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Pan-China Consulting Services: Assessing Future Directions

Shi Li （Xiamen National Accounting Institute）and Han Chen（Xiamen National Accounting Institute） wrote this case under the supervision of Yaqi Shi and Chaopeng Wu solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In February 2020, Shan Xu was meeting with two senior colleagues, Xiaojian Wang and Qinhua Ye, to discuss development plans for the future of Pan-China Consulting Services Co. Ltd. (Pan-China). Over the previous decade, the promotion of China’s stock registration system had considerably enhanced the country’s capital markets. Many new companies had been entering the stock market, which created growth opportunities for consulting and investment businesses such as Pan-China. However, along with opportunities also came new decisions.One of Pan-China’s consulting customers was planning to launch a new round of private placements over the following month, and Pan-China had been invited to participate in the investment. As Pan-China’s chairman, Xu was wondering if he should accept the offer. Pan-China was also asked by a business partner to participate in an equity investment. Again, Xu was wondering if that project was worth pursuing. Which fund issuance would be the best fit for Pan-China? How should the company align its investment and consulting businesses? Was Pan-China’s consulting and investment business model sustainable over the long term?

CHINA’S CAPITAL MARKETS

In 1990, China opened the country’s two stock markets: the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Two years later, in 1992, the country formally established the China Securities Regulatory Commission (CSRC). From 1993 to 2019, China significantly advanced its system for the issuance of an initial public offering (IPO). At the administrative level, an official examination and approval system was created. Gradually, the system for the reform of stock registration was developed. Since 2019, a multi-level capital market system was formed in China for its two stock exchanges, including the main board, small and medium enterprise boards, the growth enterprise market board, the Straits Times Index board, a new third board, and various regional equity trading markets.

Over time, the issuance, pricing, and placing systems of China’s IPO market was gradually standardized. Under the stock registration system, the CSRC delegated the power of stock issuance auditing to the stock exchanges. Therefore, the exchanges were required to set up an independent audit department to examine and verify any issuer’s application documents. The reform of the stock registration system sought to help more companies enter the capital markets and to open equity financing channels. By the end of 2019, there were 3,746 listed companies in China’s two stock exchanges, with a total market value of ¥646.83 trillion[[1]](#footnote-1) and a circulating market value of ¥529.08 trillion (see Exhibit 1).[[2]](#footnote-2) The promotion of the stock registration system reform assured companies that a new chapter in China’s capital markets was opening.

In recent decades, private equity investment had started in China, and institutional changes in the capital markets had a profound impact on its development. Against this backdrop, the risk of private equity investment increased, while quality investment projects and asset targets became scarce. Since 1999, the rate of penetration increased steadily for venture capital (VC) and private equity firms, both domestic and foreign listed enterprises (see Exhibit 2). By the end of 2019, over 24,000 private equity fund managers had been officially registered in the Asset Management Association of China, with well over 80,000 management funds and over ¥14 trillion in managed funds. The total number of fund managers included almost 9,000 private equity fund managers, nearly 15,000 private equity and VC fund managers, five private equity allocation fund managers, and over 700 other private equity fund managers.[[3]](#footnote-3) In 2019, China had nearly ¥1 trillion in equity limited partner investment funds. The three main types of limited partners were unlisted enterprises, government agencies, and government-based funds (see Exhibit 3).

THE Founding OF PAN-CHINA as a Consulting Service

Pan-China was originally operating as a large accounting firm that provided both auditing and consulting services. In 2002, the firm decided to separate the two business units and began providing specialized financial consulting services to some key clients. Several years later, in 2009, China introduced a new requirement that all listed companies had to have in place an internal control system to ensure financial integrity, promote accountability, prevent fraud, and comply with laws and regulations (among other objectives).[[4]](#footnote-4) As a result of this directive, a considerable amount of demand for specialized financial consulting services was driven by listed companies that needed assistance fulfilling the new requirements.

The company decided to add an internal control systems department, led by Wang, to its consulting services. Due to its nature, however, the new service created a conflict of interest with the company’s auditing service, making it necessary to separate the two functions. In 2012, Xu and Wang led the internal control systems team to formally set up Pan-China as a stand-alone financial consulting firm. From 2012 to 2014, Pan-China’s business came mainly from management consulting, with the internal control systems consulting business accounting for more than 70 per cent of Pan-China’s total business.

Starting in 2015, the demand for internal control systems consulting services began to decline, as most listed companies set up their own internal control system. Therefore, Pan-China restored financial consulting as its core business, which included consulting services for IPOs, finance, internal control systems, due diligence, and various other services. Chinese private enterprises’ low appreciation for the importance of consulting services led to generally low revenue earning potential for consulting service firms, making it difficult to thrive without internal funding. Luckily, as Wang noted, “the company has been willing to invest [in itself] since its founding.”

