Asia Perspective Economic Update Report

Last Quarter 2015

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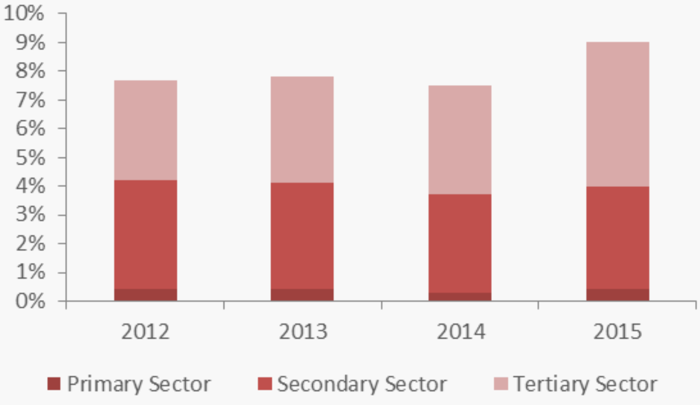
Continued rebalancing of the economy

China's GDP growth moderated to a 6.7% year-on-year rate in the last quarter of 2015. That totals in a full year growth of just 6,9% during 2015, marking the lowest growth rate in 25 years. According to President Xi this is however in line with the so called New Normal policy – representing a slower but more sustainable growth. According to Louis Kuijs, head of Asia economics at Oxford Economics, the growth during 2016 will most likely reach 6,5%. Kuijs expects significant government measures during 2016 to keep the growth rate up. Amongst these are yet another interest rate cut, reserve requirement ratio cuts as well as an expansionary fiscal policy.

The gradual shift from industry to services continued throughout the last quarter. During 2015 as a whole the industrial or secondary sector grew by only 6.0% compared to 7,3 % in 2014. During the same period the service sector or tertiary sector accelerated from 7,8% to 8,3%. The rebalancing of China´s economy and the increasing importance of the service sector is clearly seen in these parameters.

The tertiary sector has already become the largest sector in China with a GDP share of 46.1 % compared to the secondary sector with a 45% share. In the meanwhile, the primary sector has been shrinking continuously. Apparently China is successfully transiting into a balanced economy.

Contribution to economic growth by sector



Boom in the Medtech Sector

China's medical technology industry has experienced a significant upswing in recent years. During 2014 the medical device sales revenue in China increased by 20% and reached 255.6 billion CNY. This trend has been continuing since at least 2001 when the industry was relatively insignificant. From 2001 to 2014 the sales of medical devices increased by a whopping 1477% and went from merely 17,3 billion to 255,6 billion CNY.

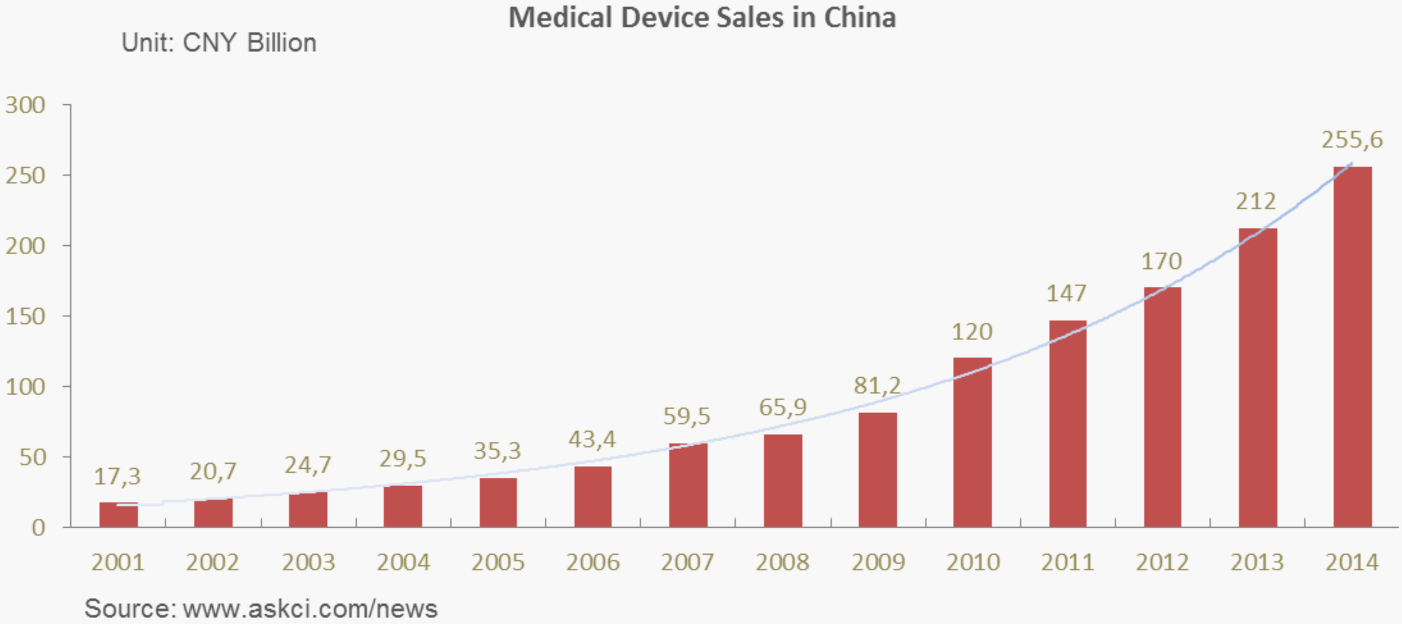
One of the explanations for this tremendous development can be found in China´s demographics. Partly as a result of the One-Child policy over 20% of the population is currently older than 55 years and number of young people is plummeting. The demand for diagnosis and treatment of chronic diseases, high blood pressure and diabetes have thus been increasing.

