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GREATER CHINA PRIVATE EQUITY REVIEW

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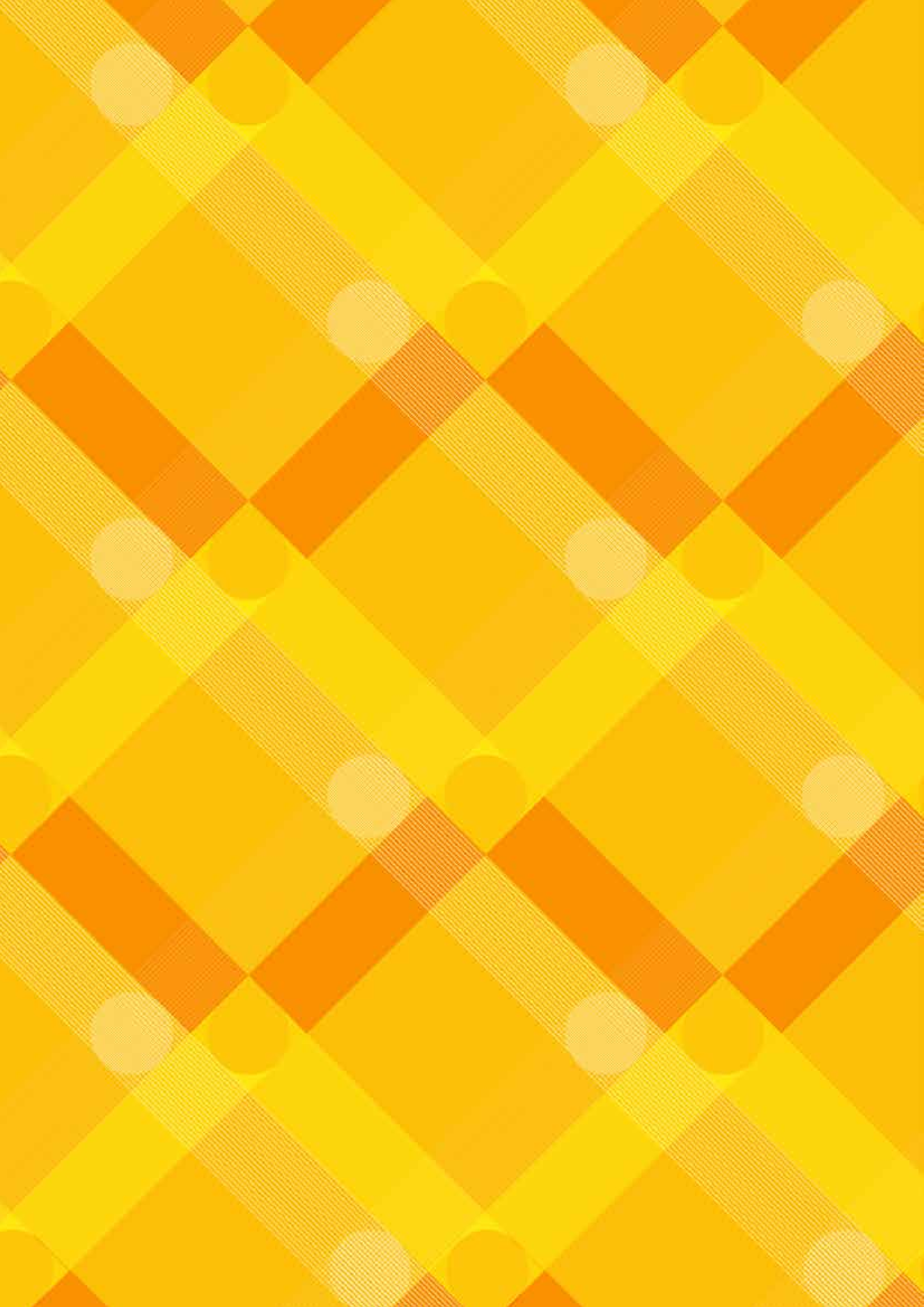

Greater China Private Equity Review

Welcome to our latest review of Greater China's Private Equity (PE) landscape, a Herbert Smith Freehills magazine aimed at all those interested in investing, fundraising, or capitalising on deals in Hong Kong and mainland China.

