

## BHR's Thirteenth Board of Directors Meeting Minutes

<b>Time</b>	January 18, 2019, 9:30AM
<b>Location</b>	BHR Beijing Office
<b>Participants</b>	<b>Board Directors:</b> Bing Zhou, Jianxin Xu, Jun Wang, Changqi Lu, Ming Jiang, Renda Fan, James Bulger, Jonathan Li, Ming Xue
	<b>Shareholder Proxy:</b> Michael Lin
	<b>Other Participants:</b> Hongzhi Cai
	<b>Management Team:</b> Xinzhong Li, Annie Zhao, Jason Zhu, Xin Wang, Felix Yu, Huiping Zhou, Bo Xiang, Lin Cong, Hengyin Zhang
<b>Topic</b>	<b>Review of the Report</b>
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Mr. Hunter Bieden, Director, and Mr. Eric Schwerin, Supervisor, were unable to attend this meeting. Mr. Bieden authorized Mr. James Bulger to attend. Mr. Devon was unable to attend the meeting. Mr. Michael Lin attended the meeting.

Meeting agenda: 1. Mr. Jason Zhu, Secretary of the Board, reports on follow-up issues from previous board meeting; 2. Mr. Jonathan Li, CEO, reports on the 2018 operations and 2019 business plan; 3. Given limited meeting time, the 2018 financial report and the 2019 annual budget are requested to be reviewed in written form by the directors. The comments and suggestions made by the directors during the meeting are summarized as follows:

**1. Mr. Michael Lin's inquiry about the appointment of directors**

- According to the company's Articles of Association, the US shareholders can appoint three directors. Mr. Devon Archer is no longer a director nor a Vice Chairman of the company. The company is currently setting up an individual Investment Committee for each deal fund in accordance with the partnership agreement with investors. Lacking a blind pool fund, investment decisions are not made by the Investment Committee on the company level.
- Although Mr. Hunter Bieden has not participated in the company's board meetings for a long time, there is no provision in the company's Articles of Association ruling the consequences of directorship for someone who does not attend board meetings repeatedly.
- The board of directors is allocated according to the proportion of equity. The US party has a total shareholding of 30% with 3 board seats.

**2. Mr. Michael Lin's inquiry about the impact of the departure of two managing directors on post-investment management**

- Mr. Yu Xia was responsible for the Sinopec project and the CATL project, which are co-managed by Mr. Ming Xue, Mr. Yu Xia, and Ms. Hao Yao. Mr. Jason Zhu

also participates in post-investment management.

- Mr. Zhe Liu was responsible for the China Re project, which is co-managed by Mr. Ming Xue and Mr. Bo Xiang. Currently, as the leader of the company's post-investment management, Mr. Jason Zhu is participating in all post-investment management.
- 3. Mr. Michael Lin's inquiry about whether the establishment of the newly registered SPV entities is demanded by the needs of project executions, whether these entities are registered according to the fundraising location, and other filing issues**
- The new establishment of the fund entities is due to the consideration of time matching. It would not be timely to set up a new entity after a project opportunity emerges. Therefore, the company generally sets up shell companies first, then uses them according to the progress of the project. In general, there are 2 to 3 shell companies available at all times.
  - Generally speaking, the fund will be filed after the fundraising is completed. Therefore, the newly registered SPV entities have not yet been put on record of the regulatory authority.
  - The company has established new SPV entities in Ningbo, mainly because Ningbo has favorable tax policies and Shanghai's original tax refund policy was cancelled after the "Twelfth Five-Year Plan". Implementations of tax policies vary by locations such as Qianhai, etc. Although Shanghai officially does not have tax refund, it still offers some de facto tax incentives, which will be subject to the local tax filing situations in Shanghai and the company itself. However, the tax refund in Shanghai is dragged on for a long time each year, which usually takes a year to complete. Since the establishment of the company, there have been 10 million RMB accumulative tax refunds, which have not been received entirely.
  - Since the outbreak of the P2P crisis in Shanghai, fund registrations have become difficult. The registration of each fund or limited partnership requires an interview with the Trade and Industry Bureau of the Free Trade Zone Management Committee. Ningbo is relatively loose now in terms of fund registration, therefore our new SPV entities are registered in Ningbo. Currently, the company's SPV entities are mainly registered in Shanghai, Qianhai, Ningbo, and Chengdu.
  - The company set up an entity in Chengdu because the company had cooperation with Chengdu Industrial Investment, which could participate in the fund as a limited partner.
  - Mr. Michael Lin added that he is currently doing business in the fields of art & design and financial services in Chengdu.
- 4. With regard to the company's cross-border M&A business, Mr. Michael Lin**

