The Stanley-Laman Group, Ltd.

China's Uneasy Relationship with Free Enterprise

Chinese Stocks (particularly those listed on U.S. exchanges) declined sharply over the past week in response to controls placed on the Companies by the Chinese Government.

New Rules Include:

- Anti-Trust restrictions targeting well-known companies including Alibaba, JD, Meituan and Tencent

- Ending exclusive contracts with music copyright holders

- Imposing Profit Restrictions for Online Education Companies which many Chinese parents cannot afford, but view as necessary for their children to keep up. Officials believe this is widening the gap between the haves and have nots

- Data disclosure and security restrictions for Chinese companies listing on foreign exchanges

Didi's Story - Highlights Risks

Didi, the largest ride hailing company, is China's version of Uber

Company opted to list on the New York Stock Exchange on June 30, 2021

Underwriters included: Goldman Sachs, JPMorgan, Morgan Stanley, BOA, Citigroup

Chinese Government expressed concern over traffic data being public as required for U.S. listing

China's cyber watchdog (Cyberspace Administration of China "CAC") recommended Didi:

- Perform an internal self-examination of its network security
- Delay listing
- Consider shifting its IPO to Hong Kong or mainland China

Note: Regulators didn't explicitly forbid the Company from going public in the US

Didi opted to ignore the recommendations and began trading on June 30, raising $4.4 billion initially valuing the Company at $68 billion making it the 2nd largest IPO next to Alibaba

Several days after listing, the CAC and other Chinese Agencies announced on-site investigations of the Company and banned Didi's app from the Country's app stores

Punishments being considered by China reportedly include:

Fines
Suspension of certain operations
Imposition of state-owned investor
Forced delisting
Withdrawal from U.S. Exchanges

China has since proposed new rules **requiring** companies seeking to list in foreign countries to undergo a CAC cybersecurity review

Didi's Stock Price has fallen 45%

June 30	Initial Offering	$14.00
July 1	Closing Price	$16.40
July 27	Current	$ 7.72

OUR VIEW

The Chinese government cannot afford a mass exodus of foreign capital and a currency devaluation, and will soften its position after a sharp over-reaction from the market

The Chinese economy will continue to be a Global Driver and investors should own companies serving these end markets

Owning Companies listed and trading in China (our specialty) limits many of the risks

As with most selloffs, this represents a buying opportunity, though caution in selection is a must

Sectors, such as business software, high-end manufacturing, domestic consumer brands, and new energy, continue to enjoy government support

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