In this first issue, our experts discuss:

- emerging trends in PE fund formation, highlighting the incredibly strong growth in recent years flowing from the increasing presence of global fund managers and the exciting stage of development that China's PE market is at;
- China's investment hot spots in the global PE market, in particular the infrastructure and energy sectors, as established global and domestic funds increase their portfolios in China;
- the key and common issues in venture capital (VC) transactions;
- what Greater China's robust economy and forecast for enthusiastic economic and social policy making means for domestic and foreign investors looking forward.

Exciting times ahead in China's strengthening and highly lucrative PE market.

From top
Tommy Tong
Hilary Lau
Nicola Yeomans

Emerging trends in private equity fund formation in China

China's private equity (PE) funds industry has shown incredibly strong growth in recent years, with increasing numbers of global fund managers growing their presence in the country and local fund managers emerging at a rapid pace. Total assets under management (AUM) for China's asset management industry reached USD 18.8 trillion in 2017 (Oliver Wyman), representing an increase of 9% from 2016. This growth in AUM included a record-breaking USD 23 billion invested in China PE in 2017 (EMPEA). Fund managers completed four PE fund raises over USD 1 billion in 2017 across various sectors, representing not only the growing scale but also the breadth of opportunities in China. Venture capital funds continued to dominate the fundraising landscape, as growth and buyout funds lagged. High technology, industrials, real estate and consumer goods were the most active sectors in terms of fundraising.

From top
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Jason Sung
Indraneil Ghosh

From a cross-border perspective, there has been a marked impact of capital control restrictions and complexity of currency conversion on fundraising in China in the last few years, resulting in a discernible shift away from USD funds, towards RMB funds. Traditional fund managers, who used to raise USD funds only, have now raised RMB funds in the last few rounds. Capital control restrictions are also starting to affect fund terms. For example, immediate capital draw-downs are being increasingly employed to avoid potential capital default. In terms of investor profile, sovereign wealth funds (SWFs) remain key capital providers for fund managers, while Chinese private wealth has also emerged as a significant source of capital. From a structuring point of view, and consistent with a wider trend across Asia, we are seeing a growth in co-investment and other alternative fund structures in Chinese PE.

RMB v USD

AUM growth in China's PE market in 2017 was driven mainly by the scale of RMB funds raised, indicating a steady increase in the average RMB fund size and willingness of limited partners to commit to funds set up by larger and more established domestic fund managers. The largest fund managers in Asia by total capital raised for PE funds in the last ten years are all based in China including China Reform Fund Management, CCT Fund Management, China Aerospace Investment Holdings and Inventis Investment Holdings (China)(Preqin).

A steady decline in the number of USD funds raised during the same period resulted in RMB funds representing nearly 80% of total funds raised in 2017 (Preqin). Considering that the RMB funds market developed as recently as in 2010, this marks a remarkable shift in the nature of fundraising in China. Blackrock, UBS, and Fidelity have launched (or recently stated their intention to launch) RMB funds.

This movement towards RMB funds is primarily due to the complexity of investing in USD in China. Since portfolio investments in China are ultimately made in RMB, USD funds typically endure at least two rounds of currency conversions and a lengthy government approval process. Such difficulties, combined with the release of capital during the IPO boom of 2014 (particularly for Chinese SOEs), has diverted capital pools towards domestic RMB funds in the past few years.

The local PE market has matured at an accelerated pace and local fund managers are steadily increasing their scale of operations. As a result, traditional foreign PE fund managers are facing operational challenges. Increasing scrutiny by the Chinese government, competition from local peers and difficulty in deal sourcing (local portfolio companies prefer to work with local fund managers given the ease in establishing trusts), are a few of the factors pushing firms to consider entering into minority joint ventures with local firms. This, we anticipate, will present an interesting opportunity for domestic Chinese fund managers to consolidate and expand.

That being said, there will continue to be room for foreign managers, who are willing to tailor their strategy to the constraints of the rather difficult market (for global players), to tap into the large-and-yet-still-growing China opportunity. Regulations introduced in Beijing, Shanghai, Chongqing and Tianjin post-GFC enabled foreign firms to establish wholly foreign-owned enterprises as GPs to raise RMB-denominated funds and more recently foreign managers have been allowed to set up investment management wholly-foreign owned enterprises (IM WFOE) and to apply for qualification to operate private securities fund management (PFM) businesses. International fund managers Fidelity, UBS AM, Man Investments, Neuberger Berman, BlackRock, Schroders, Fullerton Fund Management and Aberdeen Standard Investments have all obtained PFM licences in 2017-18.

