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"Full-Chain Support for Innovation", Chinese Government Continues Its Supporting to the Biopharma Industries, and Implications to the Industry Companies

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Preface

As one of the Strategic sectors in the Chinese economy, the Chinese biopharma industry experienced a rapid development in the last decade. In the post-pandemic era, facing factors such as economic slowdown and a cooling capital market, Chinese biopharma industry has under pressure in the past two to three years. The central government has issued the concept of "Full-Chain Support for Innovation" to the industry in 2024 and correspondingly, local governments have launched specific policies for the full-chain support for innovation, aiming to provide a comprehensive policy support frame work across the entire industry value chain for biopharma industry.

For the biopharma industry, government support has always been an important factor on its development, especially for the enterprises with strategic transformation into a more innovation driven business. In this context, we have observed multinational biopharma companies ("MNC") and Chinese local biopharma companies have begun to take various action plans to leverage the policy benefit for their own benefits.

From a broader perspective, the sustained policy stimulus and the signs of economic recovery has increased the confidence of China's biopharma enterprises navigating through challenging moments. Most crucially, with a decade of healthcare reforms and enthusiastic investment by industry players, an innovation friendly environment and a shared view between governments and industry players that champions innovation has been fostered. This would be the corner stone for a positive stance on the future development of the Chinese pharmaceutical sector.

For every industry player, regardless domestic enterprises and MNCs, given their distinct stages of development and strategies at hands, capturing the opportunities presented by the government initiated full-chain support policies to ride through the industrial trough and recoveries would require a tailored assessment and decision-making process. This would involve crafting strategic development and transformational pathways, coordinating and negotiating with various government departments, smart resource utilization, enhancing tax efficiency and compliance, and mitigating potential risks etc.

This article is to provide an overall picture of the Chinese government's "Full-Chain Support for Innovation" policies in supporting the biopharma industry to enable the industry players to navigate the relevant supporting policies, and to summarize our observations of approaches taken by the industry companies to explore the relevant supporting policies, and also to provide our insights and recommendations from tax perspectives for the consideration of the financial and tax executives of the industry companies.

1

Overview of Chinese Biopharma Industry: Macro Trends and Changes, and Role of R&D as the Fundamental Value Driving Factor of the Industry

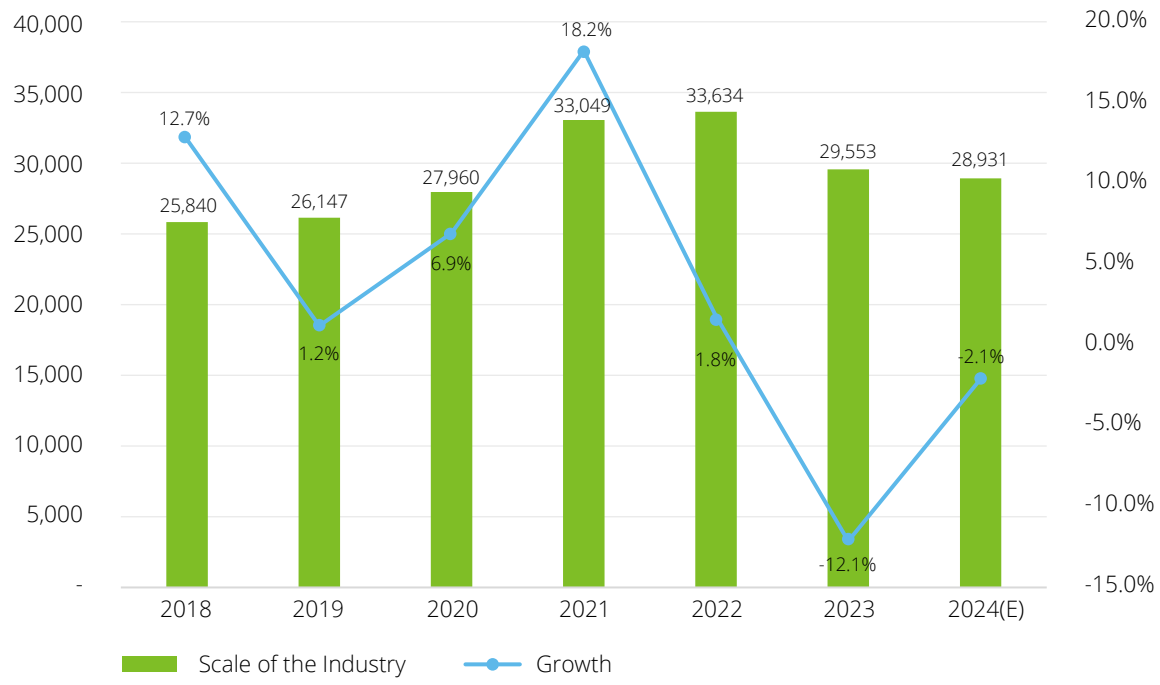
1.1 Industry Trends and Changes at the macro level

1.1.1 Overall Scale of Chinese Biopharma Industry

From the 13th Five-years Plan to the 14th Five-years Plan, the development of biopharma industry has been one of key focuses of the national industry strategy. Within the last decade, Chinese biopharma industry experienced rapid growth. There has been a slow-down in the past two years due to various factors.