THE DEVELOPMENT OF FUTURE BUSINESS

Typically, investing in an enterprise required that the investor have a clear understanding of that enterprise’s industry, business, and financial status. Years of management consulting experience had provided Pan-China with the unique experience needed to identify such qualities and assets. As Wang explained, “Finance is our special skills and also the origin of investment business, from where we jumped out of finance to see business, to identify whether the enterprise had real core competitiveness behind financial data.” The Pan-China team communicated regularly with the top management team of companies to understand their financial and strategic position.

By 2016, after almost four years of operation as a stand-alone financial consulting service, Pan-China was confident in its ability to assess the right investment opportunity. That was when Pan-China formally set up an investment business unit named Honey Investment. The new business unit identified high-quality assets with key exit channels for private equity investment, including IPOs and acquisitions in the capital markets. By the end of 2016, Pan-China launched its first ¥200 million comprehensive fund, followed by four special funds that included nearly 20 companies in its investment portfolio (see Exhibit 4).

TEAM AND CULTURE

The Pan-China office included over 40 professionals, with an average age below 35. Over three-quarters of Pan-China’s professionals had worked in accounting firms, and 10 employees worked in the company’s information technology department, providing science and technology support to accounting staff. Xu had served as a full-time member of the ninth issue audit committee of the CSRC, and Wang was a consultant assistant to the CSRC. Other partners had engaged in long-term financial advisory work related to capital markets. They were familiar with the rules of operating capital markets and fully understood the auditing requirements and feasibility of a Chinese IPO (see Exhibit 5).

Professionalism and dedication were the basic criteria that all Pan-China members were expected to follow. As Ye explained,

Financial consulting needs to serve clients with professional knowledge and make clients feel [that consultants are] reliable in order to establish a trust relationship. At the same time, we always put the interests of our customers first and maintain a dedicated and humble attitude. We will not provide customers with any unconfirmed information during the implementation of the project. We would rather admit to our insufficient knowledge in certain areas, than give clients any misleading guidance. Whether it is consulting or investment, it is necessary to keep the knowledge constantly updated. We are a company that loves learning. Pan-China not only holds occasional balcony dinners, but also reading seminars and professional training sessions each month. Even for each employee’s birthday, the birthday gift provided by Pan-China is a book coupon. We encourage employees to continue learning, including [pursuing an] MPAcc [master of professional accounting], MBA [master of business administration], EMBA [executive master of business administration], or [simply] online learning, and [we pay] their tuition fees.

The Pan-China partners became supportive of each other’s career and well-being, even choosing to live nearby each other, as Ye cheerfully explained:

We are an all-around partnership, working together and also watching movies and drinking together. There is no strict organizational hierarchy in Pan-China. All people call each other by [their] first names rather than [their] position. They all call me “Ye *shuai*,” [and they] call Shan Xu “old Xu.” “*Shuai*” means “handsome,” [so] maybe I am not old enough, and more handsome than Xu.

Each year, the Pan-China partners took their family members on a holiday abroad. During the 2020 COVID-19 pandemic, the location of the holiday resort changed to Quanzhou, only a few hours away.

Pan-China’s BUSINESS MODEL

As Wang explained, Pan-China’s investment projects came mainly from previous consulting services clients. “Partners in investment projects have often served as consultants to invested businesses, and they can better understand the real business situation of the enterprise.” In addition to being a source for new investment projects, previous consulting services provided strong support for the management phase after the investment project was completed, which added value to the investment project. In addition to the professional accounting background of the members, a financial fraud identification product that Pan-China developed helped prevent investment risk. Pan-China’s financial intelligence system transformed expert experience into a tool that identified financial fraud using artificial intelligence (AI), as Ye explained, “Financial advice depends on people’s on-the-spot service ability. A financial intelligence system can be applied to due diligence, equity investment, and other scenarios, using AI assistance for financial analysis and financial fraud recognition to reduce misjudgment caused by human factors.”

Searching for Investment Opportunities

Pan-China learned about new investment opportunities through its clients of financial consulting, brokerage internal auditing, and due diligence services. The company met the needs of consulting clients by providing professional services, helping clients solve practical problems, and, in some cases, reversing the ill fate of the enterprise. Pan-China professionals built strong long-term relationships with consulting services clients based on trust. The company also provided a variety of consulting services related to IPOs, finance, and internal control systems. Pan-China professionals gained a good understanding of a client’s true situation, so they could effectively judge the growth potential and core competitiveness of the enterprise.

Pan-China was hired by the quality control departments of securities companies to carry out special reviews and audits of key financial problems in the declaration materials of an enterprise. The objective was to reduce risk to the project’s sponsor and improve the quality of the declaration materials. As Ye and Wang explained,

A general judgment would be made on the quality of financial reports of IPO reporting enterprises. Especially, we would pay more attention to, and be able to make an independent professional judgment on, whether there were signs of fraud affecting the authenticity of performance in IPO reporting enterprises. We would use our fraud identification intelligent model to find signs of fraud and pay attention to the possibility of fraud, operation methods, and possible impact amount. If we found a quality defect in the project, it could cause final failure of the IPO project, which would affect the interests of the project team. But we must adhere to independent professional judgment. This is the responsibility we must take for our brokerage customers. Our expertise will eventually help us win our clients’ trust. Brokerage companies, in the recommendation business, always recommend good investment projects to us. Of course, we also recommend qualified IPO projects to them.