Impact of capital controls on fundraising

Uncertainty relating to capital controls has led a growing number of limited partners in USD funds to default when committed capital is called, adding to the difficulties in raising USD funds. With a view to mitigate the risk of default, and to ensure efficient and timely deployment of capital at the portfolio level, there has been an emerging trend of PE fund managers calling all (or a substantial proportion) of the committed capital upfront. This creates cash drag for USD funds, while there is no such issue for RMB funds.

Capital control restrictions have also impacted the flow of capital from foreign investors into China. When the State Administration of Foreign Exchange (SAFE) passed a series of measures to restrict currency conversion and capital outflows in 2016, returns from previous investments within China became trapped and could not be transferred abroad. Foreign investors therefore re-invested such capital in RMB in China but, going forward, became more apprehensive of investing in the market.

Investor composition

Institutional investors, corporations and high-net-worth individuals (HNWIs) are the main sources of capital for PE fund managers in China. Within institutional investors, SWFs are the most active investors in the sector. They have played a crucial role in using their influence to standardising investment behaviour in the market and in introducing international best practices to fund raisings.

Alongside the SWFs, an emerging class of PE fund investors are the HNWIs in China. HNWIs are investors with investable assets of over USD 1 million. In the past few years, the number of HNWIs in China has grown at an exponential rate. According to a report prepared by Bain & Company and China Merchants Bank, the number of Chinese individuals with at least RMB 10 million (about USD 1.5 million) in investable assets increased from approximately 180,000 in 2006 to nearly 1.6 million in 2016, representing a more than eightfold expansion within a decade. Among HNWIs, those with at least RMB 100 million (about USD 15 million) in investable assets have grown at an even faster rate. The investable assets among HNWIs in China are expected to reach RMB 111 trillion (about USD 16 trillion) by 2021 (according to a report from The Boston Consulting Group and Industrial Bank). While historically, HNWIs have invested independently, with wealth preservation being the key wealth management objective, in recent years there has been a steady shift towards engagement of advisers and investment in PE funds.

The number of Chinese individuals with at least RMB 10 million (about USD 1.5 million) in investable assets increased from approximately 180,000 in 2006 to nearly 1.6 million in 2016.

Co-investment

Increase in the use of co-investments and other alternative capital structures (eg, clubs, consortiums, platforms, etc) is an emerging trend across Asia (including China). Larger investors, in particular pension plans and SWFs, see co-investments as an attractive opportunity to procure discount on fees and, perhaps more importantly, build their in-house capabilities. On the other hand, despite the lower fees expected in co-investments, fund managers accommodate investor demands because co-investments not only are an additional source of capital but also give them an opportunity to strengthen their key investor relationships – a necessary step towards garnering support for the next fund.

In addition, in China, the government has created space for foreign organisations and domestic financial investors to co-invest in "special purpose" entities in venture capital (particularly in digital technology), as part of its initiative to support the sector.

Conclusion

China's PE industry is at an exciting stage of development, with some interesting opportunities for both fund managers and investors. Fund raising in the near to mid-term is likely to continue to be driven by RMB funds, while capital control restrictions are expected to strengthen the role of domestic capital markets and domestic investors in PE fund raises. Demand for innovation and development of new products and structures will remain strong as both international investors and Chinese investors (who have historically invested in the international market) bring their experience to bear in the domestic market.

Infrastructure and energy - hot sectors

PE activity in China and Hong Kong continued to grow in the period from 2015-17. China remains an investment hot spot in the global PE market, in particular in the infrastructure and energy sectors, as established global funds increased their portfolios in China, alongside a burgeoning list of domestic funds.

From top
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Overview of deal activity

Between 2015 and 2017, a total of 255 deals involving infrastructure assets in China and Hong Kong were reported, with an aggregate value of USD 34 billion. The sector was dominated by transactions within the solar power and waste-to-energy conversion industries, making up 27% and 20% respectively of total deal volume in this space.

An overwhelming majority of these investments were made by Chinese investors, representing 87% of the aggregate deal value, with American investors representing 3% and the other international players making up the rest of the investments.

Renewable energy focus

During this period, the China PE landscape has seen more specialised funds emerge focusing on specific industries, such as the increasing number of funds focused on the renewable energy sector. Notable domestic PE funds to have emerged include Green Ecological Silk Road Investment Fund, set up to back renewable energy projects, which had a first round investment of USD 4.8 billion; and CGN Capital Partners set up a renewable energy focused fund, which has just completed a first closing of USD 292 million and aims to raise USD 780 million in total. On the international side, for instance, Total Energy Ventures has recently became a founding member of Cathay Smart Energy Fund, an investment fund dedicated to the new energy sector in China.