According to the statistics report from National Bureau of Statistics, the overall scale of Chinese biopharma industry (measured by operating income earned by the scaled biopharma enterprises) had experienced a rapid growth until 2021 and entered a downturn since 2022, though recent figure showing a gentle recovery in 2024.

Figure 1. Scale Change of Chinese Biopharma Industry (RMB hundred million)

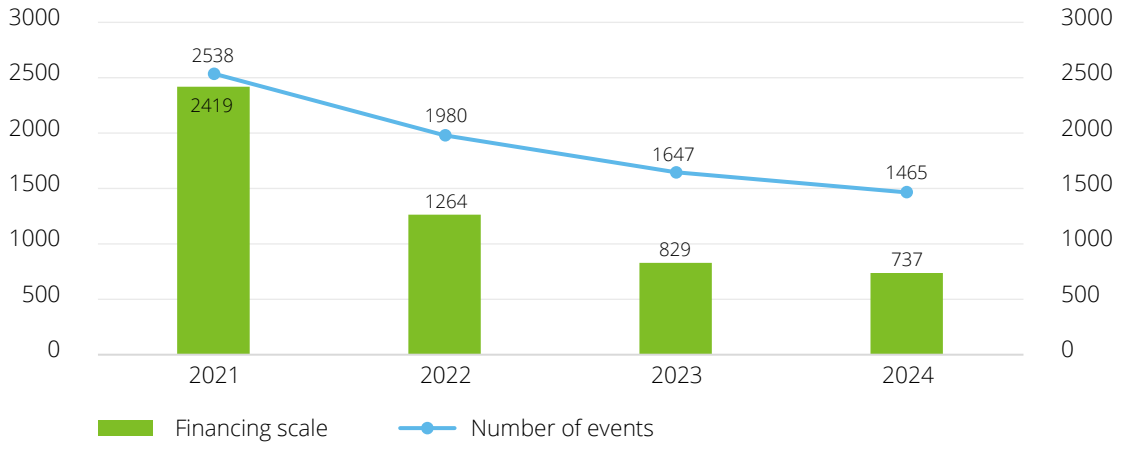


Source: National Bureau of Statistics of China, analysed by Deloitte

1.1.2 Fundraising Scale of Chinese Biopharma Industry

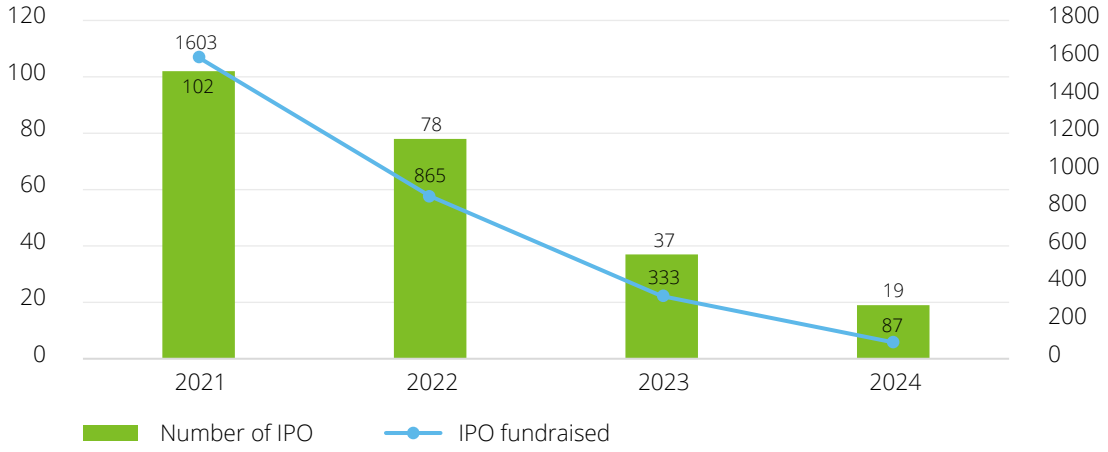
Life science and health care ("LSHC") companies are in a wintertime in fundraising from both IPO or non-IPO related financing. As the below chart presents, the off-IPO financing events for LSHC companies, as well as the fundraising amount, shows a quick drop from 2022, which lasts to 2024Q2. The same trend is also shown in the recent IPO market of Chinese LSHC companies (Listings in the China Stock Exchanges and China Concept Stocks listing in the overseas Stock Exchanges) – both the number of IPOs and the size of the fund raised has been sharply reduced.