Pan-China also provided due diligence services to institutional investors for IPOs and mergers and acquisitions (M&A). Institutional investors had a specific focus and set of core competencies. Some institutional investors were actually seeking partners for their investment projects. For example, Chinese VC firm Oriental Fortune Capital (OFC) was both a Pan-China shareholder and a client. Both Xu and OFC Founder and Chairman Wei Chen had attended Xiamen University and studied under the same professor, which gave the two firms common values with respect to investment customers. It also made it easier to establish trust and co-operation. Pan-China was hired as a consultant for some OFC investment projects with regard to IPO due diligence. OFC was focused on the investment project’s industry prospects, while Pan-China assessed the financial situation. With OFC as the main investor, Pan-China pursued the investment.

Pan-China established a knowledge base for consulting projects. Members of each project team were required to share and store relevant project implementation information from the start to completion. After the consultation project was completed, the project team prepared a summary that included the project’s background, customer profile, objectives, team members, division of labour, time and place of work, final deliverable services, fees, and payback. The summary also included problems and solutions encountered during the project. In addition, excellent customer experience was detailed, including a unique business model, superior management methods, or fault recognition during the project’s execution. The knowledge base became an internal experience inheritance channel for Pan-China members and a best practices information source for new investment projects.

Making Investment Decisions

Many of Pan-China’s investment opportunities came from consulting projects, but the company could not invest in every project, opting instead for a small and cautious selection. “We would focus more on relatively mature companies, with 80 per cent of the projects going to IPO in the next two to three years, and 20 per cent already having customers and revenue sources,” Wang noted. Potential investment opportunities found in the course of consulting services would be submitted for decision to the investment committee composed of Xu, Wang, Ye, and other key partners. The group focused on industry space, business growth, financial quality, and corporate valuation rationality. “Better [to have] missed it than done wrong. Financial authenticity is the bottom line, followed by business. We paid more attention to sound investment, walked steadily to reach the destination,” explained Wang.

Pan-China tended to use finance as the entry point to assess the value of a potential investment. For example, when evaluating an opportunity, the company would first focus on the financial quality of the investment target and then assess its financial health from four dimensions: profit, assets, cash flow, and financial reporting credibility. Pan-China used financial indicators such as gross margin to evaluate a target company’s profitability and competitiveness. Financial information was the starting point for evaluating the feasibility of an investment opportunity, followed by combined industry growth, business model, corporate governance, and other information. “We didn’t have particular preferences or restrictions about an industry,” stated Wang.

Conflict and dispute arose when making investment decisions about industries that the decision-making group did not understand, companies that were overvalued, or projects that were still at an early stage and had no customers or income. “This kind of enterprise needs to have a long investment cycle. We would follow it first, and judge more carefully,” stated Wang.

“And sometimes we helped the companies to look for potential funding as their financial consultants, even like Sequoia Capital, the largest VC worldwide. We borrowed experiences from those prominent VCs to help us finalize difficult investment decisions,” Ye added. “It’s not good to invest without looking at financial reports, but it’s wrong to just focus on financial reports.” Xu believed that financial background had the advantage of identifying risks and flaws. “But we also missed some good investment opportunities,” noted Xu. “Investment needs to see the limitations of accounting and human nature. Investment is not only the discovery and pre-identification of risk but also of taking risks. But we are still proud that Pan-China has never invested in a company with financial fraud since its establishment.”

Managing Investment Projects

As a relatively small investment firm, Pan-China was unable to send directors and managers to investment project companies and opted instead on building partnerships with them through consulting services. The investment project companies were also Pan-China financial advisory clients. Building an investment relationship allowed Pan-China to spend more time with investment project companies and provide more value-added services. For example, Pan-China participated in various discussions including those related to business transformation, guiding financing plans, selecting M&A targets, recommending listed intermediaries, and suggesting senior management candidates.

Finding Funding Sources

Developing a private equity fund in China usually required a long investment cycle, but Pan-China was still in its initial stages. Raising short-term funds required a trust-based relationship. Such a relationship came mainly from business partners, who may have completed an audit during the listing process, or from consulting customers. Of Pan-China’s five limited partners, three were originally the chairman of a listed company to whom Pan-China had provided consulting services. These three people became limited partners because they believed that Pan-China’s professionalism and stability could help them maintain and increase their own wealth. “However, we will look for some large-scale institutional funds in the future,” Xu said.