With the strength of investment in renewables and the nation's ongoing commitment to the sector, China has been the world's largest solar market for the past four years. In particular, 2017 was a record-setting year for solar energy. It is estimated China has installed at least 54GW of solar-powered electricity generation, meaning China has installed more solar capacity in one year than the total, cumulative solar capacity in any other country, as of the end of 2016. The country has also already exceeded its 13th Five-Year-Plan (2016–2020) target of 105GW by in July 2017, making the country an extremely active area for solar investments. Kong Son Holdings and Green Panda Energy are the sector's leaders and have been actively involved in a combined total of 41 transactions between the period of 2015-2017. The same trends of growth are also mirrored in the waste-to-energy sector, which has seen rapid growth in recent times with the country aiming to double its incineration capacity by 2020.

> 2017 was a record setting year for solar energy. China has installed more solar capacity in one year than the total, cumulative solar capacity in any other country, as of the end of 2016.

Notable transaction

Recently, China has seen multiple notable transactions in the waste-to-energy sector. China Everbright has been the most active investor in the area, involved in no less than 13 different projects and with more projects in the pipeline. The recently completed Nanjing Waste-to-Energy Project Phase II has the capacity to treat up to 5,000 tonnes of household waste per day, which is by far the largest processing capacity in the company's portfolio, attracting a total investment of USD 142 million. On the solar side, the country's ambitious projects such as the Longyangxia Dam Solar Park and Tengger Desert Solar Park have continued to make headlines on the international stage, as some of the world's largest.

Policy considerations

On the policy front, China continues to reaffirm its emissions-reduction pledges including to address its domestic air pollution concerns. The country ratified the Paris Agreement by setting the target to lower the carbon intensity of GDP by 65% by 2030, as well as pledging to increase non-fossil fuel use to at least 20% of the total energy consumption by the end of next

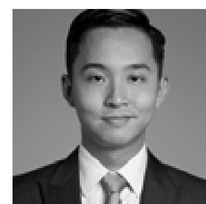
decade. The country's renewable energy commitment is also a perfect fit with the Belt and Road Initiative, which aims to capture the infrastructure boom crossing scores of borders by utilising the domestic renewable energy infrastructure manufacturing capability. As the country's large state-owned enterprises aim for internationalisation, they have been fuelled by the Belt and Road Initiative in turning their attention overseas in search of renewable energy investment opportunities. The Belt and Road Initiative also provides an ideal platform for future growth in the renewable sector, not only providing investments opportunities in renewable assets within China but also providing opportunities for solar, wind and power manufacturers to expand into other economies. The country's commitment to renewables can be shown by its issuance of a USD 2.15 billion One Belt One Road Green Climate Bond that will refinance renewable energy, low-carbon and low-emission transport, and energy efficiency projects.

Conclusion

Despite China's thriving renewables market and the positive policy measures, there are still challenges as China moves away from fossil fuels within a changing global resources sector. The construction of solar panels in China, for instance, has outpaced upgrades to its electrical grid, creating a great deal of waste upstream. Despite the hurdles, we expect the outlook for the sector to remain strong, as technological innovation in the sector continues to grow over the next few years, China is likely to remain an investment hotspot, not only for domestic players but also for foreign investors.

The country's commitment to renewables can be shown by its issuance of a USD 2.15 billion One Belt One Road Green Climate Bond that will refinance renewable energy, low-carbon and low-emission transport, and energy efficiency projects.

Large scale venture capital investment – activity and key issues



From top
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Sheena Loi
Mark Robinson
Victor Chiew

State of the market and looking ahead

2017 was a record year for Venture Capital (VC) deal activity globally, with over 11,000 deals announced or completed, and a combined record high deal value of USD 182 billion. While the number of deals was at a four-year low, the trend was towards more large-scale VC investments and is what we expect to see in the remainder of 2018 and beyond. 2017 saw a number of USD 1 billion plus transactions, as well as larger late-stage funding rounds.

Geographically, we saw continued movement away from North America (although North American deals still represented 39% of global VC deals), with deals shifting towards Europe and Greater China, as valuations increase and VC firms becoming more selective with their investments.