Despite efforts to counteract the demographic trend of an aging population, amongst these the abolition of the One-child-policy, the trend is likely to continue . By 2050, the number of Chinese that are older than 55 will equal the entire European population. At the same time the ratio of the working age population to those over 60 will equal 1,4 compared to the current ratio of 5 working age adults per elder. Due to these factors China will become the largest market in the world for medical devices in 2050 compromising 25% of the global market.

For medical technology company this is predicting a bright future. China will be an increasingly important market for medical devices and the demand for more specialized and expensive equipment will increase as the middle class grows more affluent.

Another factor that has a strong effect on boosting the demand vices is the government´s restructuring of the public health system. A health reform was introduced in 2009 aimed at balancing health care resources and reducing the costs of treatment until 2050. This reform has lead to heavy investment in the construction and renewal of clinics and community hospitals and this is expected to continue in the nearest future.

Currently, the domestic market for basic medical equipment is dominated by Chinese companies while the high end spectre of the market is dominated by multinational brands such as Siemens, GE and Phillips. The competition from Chinese brands is however strong even in the high-end of the market and is expected to stiffen further as the quality and reputation of Chinese production increases. This is fuelled additionally by government incentives to stimulate domestic innovative industries and the production of advanced technology. Multinational medtech companies should thus beware of increasing domestic competition in China.



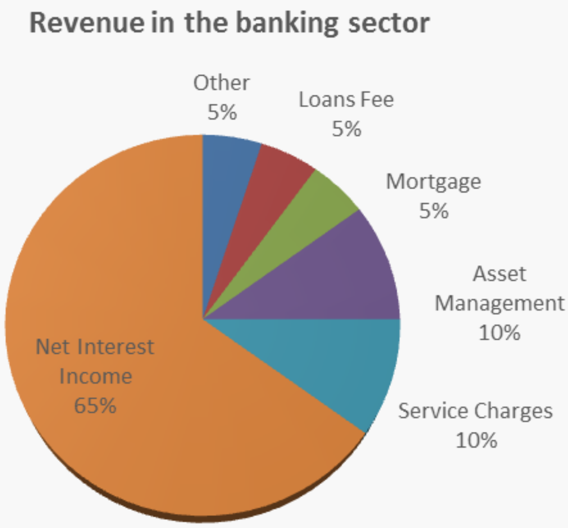
The New Face of Finance

The four largest banks in terms of asset value - not only in China but in the world - are the Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China. These four banks are massive financial institutions and own almost 40% of the total banks asset in China as of 2015. Despite this overwhelming strength they are now being challenged on their own turf by the online economy.

Non- traditional financial actors such as Alipay and Wepay are gaining an ever stronger position in the market. The services these actors offer include, but are not limited to, receiving and transferring money. These actors are growing more aggressive and are developing new technology and business cycles to compete in the banking space.

Ali Baba´s Alipay, which is the most prominent of these new financial actors, started of as online payment platform with no transaction fees but has since then diversified into services such as loans, asset management and even mortgages. Alipay´s owner Alibaba has a leading position in e-commerce and a very strong client base which has allowed it to successfully build trust as a strong financial player.

Net interest from interest bearing assets is the traditional cash cow in the banking industry constituting 65% of the current total revenue in the industry. It was with their aim set at this big price that Alibaba declared war on the traditional banking industry by introducing its money market fund Yuebao. During 2015 alone Yuebao tripled in size to 578.9 billion CNY. With 81 million investors the fund has a larger client base than all the other asset managers in china combined and constitute the fastest growing mutual fund of all time.



Source: SNL Financial

Yuebao was launched in June 2013 when China's banking system was in the midst of a so-called "cash crunch". Liquidity was low and the interbank lending rate Shibor skyrocketed to 13%. Despite this the interest rate investors received at traditional banks was at the time no more than 3.3% due to interest rate restrictions.

It was in this business environment that Yuebao was launched offering 6% interest rate as the bank restrictions didn't apply to funds. Customers flocked to the fund in order to almost double their interest without increasing risk. Yuebao could then take this capital and lend it to other financial institutions at the interbank lending rate. On top of this there was no binding time at Yuebao and clients were free to withdraw their deposits at any time.

Even though the exceptionally high Shibor rate was a one of occurrence Yuebao has been able to keep its interest rates higher than competitors . The big banks are not accepting deposits from Yaobao due to competitive reasons but small banks are happy to do so. Given the tremendous size that Yuebao has reached they are able to negotiate good terms when lending to smaller banks. According to various analysts the fund is currently lending money at rates of 8% which leaves it a healthy margin when offering 6% to its investors. According to a report by Tianhong Asset Management, the asset management firm that is in charge of the fund, more than 92% of the fund is currently invested in interbank lending.

The traditional banking sector is feeling the pressure and moving to counteract. Calls have been made upon the Chinese central bank to regulate online finance and the large banks have been launching their own online money market funds. So far the authorities have been careful not to hinder innovation in the financial market but interest rate regulations for traditional banks have been relaxed. The new financial actors and Yuebao in particular has thus already started reshaping the Chinese financial regulations and there is much more change to come.

ASIA PERSPECTIVE

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We offer specialist services covering Supply Chain Management, Purchasing, Market Entry, and Financial Advisory. This includes market entry research and strategy sourcing and pricing strategy, M&A advisory, risk management, operational improvements etc.

What differentiates us from our competitors is the knowledge and expertise we have gained after several years in the Asian market. We have experience from a variety of industries and clients including leading international companies from Europe, the US and Asia.

With a highly collaborative team of problem solvers and a passion for excellence we will add value to your business. We work closely with our clients to create and deliver insight, advantage and real impact.

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