PAN-CHINA INVESTMENT DECISIONS

Xu had put together a wealth of information on two new potential investment projects: Red Tiger Co. Ltd. (Red Tiger) and Wuxi CK Electronic Materials Co. Ltd. (CKEM). He handed a stack of documents to Wang and Ye, and asked for their opinion:

What do you two think of the Red Tiger and CKEM projects? C. Yang, the chairman of Red Tiger, talked with me many times. Red Tiger will restart the private placement. Yang would like us to participate as investors in this private placement. Two days ago, Wei Chen, the chairman of OFC, also recommended the CKEM project to me. OFC plans to invest in it and become one of the founding shareholders of CKEM.

The Investment Opportunity in Red Tiger

Red Tiger was founded in 2005 as a private power equipment operator located in Xiamen, China. The company’s main products included status-detection power equipment, monitoring products, and watt-hour meters. The actual controllers of Red Tiger were the father-and-son team of B. T. Yang and C. Yang, both of whom had graduated from Xiamen University. Red Tiger was listed on the Shenzhen Stock Exchange in 2015.

Pan-China had already established close ties with Red Tiger before its listing. Grant Thornton International Ltd., the audit firm for Red Tiger between 2012 and 2019, was a firm that Xu, Wang, Ye, Jinfeng Wu, and Zhaoping Ke had served. Pan-China had also provided internal control consulting services to Red Tiger to help the company optimize its internal control system. During this 10-year co-operation, Pan-China helped Red Tiger improve its financial standards and management efficiency (see Exhibit 6). Xu and Yang, Red Tiger’s chief executive officer(CEO) and chairman, had also formed a close personal friendship and professional co-operation. They shared similar values and interests. Yang often asked Xu to evaluate investment opportunities for Red Tiger.

According to Xu, in January 2017, the Red Tiger board of directors decided to issue shares to buy 100 per cent of Yinchuan Wolong and over 67 per cent of Xingbo Communications in cash. Red Tiger planned to raise no more than ¥969 million through M&A. After completion of these transactions, Red Tiger would enter military, railway, and track industries to diversify its portfolio while maintaining its original power equipment business.

Xu explained that according to relevant regulations, the issue price of the private placement was ¥16.87. Pan-China also planned to participate in supporting the financing subscription. However, on February 15, 2017, CSRC revised the rules of private placement,[[5]](#footnote-5) which caused an increase in the issue price of Red Tiger. As a result of the change in non-public stock policy and market environment, the five investors who originally planned to participate withdrew their support of the financing subscription.

In November 2017, Red Tiger issued a notice announcing the cancellation of the additional issuance of supporting funds. The failed support created a large funding gap in the related fundraising project. In December 2017, Red Tiger approached a bank for ¥350 million in M&A financing. “I was involved in the whole project. I felt sorry that we missed a good opportunity because of the policy change,” Ye said.

Xu took some time to explain this new opportunity to his two partners:

Now there’s another chance for us. Due to the failure of the previous supporting financing issue, the funding gap for the implementation of Red Tiger is still large. Therefore, Red Tiger plans to restart a new round of private placement approval procedures, to raise no more than ¥760 million of funds from the maximum five specific investors. Yesterday I received an invitation to join this offer from the lead underwriter of Red Tiger. What do you think?

Red Tiger was our consulting client, and we know a lot about its corporate governance and financial data. The company’s financial quality is good. Red Tiger is in a strategic transition period. They will enter the military industry and bring new growth. Ye has served as the head of the consulting project for Red Tiger. He has certain feelings for Red Tiger. However, in accordance with the new private placement rules revised by the CSRC, we do not have a significant advantage in this subscription price, not to mention that if we participate in the subscription, these shares will be locked for three years before they can be reduced and exited. Now the capital market is so volatile and weak, we have to be very cautious about this investment.

Wang still had some concerns about the new rules of private placement, but Xu continued his overview of the Red Tiger investment opportunity:

Benefiting from the continuous operation and maintenance demand brought by China’s huge stock grid, the new demand for power equipment monitoring, and testing equipment will continue to rise. Red Tiger is the leader in the power monitoring and testing industry. With the company’s good technology accumulation and product quality performance, it is hopeful that it will achieve steady growth in the future. In addition, Red Tiger entered the military electronics industry after acquiring Xingbo Communications. With the continuous improvement of the informatization of China’s weapons and equipment, the military electronics industry will also experience new growth. Of course, policy uncertainty and capital market fluctuations are additional factors that we need to consider. We need to make a decision on this project within two weeks.

Before his partners gave their opinion of Red Tiger, Xu went on with even more urgent investment news: “There is another project—CKEM. They require a reply within one week.” Xu handed a second stack of documents to Wang and Ye.