VC investment in Greater China increased in both the number of deals (2,633 deals in 2017) and the value of deals (USD 64.8 billion in 2017). Chinese VC deals were valued at more than USD 40 billion in 2017, representing 36% of total deal value globally, a 15% increase from USD 35 billion in 2016 and a market share of 24%, well above the 11% average in 2007-2016. Chinese VC firms are very active in this space, including notable VC firms Matrix Partners China (with over 200 investments) and Sequoia-backed Zhenfund (with investments in energy start-up Dandelion and Shanghai-based online education platform, Chengzhangbao).

Chinese unicorns represent a significant proportion of the world's unicorns and as such, it is no surprise that the level of VC investment into Chinese start-ups is at an all-time high both within China and inbound. 2018 saw investments including in the world's highest valued artificial intelligence start-up, the Chinese company SenseTime, which attracted a USD 600 million series C funding round, from investors led by Alibaba.

> The world's highest valued artificial intelligence start-up, the Chinese company SenseTime, attracted USD 600 million in funding.

In 2017, Didi Chuxing (China's preeminent ride-share company which acquired Uber's Chinese operations in 2016) completed the world's largest VC-backed deal in the past ten years and the largest Asia-based VC deal ever. Its USD 5.5 billion funding round in April 2017 included investments from Bank of Communications, China Merchants Bank, Softbank, and Pagoda Investment.

Other notable VC deals in China include Meituan-Dianping, the Chinese mobile internet company, which completed a USD 4 billion series C funding round in October 2017. Investors were led by Tencent, and included Sequoia Capital, valuing the company at USD 60 billion and the company is now preparing to IPO later this year. Nio's (the Chinese electric vehicle start-up) USD 1 billion series D funding round, which included investments from Tencent and CITIC Capital, is also looking to IPO in the US later in 2018.

VC exits continued to slow in 2017 (for the fourth consecutive year) with the aggregate value of exits amounting to USD 71 billion led by the software sector. Of this total, China-based companies completed 60 exits valued at around USD 5.6 billion. As for fundraising, VC funds raised an aggregate of USD 55 billion while growth funds raised USD 39 billion, down slightly from 2016. China-focused funds raised USD 10 billion and formed the majority of Asia-focused funds to reach a final close.

Despite 2017 being a successful year for VC-backed deals, 2018 is also expected to be a big year for VC investment as investors are tipped to pursue IPOs, such as most recently Spotify and Meituan-Dianping. Softbank's Vision Fund also continues to look for opportunities to contribute capital in Asia. We expect IPOs to be most prevalent in the tech sector, consistent with 2017 activity but also in the consumer products, media and entertainment, and energy sectors.

In terms of sub-sectors, the largest proportion of VC transactions in 2017 were in the software and internet sub-sectors and healthcare. Investments into artificial intelligence, food and agriculture, and bio and auto tech are also expected to attract a lot of VC investments in the short to medium term.

Key VC terms and issues

Given the strong activity in the VC sector in China, and even stronger prospects of growth, it is timely to revisit some of the key and common issues in VC transactions to which investors should to be alert.

Ability to raise funds

Start-ups do not want any impediments to their ability to raise further funds in the future and will strongly resist investors seeking veto rights over future fundraising, particularly where they are looking to grow rapidly. VC investors do not expect such veto rights, instead relying on anti-dilution mechanisms to protect their interests. Restrictions on future fundraising is less likely to be an issue for well-funded, late-stage or pre-IPO companies.

Anti-dilution and price protection

Little or no control over future fundraising may lead to dilution of an investor's equity interest. In most, if not all cases, VCs will require anti-dilution protection in the event of future share issues to protect the value of their investment.

To mitigate this risk, pre-emption rights are offered, almost as a matter of course, to investors and represent the most basic form of anti-dilution protection. In some circumstances, we have seen this right lapse for subsequent rounds if it is not utilised on a prior round in order to incentivise existing investors to participate in funding rounds ("pay to play"), but that is typically not the case. In addition, the dilutive effect of employee equity or incentive schemes or shares issued to service providers, while investors cannot control these share issues, will often be excluded from anti-dilutive measures.

Large scale funding rounds that allow for significant tail or subsequent follow-on investment also give rise to dilution issues. As such, the dilutive impact of the maximum round size should always be a key consideration for investors at the outset.