**questioned the feasibilities of rolling out large-scale projects under the current market circumstances including tight overseas approval process, restraint connections with non-state-owned companies and high-net-worth individuals on the fundraising front**

- Project Pharaoh emerged in 2018. After evaluation, it was possible to obtain deal approval from the overseas authority. The target company is mainly involved in the field of traditional chips instead of military and other sensitive areas. Previously, the production of such kind of chips by Chinese companies has been approved. The project was terminated not because it was rejected by the Germany regulators. It was the buyer's lawyer who was worried that the approval could not be made, so the company was forced to withdraw. At the same time, the company tried to find other non-state-affiliated investors but failed. Approval criteria in the US and the EU are constantly changing with strong uncertainties.
- 5. Mr. Michael Lin stated that there are still cases in which funds have been raised from abroad in 2018, and voiced that the company should raise more funds, get more management fees and carries**
- The company's business plan this year has reflected this issue. The company will also cooperate with some overseas institutions in an attempt to raise funds overseas.
- 6. With regard to fundraising to invest in AI-related companies and their valuations, Mr. Michael Lin inquired of feasibilities to invest in other fields**
- When raising funds for each project, the company takes into account of potential overvaluation, potential loss to the investors, as well as the company's reputation. While many funds have invested in failed projects, the company has not had any fund that loses money. The company has evaluated many projects in its learned fields such as AI, battery, electric vehicle, etc., but has come up with conclusions that they were overvalued in the past year.
- Regarding the field of art & design, the company has little experience and is inactive in seeking such investments.
- 7. Discussions on how to get the US shareholders more involved in the business**
- The US shareholders will appoint a director to fill the seat left by Mr. Devon Archer, and will also work with Ample-Harvest to determine the appointment of the supervisor. The fund industry is, in essence, comprised of people, projects, and money. Having the right people and projects are prerequisites to fundraising. The US shareholders will participate more in the company's daily business by sourcing and recommending more projects, and providing more fundraising channels. The management should leverage the resources of the US shareholders to expand more channels and connections. It's only through the completion of fundraising and thereby obtaining more management fees and other incomes that the dividends to shareholders can be distributed.

- In the past five years, the Bank of China and Mr. Changqi Lu have given great help to the company, while the US shareholders have been less involved. Mr. Michael Lin will from now on recommend more projects to the team and participate more in project discussions. It is also worth mentioning that the company did not receive feedbacks from the US shareholders after it made recommendations for them to invest in CATL and Face++, which turned out to be very lucrative.
- The US shareholders will participate more in project recommendation and fundraising from now on.

#### **8. Discussions on Blind Pool fundraising**

- The company should have a blind pool established after its five-year ventures
- There are differences in risk tolerance and investment strategy between the deal funds and Blind Pool. Continuously doing deal funds is not conducive to the fundraising of Blind Pool. The fundraising of Blind Pool should be completed as soon as possible. For a few specific industries, the company can start with raising a small-scale Blind Pool of about 1.5 billion RMB, followed by a second phase.
- Despite difficulties in raising Blind Pool, company remains committed to this aim. The team is competitive in the market and is rethinking its strategies in networking and fundraising. In terms of investment strategy and risk assessment, the deal fund's approach can be contradictory to the Blind Pool's. The longer the deal fund approach remains, the more doubtful the investors may be in accessing the company's capabilities and business focus.
- The company should identify several investment strategies, such as AI, healthcare, and alternative energy. Investment focus of the Blind Pool should not be made too specific, but rather be comprehensive with focus on a few specific industries. At the same time, the company should set smaller and more achievable goals by phases without further delay. In 2019, the company should begin with its first-phase Blind Pool.