The Investment Opportunity in CKEM

Established in 2010, CKEM developed applied high-performance electronic materials. CKEM issued its IPO plan in February 2018. Xu took some more time to explain the second opportunity to his two partners:

Wei Chen called me yesterday. OFC plans to invest in CKEM as one of CKEM’s promoter shareholders. If Pan-China is also interested in CKEM, he can provide 10 million shares for us to invest in it. We need to make a decision as soon as possible, since there are other competing funds on this project.

Xu provided some background information on CKEM. He explained that Pan-China provided IPO due diligence services to CKEM in 2019. CKEM’s income was growing at a rate of 56.23 per cent. However, its gross margin was only 16.66 per cent and showed a downward trend, which deviated from the industry’s growing trend in gross profit. The profit margin of the company was 5.44 per cent, which was far lower than the industry average of 8.17 per cent. However, its return on net assets was as high as 19.24 per cent, which was much higher than the industry average of 8.67 per cent (see Exhibit 7).

Wang added his own insights on the CKEM opportunity: “From the financial statements, there are some deficiencies in CKEM’s financial data. And, as we found in our due diligence, CKEM’s main sales customers and suppliers change frequently, which is abnormal in this industry when other companies usually have a stable base of customers” (see Exhibits 8 and 9).

Ye also added his views on CKEM: “Such unusual financial indicators can easily be questioned by the CSRC, thus affecting the listing process of CKEM, and may even cause IPO declaration failure. Dr. Chen is also a financial expert. Can’t OFC see CKEM’s financial anomalies? Why would they insist on investing in CKEM? Are there any other considerations?”

Xu continued his overview of the CKEM investment opportunity:

CKEM is a leading company in the field of positive silver paste. The positive silver pulp is one of the key materials to improve the conversion efficiency of silicon solar cells. It belongs to the typical technology and capital intensive industry. DuPont [DuPont de Nemours, Inc.,], Heli [Shenzhen Heli Technology Co. Ltd.], Samsung SDI [Samsung SDI Co. Ltd.], and other multinational companies with capital strength, leading technologies, and rich industry experience have seized the majority market share of global positive silver pulp with their first-mover advantages. There is a strict supplier certification mechanism related to silver paste. Only those companies that meet the quality standards and performance requirements of downstream customers can become qualified suppliers. New enterprises entering the industry encounter higher barriers to customer certification.

Once the enterprises pass the certification of downstream customers and become qualified suppliers, they will form a relatively stable co-operative relationship. CKEM has become one of the main suppliers of positive silver pulp, according to [the] Market Survey [on] Metallization Pastes 2018 statistics released by the German TaiyangNews. Since 2014, with the gradual improvement of the international trade environment, China has launched a series of policies to support the photovoltaic industry, changing the pattern of China’s photovoltaic industry from a serious dependence on exports to a situation of equal emphasis on sales at home and abroad. [The] domestic photovoltaic industry has achieved rapid development. As an important link in the upstream of [the] photovoltaic industry chain, the development of positive silver pulp is closely related to the overall development of [the] photovoltaic industry. The success of [the] photovoltaic industry would increase the demand for positive silver pulp, thus promoting the development of [the] positive silver pulp market.

At this point, Ye decided to add some relevant financial information of his own about CKEM:

I’m still concerned about the unusual financial data of CKEM. Its main products are silicon solar cell front silver pulp. The top five customers and the top five suppliers account for too much of CKEM’s sales and procurement. From 2015 to 2018, the cumulative sales of the first five customers of CKEM accounted for 74.96 per cent, 48.54 per cent, 47.04 per cent, and 62.98 per cent of current operating income, respectively. Silver powder accounts for more than 95 per cent of the cost of raw materials. From 2015 to 2018, the proportion of CKEM’s top five suppliers to total current purchases was 87.58 per cent, 98.86 per cent, 97.88 per cent, and 99.14 per cent, respectively. The gross profit margin of CKEM’s main business was 15.29 per cent, 22.89 per cent, 21.12 per cent, and 20.84 per cent, which was lower than the industry average level. The inventory book value of CKEM has increased significantly in the past four years from ¥5.35 million, to ¥22.26 million, to ¥49.32 million, and finally to ¥73.85 million. We need to carefully analyze these financial indicators.

Xu provided the final word on the CKEM investment opportunity:

Pan-China is a new entrant in the investment community. If we want to build a brand and [a] good reputation in the industry, we need to be more modest and not let any anomaly go. We have fewer investment projects now, and every project cannot tolerate any mistakes. Go back and look at these materials again, and we will make a decision tomorrow.

THE FUTURE OF PAN-CHINA

After discussing all relevant background information on the two new investment opportunities for Pan-China, Xu provided some details on where Pan-China stood presently:

Pan-China is a professional financial information advisory company. Most of our investment opportunities come from our consulting clients, brokerage internal audit, or due diligence services. We won the trust of our clients because of our financial expertise and profession, even though our financial-focus investment philosophy might make us miss some opportunities. That is still the fundamental pursuit of Pan-China, which can never be given up. Whether [we] offer financial consulting services or a financial intelligence product, the core of the two [businesses] is the same; that is, through financial analysis, [we] improve the level of financial norms, prevent financial fraud, and identify the investment value of enterprises.