A method of protection we are increasingly seeing being demanded by VC investors and a trend we expect to see in the future is in the form of adjustments to the conversion ratio of preference shares or convertible shares into ordinary shares, or issuing shares for nominal sums or bonus shares or options/warrants, which are exercisable in the event that the anti-dilution provisions are triggered. This is particularly the case in the event that a subsequent funding round (also known as a "downround") is at a lower price than the funding round in which the investor participated, such that the effective price per share paid by the investor is the same as that payable on that subsequent funding round.

Liquidation preference

VC investors, who typically invest in preference shares, usually benefit from a liquidation preference that ensures holders are repaid in priority to holders of ordinary or other share classes in a liquidation scenario or deemed liquidation (such as a sale or other change of control). The preference amount is normally the investment value (or a multiple thereof) or a specified amount per share (or a combination of both). The preference is reflective of the amount of risk of the relevant investment - the higher the risk, the higher the return.

Once the preference has been met, preference shareholders and ordinary shareholders may also have an ability to participate in further distributions (ie. "non-participating preference" or "participating preference").

Transfer restrictions, tag and drag

As expected, rights of first refusal coupled with a tag along right on the transfer of shares are commonly offered to investors. However, this is less often the case for a controlling shareholder or significant minority shareholders.

While it would be unusual for a non-strategic minority investor with less than 1% of shares to have tag rights that apply to a transfer of their shares, tag rights for other or strategic minority shareholders are common, especially in respect of a transfer by the founder or controlling shareholder.

It is also common for the majority shareholder to have drag rights typically subject to floor price protection mechanisms, the consideration offered for the minority shares being cash or marketable securities and limitations on liability/warranty package to be given by dragged minorities. In our experience, VC investors normally also require a moratorium period during which the founders are restricted from selling their shares to ensure long-term realisation of value.

Founders shares

Another way to ensure alignment between investors and the founders in the long term and to ensure that founders are incentivised to remain with the company for a period of time, therefore justifying investment, is to request a 'reverse vesting' over a period of three or four years or that the founders sell their shares back to the company in the event they leave, at an amount which varies depending on whether they are classified as a good leaver or a bad leaver.

Non-competes

Non-compete clauses where the investee company seeks to restrict investors from investing in competitors are increasingly forming part of negotiations particularly for later stage start-ups. This can be particularly problematic for investors where the investee has a very broad scope of business or are seeking to expand into neighbouring verticals in the near future.

Investors need to take care in defining the scope of such restrictions and to ensure the definition of 'competing business' is as narrow as possible or to carve out its existing investments or known future investments. Investors should not inadvertently agree to restrictions that would result in affiliates or affiliated funds (or other companies in which they have invested) being restricted from making investments in similar industries or businesses. In addition, it is not uncommon for companies to impose a restriction on investors from selling their shares to competitors of the company.

However, in our experience, it would be difficult for a start-up to negotiate non-competes, particularly where the investor is only investing in a minority stake or where the start-up is in its early stages (such as seed funding, series A or series B).

It is critical from an investor perspective to restrict the founders from establishing a separate competitive business or to leave the company and solicit key team members to another business. We see VC investors therefore imposing non-competes on the founders for as long as they are employed by the company or hold at least 10% in equity and for 12 to 18 months after that.

Governance and decision-making

Investors should expect very limited governance rights and little or no control over management or operational matters.

Reserved matters are typically limited to key decisions that require majority approval of each class of shares with no single minority shareholder having a veto right. Such decisions include changing the rights attaching to shares, new share issues, fundraising, selling the business and winding up. On the other hand, companies would rarely give veto rights to investors over decisions relating to the general business or operations of the company.

Boards of start-ups are typically lean, consisting of no more than three directors during the early stages and then perhaps increasing to five directors at later stages. Having said that, significant minority shareholders (ie. those normally holding at least 20% of shares) can and should expect to receive a board seat. Other minority shareholders may also be given the right to appoint a board observer who does not have voting rights, but typically this would only apply where a shareholder holds at least 5% of shares.

In 2017, Didi Chuxing completed the world's largest VC-backed deal in the past ten years and the largest Asia-based VC deal ever with a US$5.5 billion funding round in April 2017.

What lies ahead for PE in the year of the Earth Dog

Greater China entered 2018 with a robust economy and a forecast for enthusiastic economic and social policy making. But what does this mean for domestic and foreign investors moving forward?