#### **9. Discussions on macro-level policies and business directions**

- This year, the Central Bank will continue to increase liquidity in the market. The Central Government has raised voice in supporting private enterprises, increasing financings to private enterprises, and boosting the development of private enterprises and the real economy. Despite pessimistic economic outlook, private enterprises will receive a large sum of funding support this year. Under such circumstances, the company can cooperate with private enterprises for opportunities in industrial upgrading and consumption upgrading. It is expected that the Central Bank's specific policy on liquidity injection will be implemented as early as before the Chinese New Year.
- On the policy level, the Central Government has already made clear requests to

all financial institutions. The Central Bank and the Banking and Insurance Regulatory Commission may soon issue clear criteria and targets. The private enterprises will certainly receive a large amount of funds this year. It is expected to be implemented around the Chinese New Year.

- The company should pay more attention to the direction and orientation of national policies, and learn more to grasp the opportunities accordingly. While staying professional, the team must be grounded and politically savvy. In particular, the launch of Technology and Innovation Board must be a hot spot for investment this year. It is necessary to grasp the investment opportunities arising from the Board by learning about its specific rules and policies as soon as possible. At the same time, the team should be more active in project feedbacks and updates with the board of directors.
- The Chinese economy is policy-driven. The company should have a better understanding of the policy directions. In the short term, the hard-landing of the Chinese economy is unavoidable. Many businesses have set clear strategies as early as the beginning of 2017 to sell assets in return for cash flow. At the investment level, it is necessary to understand more about high-level policies, to grasp accurate information, and thus to make the right decisions.
- Investment activities are by and large impacted by policy risks, which particularly holds true in China. The company has been weak in adapting to policy changes. Now that the directors are knowledgeable of policy changes on the banking front, it is necessary to understand how the Central Bank's policy on liquidity injection will be implemented through banks. The company should take advantage of those head-ups and find the right pace for investments.
- In terms of overseas mergers and acquisitions, the senior-level government officials have voiced restrictions on outbound investments long before. Timing is critical in the field of investment. The priorities for the Central Government at present are: first, China-US relations; second, Taiwan issue. The company should make good use of important resources and become more politically savvy.
- In the company's 2019 business plan, China's biggest economic opportunity for the near future is not mentioned, namely the Technology and Innovation Board. The company should consider this major opportunity and learn more about its rules and implications. It is believed that the first bunch of companies listed on the board will have great investment potentials.
- It is said that good things only come to those who are prepared. Firstly, the company must set the right strategies; secondly, the company must keep up with the management quality, including timely feedbacks with the board of directors; and thirdly, the team should be more aggressive in grasping better investment opportunities.
- In the 2019 business plan, the company should also consider VC projects and

earlier-stage investments while maintaining solid risk management.

#### **10. Discussions on post-investment projects and exit plans**

- The specific circumstances of each exit plan should be reported to the board of directors on a timely basis. At the same time, for extended projects such as Sinopec, timely communication with investors should be strengthened to minimize uncertainties. In addition, if future projects are to be tilted toward the earlier-stage investments, more attention should be paid to risk control.
- It is preferred that the exit status of each project including exit assessments and expected returns will be reported to the board of directors. Given that the Sinopec project has had arbitration disputes previously, the company should pay attention to the uncertain factors despite the approval made by the State Assets Administration Committee. The company should maintain good communications with the investors at all times.
- For the Sinopec project, the company has communicated with the investors for many times. During the last share reform, the company did not sign relevant documents because there was no commitment to full circulation of shares. During this recent round of share reform, in the premise of implementing full circulation of shares that was under the witness of lawyers, the company has reported to all investors and agreed to sign relevant documents.

#### **11. Discussions on resolutions of the board meeting**

- The directors put forward a number of good suggestions. It is recommended that the management team rewrites the 2019 business plan according to the directors' suggestions. After the Chinese New Year, the board of directors will regroup for a follow-up meeting with the option to join the conference call. Other items on the agenda that do not require resolutions will also be discussed next time.