In February 2020, at the beginning of the new year, Pan-China was facing several important decisions. From the perspective of short-term investments, were Red Tiger and CKEM worthwhile investing opportunities? Pan-China was also considering issuing new funds in the future under three different categories: a large comprehensive fund, a special fund for specific investment targets, and an industrial M&A fund in co-operation with enterprises and governments. Which fund issuance method was more suitable for Pan-China?

If Pan-China further expanded the size of the fund, there would be a longer-term question: Was its consulting-and-investing business model sustainable? With increasingly intense fund market competition, high-quality investment resources were becoming scarce. Pan-China’s business model could help the company tap into the quality resources available for investment from consulting clients. However, if the size of the fund expanded, could the consulting business continue to provide the company with sufficient quality investment resources? Could Pan-China’s future development rise along with China’s capital markets reform? Where would the future of the company lead?

EXHIBIT 1: OVERALL GROWTH IN the CHINESE STOCK MARKET

Note: ¥ = CNY = Chinese yuan renminbi; US$1 = ¥6.94 on February 1, 2020.

Source: “Listed Companies” [in Chinese], China Securities Regulatory Commission, accessed April 8, 2021, http://eid.csrc.gov.cn.

EXHIBIT 2: NUMBER OF IPO AND PENETRATION RATE OF VC and PE Firms

Note: IPO = initial public offering; VC = venture capital; PE = private equity.

Source: “Overview” [in Chinese], China Securities Investment Fund Industry Association, accessed April 8, 2021, www.amac.org.cn.

EXHIBIT 3: CHINA’s EQUITY INVESTMENT MARKET for Limited Partners in 2019

|  |  |
| --- | --- |
| **Limited Partner Type** | **Rate (%)** |
| Unlisted enterprises | 21.50 |
| Government agencies and government-funded platforms | 17.60 |
| Government-led funds | 11.10 |
| Financial institutions | 10.90 |
| Private equity fund managers | 10.00 |
| Listed companies | 2.90 |
| Marketing parent funds | 2.00 |
| Donated funds | 0.10 |
| Wealthy families and individuals | 5.00 |

Source: “Overview” [in Chinese], China Securities Investment Fund Industry Association, accessed April 8, 2021, www.amac.org.cn.

EXHIBIT 4: PAN-CHINA Consulting Services Co. Ltd. PRIVATE EQUITY FUNDS

|  |  |  |  |
| --- | --- | --- | --- |
| **Issue Time** | **Amount (¥ Millions)** | **Duration  (Years)** | **Investment** |
| September 2016 | 200 | 5 + 2 | Early stage, 20%  Enterprises with definite plans for an initial public offering: 80% |
| February 2019 | 58 | 3 | Red Tiger private placement |
| November 2019 | 30 | 5 + 2 | Shenzhen Shengshilian Energy Pty. Ltd.  Share capital: 3.8339% |
| May 2020 | 30 | 5 + 2 | Shenzhen Shengshilian Energy Pty. Ltd.  Share capital: 2.7593% |
| May 2020 | 20 | 5 + 2 | Quanzhou Xingtong Shipping Pty. Ltd. |
| July 2020 | 16 | 5 + 2 | Quanzhou Xingtong Shipping Pty. Ltd. |
| July 2020 | 10 | 5+2 | Zhejiang Jianawei Medical Pty. Ltd.  Share capital: 2.6991% |

Source: Company documents.

EXHIBIT 5: MaJor PAN-CHINA Consulting Services Co. Ltd. PARTNERS

|  |  |  |
| --- | --- | --- |
| **Name** | **Title** | **Background** |
| **Shan Xu** | Chairman | Former full-time member of the ninth Issuance Examination Committee of China Securities Regulatory Commission; engaged in consulting and auditing work related to the capital market for more than 20 years; helped more than 100 enterprises successfully access the capital markets |
| **Xiaojian Wang** | General Manager | Served as assistant at the Accounting Advisory Committee of China Securities Regulatory Commission; engaged in consulting and auditing work related to the capital market for nearly 20 years; provided auditing, finance, and internal control consulting services for nearly 100 listed companies |
| **Qinhua Ye** | Partner | Served as co-director at China Financial Fraud Research Center of Xiamen National Accounting Institute; engaged in consulting and auditing work related to listing for more than 10 years; presided over financial audit and internal control consulting business of more than 30 listed companies |
| **Jinfeng Wu** | Partner | Engaged in consulting and auditing work related to listing for more than 10 years |
| **Bingfeng Lin** | Partner | Engaged in financial consulting, internal control consulting, and auditing of listed companies for more than 10 years |
| **Xianhui Liu** | Partner | Engaged in consulting and auditing work related to listing for more than 10 years |
| **Hongcan Liu** | Partner | Was International Certified Information System auditor; engaged in internal control consulting and auditing of listed companies for more than 15 years |
| **Yin Chen** | Partner | Engaged in finance, internal control consulting, and auditing of listed companies for more than 13 years |
| **Zhaoping Ke** | Partner | Engaged in auditing and consulting work related to listing for more than 12 years |

Source: Company documents.