From top
Tom Chau
Nanda Lau
Zhong Wang
Simon Chapman
Emilie Soust

Realising the 'China Dream'

The tone was set at the 19th Congress of the Communist Party of China, in October 2017, where great emphasis was placed on the realisation of the China Dream.

The quality of China's economic growth as well as ensuring stability and wealth equality will be key focal points across the next five years and thereafter. In particular, President Xi made it clear that the government is committed to the 'two centennial goals':

- wiping out poverty by 2021; and
- making China a truly developed nation by 2049.

China also recently approved the removal of the two-term limit on the presidency at the annual sitting of the National People's Congress. The constitutional amendment, effectively allowing Xi Jinping to remain in power for life, has been described as "perfecting the national party leadership system".

President Xi now has an opportunity to make his objectives clear which likely means 2018 will be an active year for policy makers. What this also means is greater consistency at a political level (that is, lowering sovereign risk).

However, implementation of regulation should not be cause for concern for foreign investors. While multinationals have previously been hesitant to invest amidst a climate of ambiguous regulation, clearer objectives may assist to:

- calm foreign investors' concern;
- help multinationals navigate the so-called US-China 'trade wars'; and
- lead to a more certain (or at least a less ambiguous) regulatory landscape for private (or public) investors.

Preeminent investors have been domestic buyers in recent times

Investment trends, in China in particular, have shifted with the rise of the middle class, the transition from a manufacturing to a consumer and services based economy, and overall strength and maturity of the economy. Foreign investors have been a little more guarded in their approach to investing in recent times while Chinese investors have been more confident.

Over the past few years, local firms have invested heavily in China and Hong Kong with domestic firms dominating the market. Domestic deals and assets have been the preferred targets particularly in the consumer, technology, infrastructure, and energy sectors.

Between 2015 and 2017, a total aggregate value of USD 34 billion was invested in infrastructure assets in China and Hong Kong, largely in the solar power and waste-to-energy conversion industries. An overwhelming majority of these investments were made by Chinese investors, representing 87% of the aggregate deal value (as detailed in 'Infrastructure and energy - hot sectors' on page 4).

However it would be remiss not to mention that overall investment has been decreasing since 2015. Many suspect that the decline in investment in recent times may be attributable to increasing market saturation. For example, China's saturated smartphone market, which is 'not expected to grow again until 5G is introduced'. Other domestic stresses have also become prevalent and possibly attributed to the overall decline in investment, including:

- an aging population;
- declining heavy-industrial sectors;
- expanding property bubbles;
- growing debt levels; and
- continuing environmental pollution risks.

Some also suspect that China may be set to tighten its oversight of Chinese offshore private equity funds to keep tabs on the new wave of offshore fundraising. The Belt and Road Initiative, China's modern day Silk Road, has acted as a platform for fundraising from overseas investors. For further discussion see 'Emerging trends in PE fund formation' on page 2.

Opportunity over the coming years for investors

China cannot achieve self-sustained growth sufficient to achieve the 'two centennial goals' through state or government backed investment only. Here lies opportunity for both domestic and foreign firms.

China will look to, and continue to rely on, private sector investors (and preferably equity investment) over the coming years.

Technology sector

The technology sector is set to remain hot. Not only is the mobile-internet market entering its next phase – online payment platforms are tipped to make cash obsolete in China by 2020 – but artificial intelligence for facial-recognition and automated surveillance technology has also progressed to new heights.

In early April, Chinese startup SenseTime, which provides surveillance software for the Guangzhou police bureau, received a new round of funding worth USD 600 million led by retailing giant Alibaba. Following this funding round, SenseTime was valued at more than USD 4.5 billion, making it the most valuable artificial intelligence start-up in the world.

Consumer sector

The consumer sector is also growing exponentially. Recent reports by the Chinese Pet Products Association suggest that pet ownership is "growing at approximately 15% per annum" meaning the pet-related goods and services market is also expanding rapidly. The reports suggest Chinese consumers spent RMB 134 billion on services and products in 2017, up 10% from 2016. The total value of this market is expected to reach RMB 188 billion by 2020.

Food, agriculture, and healthcare sectors

The food, agriculture, and healthcare sectors are also growing and forecast to continue to grow.

