rationally strategic investments and establishing several funds to provide financial supports.

Central government issued guidance on encouraged and banned overseas investments and deals

1. Central government launched new Guidance on overseas investments in August 2017.
2. “Encouraged”: The Belt and Road related infrastructure construction; industry upgrading; domestic competitive capacity, equipment and technology export; agriculture; feasible natural resources explorations; modern services industries.
3. “Restricted”: deals of real estate, cinema chains, hotels and other entertainments industries; private equity funds or investment platform without real projects; investments in countries where restricted by diplomatic policies; investments applying inefficient production technology and equipment; investments not in accordance with standards of environment, safety and energy efficiency of destination country.
4. “Banned”: relate to forbidden exports of technology and products; relate to military industry’s core technology and products; gambling; other investment that may harm national interests and safety.
5. Besides, some investments will be closely audited and inspected before getting approval. For example, small domestic companies acquire much bigger overseas assets; high value overseas investment on non-core business; buyer’s overseas subsidiary company with very short time of registration and undefined capital sources.

Outlook of Chinese enterprises' overseas M&A

- Overall value of overseas investments for 2017 will be lower than 2016; total value is expected to increase again in 2018.

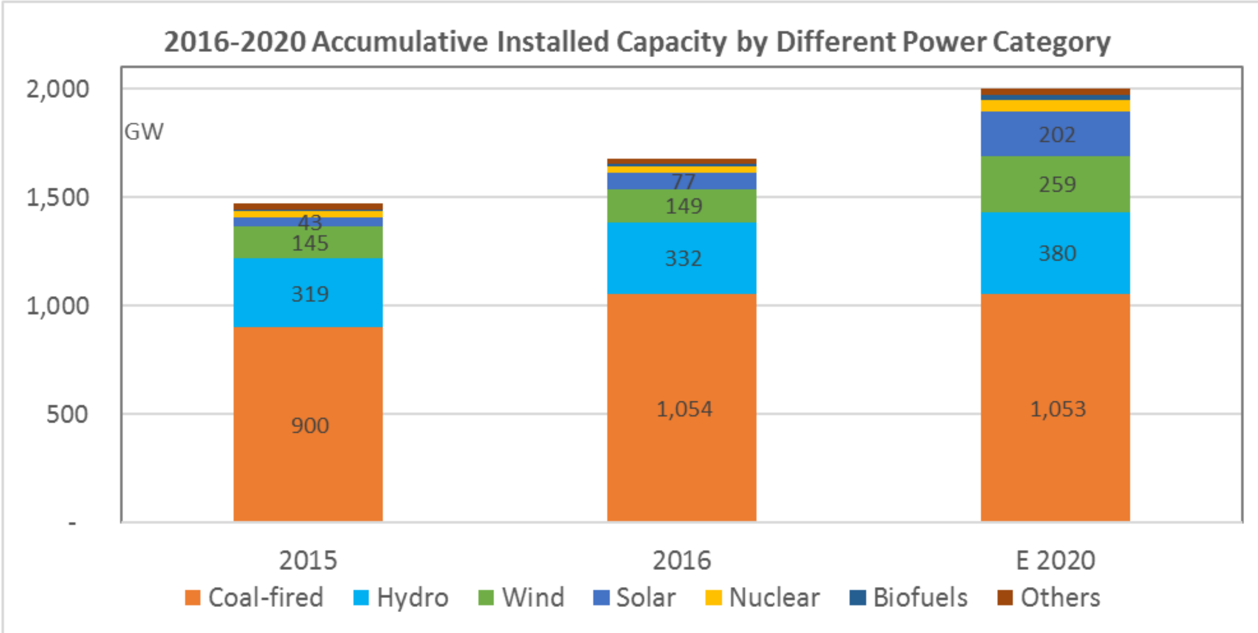
- Chinese enterprises are motivated on overseas investments in long term perspective with more clear regulations and enforcements.

- Big potentials in Emerging Economies and the Belt and Road initiative will be a major force for Chinese enterprises' overseas M&A activities.

- Following rapid growth of China's technology and internet industries, Chinese enterprises increase their needs to expand shares from both domestic and global markets.

- In accordance with current ongoing industry structure transforms, traditional manufacture industries need to upgrade their technology ; meanwhile more investments are also needed to develop service industries.

Total consumption of non-fossil energy will increase to 15% of total by 2020



Source: National Bureau of Energy

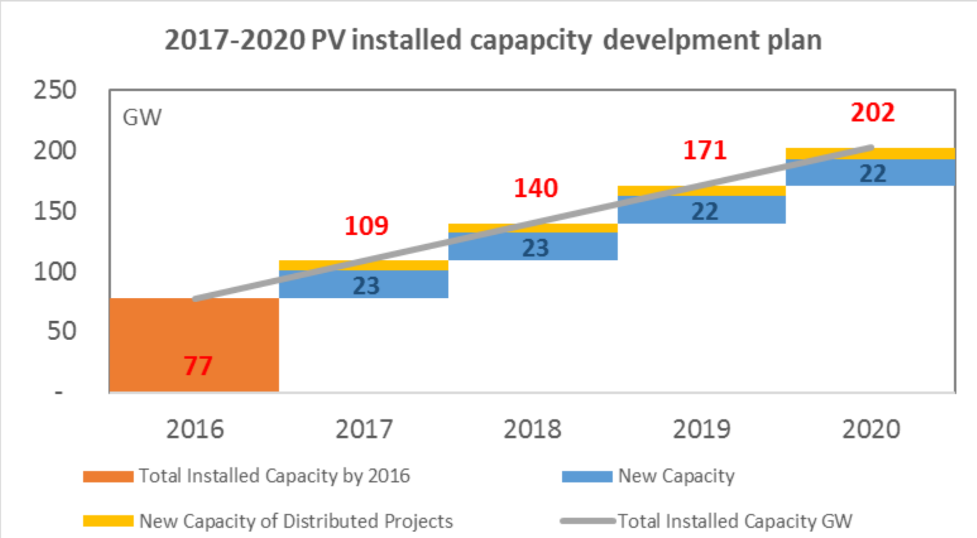
Target of energy structure development for 2017-2020:

By 2020, total installed capacity of non-fossil energy will increase from 35% of total in 2015 to 39% in 2020;

Total power production of non-fossil energy will increase from 27% of total in 2015 to 31% in 2020;

Total power consumption of non-fossil energy will increase from 12% of total in 2015 to 15% in 2020.