EXHIBIT 6: RED TIGER Co. Ltd. SUMMARY FINANCIAL STATEMENT (¥ Millons)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Summary Income Statement** | | | | | | | | | |
|  | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
| Operating revenue | 207 | 233 | 242 | 268 | 305 | 411 | 744 | 1,311 | 1,340 |
| Operating costs | 156 | 180 | 184 | 206 | 238 | 321 | 602 | 1,043 | 1,086 |
| Operating profit | 51 | 53 | 58 | 62 | 77 | 90 | 162 | 368 | 254 |
| Profit before tax | 56 | 62 | 63 | 66 | 88 | 101 | 157 | 302 | 293 |
| Profit after tax after minority interest | 47 | 51 | 53 | 56 | 76 | 85 | 138 | 260 | 255 |
| **Summary Balance Sheet** | | | | | | | | | |
|  | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
| Current assets | 212 | 272 | 317 | 379 | 678 | 797 | 1,675 | 1,818 | 1,878 |
| Fixed assets | 44 | 41 | 40 | 37 | 59 | 58 | 227 | 210 | 1,095 |
| Intangible assets | 0 | 0 | 0 | 0 | 3 | 3 | 66 | 69 | 87 |
| Goodwill | 4 | 4 | 4 | 4 | 4 | 4 | 1,070 | 1,070 | 1,074 |
| Total non-current assets | 50 | 48 | 48 | 45 | 82 | 97 | 1,518 | 1,837 | 2,915 |
| Total assets | 263 | 320 | 364 | 424 | 760 | 894 | 3,193 | 3,655 | 4,793 |
| Current liabilities | 45 | 65 | 74 | 96 | 123 | 201 | 1,139 | 1,154 | 1,813 |
| Long-term debt | 15 | 12 | 9 | 6 | 3 | 0 |  | 227 | 598 |
| Total non-current liabilities | 15 | 12 | 9 | 6 | 6 | 3 | 33 | 262 | 634 |
| Total liabilities | 60 | 77 | 83 | 102 | 129 | 204 | 1,173 | 1,416 | 2,448 |
| Total equity | 203 | 243 | 281 | 322 | 631 | 690 | 2,020 | 2,239 | 2,345 |
| Total liabilities and equity | 263 | 320 | 364 | 424 | 760 | 894 | 3,193 | 3,655 | 4,793 |

Note: Operating profit = operating revenue – operation cost; ¥ = CNY = Chinese yuan renminbi; US$1 = ¥6.94 on February 1, 2020.

Source: Company documents.

EXHIBIT 7: Wuxi CK Electronic Materials Co. Ltd. FINANCIAL DATA

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2015** | **2016** | **2017** | **2018** | **2019** |
| Gross revenue (¥ millions) | 32 | 293 | 894 | 832 | 1,299 |
| Operating profit (¥ millions) | –6 | 29 | 69 | 49 | 69 |
| Profit before tax (¥ millions) | –5 | 30 | 71 | 64 | 82 |
| Profit after tax after minority interest (¥ millions) | –5 | 24 | 57 | 56 | 71 |
| Net operating cash flow (¥ millions) | –18 | –24 | –309 | 57 | 64 |
| Growth in revenue (%) | 35.26 | 812.29 | 204.95 | –6.96 | 56.23 |
| Gross margin (%) | 15.29 | 22.89 | 21.12 | 19.89 | 16.99 |
| Weighted average ROE (%) | 274.60 | 82.72 | 64.29 | 16.04 | 18.90 |
| Growth in revenue of comparable companies (%) | –11.95 | 46.23 | 56.20 | 1.66 | 5.05 |
| Gross margin of comparable companies (%) | 14.33 | 19.50 | 18.99 | 18.19 | 17.36 |
| Weighted average ROE of comparable companies (%) | 1.07 | 6.87 | 5.99 | 7.19 | 4.72 |

Note: ¥ = CNY = Chinese yuan renminbi; US$1 = ¥6.94 on February 1, 2020; ROE = return on equity.

Source: Company documents.