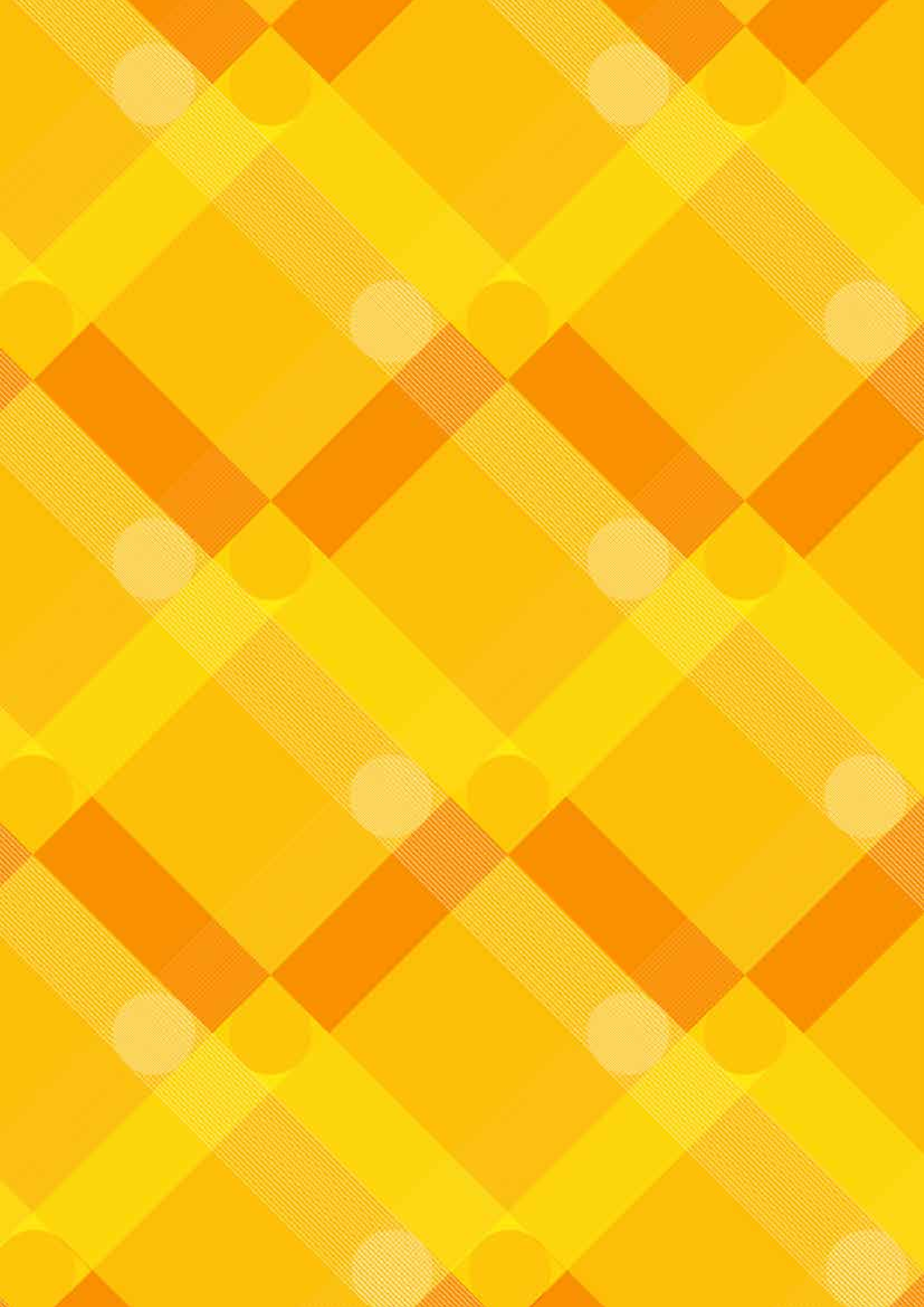
This is growth comes as mainland China grapples with "how to feed nearly one-fifth of the world's population with less than one-tenth of its farmland, while adapting to changing tastes" (National Geographic).

Without doubt this question cannot be answered through inbound investment alone. Catering to the changing diet with minimal agricultural resources likely means looking abroad for farmland and food investment opportunities and acquisitions, even though domestic opportunities still exist.

Conclusion

China's government is pushing ahead to wipe out poverty by 2021 and make China truly developed by 2049. As it strives to meet these ambitious 'two centennial goals', private sector investors (whether domestic or foreign) are set to play an integral part in achieving these goals. With the coming years set to be active for policy making amid Greater China's robust economy, the investment landscape is rife with opportunity for private equity firms.

Notes



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