Outlook of solar power development for 2017-2020

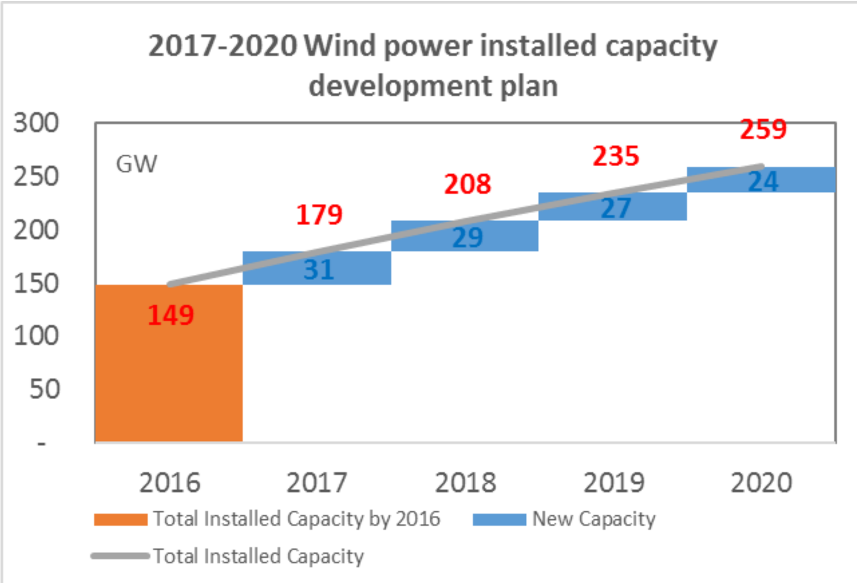


- In recently issued “Guidance of Renewable Energy Development Plan Implementation for 2017-2020” from National Energy Bureau, Target of New PV capacity for 2017-2020 will be increased from 77GW to 202GW. The new capacity target of concentrated PV projects is around 22-23GW annually, and new capacity increase from Distributed PV projects is estimated at 8-9GW annually from 2017-2020.

Source: National Bureau of Energy

- Solar power feed-in-tariff for concentrated PV power stations has been reduced by 13%-18% according to different resource zone in 2016. Subsidies(currently 0.42RMB/Kwh) will no longer apply to new regular concentrated PV power stations without advanced technology and innovated market driven mechanism. Introducing the bidding process for solar power on-gridding will further lower the actual feed-in-tariff. All challenges will make concentrated PV power projects pursue lower cost and higher efficiency products.
- No limitation on target of distributed PV projects development and comparable moderate subsidies policy shows government’s continuous support on distributed projects.

Outlook of wind power development for 2017-2020



Source: National Bureau of Energy

- In 2017-2020, total new capacity of wind power will reach 110GW. By the end of 2020 total installed capacity of wind power will be more than 250GW.
- Fast developed wind power projects face the same challenge as solar power on overdue subsidies payment. Government is cutting subsidies to accelerate the marketization process of feed-in-tariff for renewable energy such as solar and wind.

- The other challenge for wind power in northern areas is high abandoned rate of power. Local grid construction is far behind the development of wind and solar power stations. In the 13th 5 years plan, northern areas are not allowed to build up new wind power projects. By 2020, middle areas and southeastern areas will have booming period of wind power development. High voltage power grid construction in Inner Mongolia and Xinjiang will help to solve transportation problem for over produced wind power .

Summary on renewable energy development for 2017-2020

1. Overall, government increased target of new capacity development for solar power and wind power in 2017-2020.

2. Lowering subsidies and introducing bidding mechanism for feed-in-tariffs are to accelerate the marketisation process and finally to realize parity on-grid prices for renewable energy by 2020. These require continuously improvement of cost, efficiency, technology for solar power and wind power producers.

3. Smart grid construction, upgraded energy storage technology and market orientated mechanism between coal fire power companies and renewable energy companies will help on further development of renewable energy.

Practical experience sharing of doing business in China

- More than 30 years experiences from JV, foreign wholly owned companies and SOEs, and business responsible areas covered establishment, operation, termination, turnaround and M&A.

- Market strategies:
  - ✓ Encouraged business by Chinese government: environmental protection, clean energy, advanced technology application, investments along the Belt and the Road etc.;
  - ✓ Growing market in long run: health care, education, agriculture and leisure/tourism;
  - ✓ Having competitive advantages: industries of environmental protection, cleaning energy, offshore oil and gas, shipping, ocean engineering, agriculture, fishery and aquaculture.
- Business development:
  - ✓ Business evaluation;
  - ✓ Promotion: Chinese Embassy, Innovation Norway, Alibaba etc.;
  - ✓ Relationship -"Guanxi";
  - ✓ Finding right partners: open communication, positive, mutual trust;
  - ✓ Track records;
  - ✓ Create a win-win situation;
- Execution:
  - ✓ People factors are key to success – organizational development;
  - ✓ Step by step approach.

Thank You!

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Investment Management Group

Building 2, No.4849, Hunan Road, Pudong, Shanghai, China

www.oriental-vikings.com