EXHIBIT 8: WUXI CK ELECTRONIC MATERIALS CO. LTD. TOP FIVE CUSTOMERS，2015-2018

|  |  |  |  |
| --- | --- | --- | --- |
| **Period** | **Customer** | **Percentage of Operating Income** | **Percentage of Total** |
| 2018 | Tongwei Solar Energy (Hefei) Co., Ltd | 25.54% | 62.98% |
| Wuxi Suntech Solar Power Co., Ltd | 15.43% |
| Yingli Energy (China) Ltd | 13.16% |
| Suntech Solar Power Limited | 4.65% |
| China Energy Saving Solar Energy Technology (Zhenjiang) Co., Ltd | 4.20% |
| 2017 | Wuxi Suntech Solar Power Co., Ltd | 19.73% | 47.04% |
| Suntech Solar Power Limited | 9.47% |
| Tongwei Solar Energy (Hefei) Co., Ltd | 8.41% |
| Han Wah New Energy (Kai Tung) Limited | 4.87% |
| Wuxi Ding Neng New Energy Technology Co. Ltd | 4.56% |
| 2016 | Clp Electric Group Limited | 13.12% | 48.54% |
| Jiangsu Greenball Photovoltaic Co., Ltd | 12.54% |
| Zhejiang Ai Neng Ju Photovoltaic Technology Co., Ltd | 10.15% |
| Yingli Energy (China) Ltd | 7.42% |
| Hangzhou Dahe Thermal Magnetic Electronics Co., Ltd | 5.31% |
| 2015 | Zhejiang Ai Neng Ju Photovoltaic Technology Co., Ltd | 20.43% | 74.96% |
| Yingli Energy (China) Ltd | 19.28% |
| Clp Electric Group Limited | 16.11% |
| Wuxi Tianzhi Solar Energy Technology Co., Ltd | 12.69% |
| Suzhou Si Mei Shi Green New Energy Co., Ltd | 6.46% |

Note: (1)The main sales model of DEMK is direct selling,and DEMK also adopt distribution as the supplementary.

EXHIBIT 9: Wuxi CK Electronic Materials Co. Ltd. TOP FIVE SUPPLIERS, 2015–2018

|  |  |  |  |
| --- | --- | --- | --- |
| **Period** | **Supplier** | **Percentage of Total Procurement** | **Percentage of Total** |
| 2018 | Dowa Electronics Materials Co. Ltd. | 91.23 | 99.14 |
| Wuxi Yufeng International Trading Co. Ltd. | 3.88 |
| Suzhou Smet Surface Material Technology Co. Ltd. | 3.72 |
| Shaanxi Kaida Chemical Co. Ltd. | 0.19 |
| Shanghai Panhua Industrial Co. Ltd. | 0.13 |
| 2017 | Toyota Tsusho (Shanghai) Ltd. | 37.39 | 97.88 |
| Wuxi Mattress New Material Technology Co. Ltd. | 23.58 |
| Dowa Electronics Materials Co. Ltd. | 18.80 |
| Housing Metalex Corporation | 12.35 |
| Wuxi Yufeng International Trading Co. Ltd. | 5.75 |
| 2016 | Wuxi Mattress New Material Technology Co. Ltd. | 77.26 | 98.86 |
| Wuxi Han Yada International Trading Co. Ltd. | 16.15 |
| Toyota Tsusho (Shanghai) Ltd. | 4.85 |
| Suzhou Smet Surface Material Technology Co. Ltd. | 0.41 |
| Ames Advanced Materials Corporation | 0.19 |
| 2015 | Shanghai Guoyi Material Co. Ltd. | 65.69 | 87.58 |
| Wuxi Mattress New Material Technology Co. Ltd. | 11.96 |
| Hangzhou Panjie New Material Technology Co. Ltd. | 3.99 |
| Suzhou Smet Surface Material Technology Co. Ltd. | 3.28 |
| Wuxi Han Yada International Trading Co. Ltd. | 2.66 |

Source: Company documents.

1. ¥ = CNY = Chinese yuan renminbi; US$1 = ¥6.94 on February 1, 2020. [↑](#footnote-ref-1)
2. “Stock Exchanges” [in Chinese], China Securities Regulatory Commission, accessed April 8, 2021, http://eid.csrc.gov.cn. [↑](#footnote-ref-2)
3. “About the Association” [in Chinese], Asset Management Association of China, accessed April 8, 2021, www.amac.org.cn. [↑](#footnote-ref-3)
4. Will Kenton and Julius Mansa, “Internal Controls,” Investopedia, July 28, 2020, accessed April 8, 2021, www.investopedia.com/terms/i/internalcontrols.asp. [↑](#footnote-ref-4)
5. The CSRC revised rules of private placement included three major components: “(1) the base date of pricing shall be revised to the first day of issue by the announcement date of the resolution of the board of directors; (2) the issue price shall be adjusted to 90% of the average price of a company’s stock on the twenty or preceding trading days prior to the date of issue; (3) the number of shares issued shall not exceed 20% of the total share capital before this issue.” Announcement of the China Securities Regulatory Commission [2020] No.11, “Implementing Rules for Private placement of Shares by Listed Companies (Revised in 2020), LexisNexis, February 14, 2020, accessed April 8, 2020, https://hk.lexiscn.com/law/law-english-1-3756010-T.html?eng=0. [↑](#footnote-ref-5)