Figure 2. Fundraising Events and Scale of Chinese Biopharma Industry from 2021 - 2024 (RMB hundred million)



Source: Yaozh Statistics, public information, analysed by Deloitte

Figure 3. Chinese LSHC Industry IPO Changes from 2021 - 2024 (RMB hundred million)



Source: Wind, analysed by Deloitte

1.1.3 Future External Uncertainties

Global economic slow-down and adverse legislation proposals (e.g., BIOSECURE Act in the US), has had an impact for Chinese life science companies. Global economy slow-down or adverse legislation can hurt the Chinese life science companies in respect of market access and Customer development, which might in turn impact the investment confidence and decision in relation to the Chinese biopharma industry. In the short-term, Chinese biopharma industry may still face pressure for development due to the external uncertainties.

On the bright side, with the signal of global inflation relief and expected interest rate declining cycle starting from 2024, and as Chinese government is determined to enrich the economic stimulus policy toolkit for recovery momentum, there is also a cautious optimism from the industry players that Chinese economy is expected to have certain level of rebound, so does the biopharma and biotech industries.

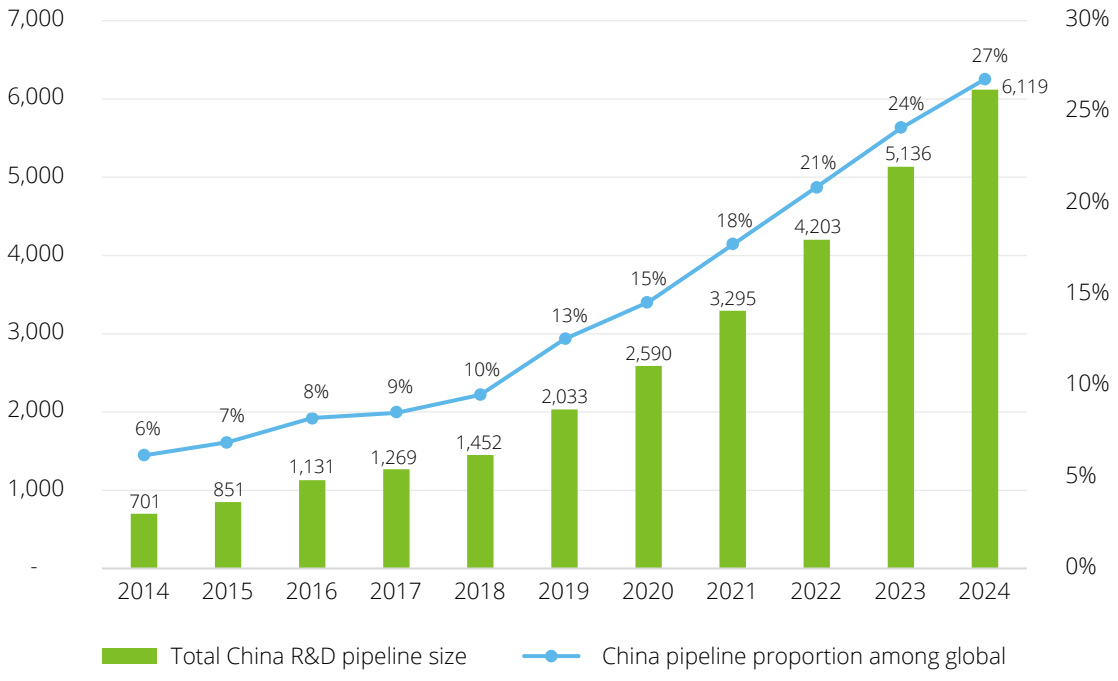
1.2 Fundamental Industry Value Driving Factor is in Place: Growing R&D Capabilities and Emerging New Opportunities

With the evolving of biopharma industry of China in the past decade, local life science companies have established and strengthened their R&D capacity and capabilities. Chinese players are increasing their investments in R&D activities, expanding the wideness and in-depth of their pipelines, and propelling the innovative drug development cycle.

1.2.1 China Active R&D Pipeline Size Changes in last Decade

With a decade, the size of China R&D pipeline has made considerable progress. China has become the second largest innovation drug developing market. This shows the rapid rise in the R&D ability and effort.

Figure 4. China Active R&D Pipeline Size Changes in last Decade*

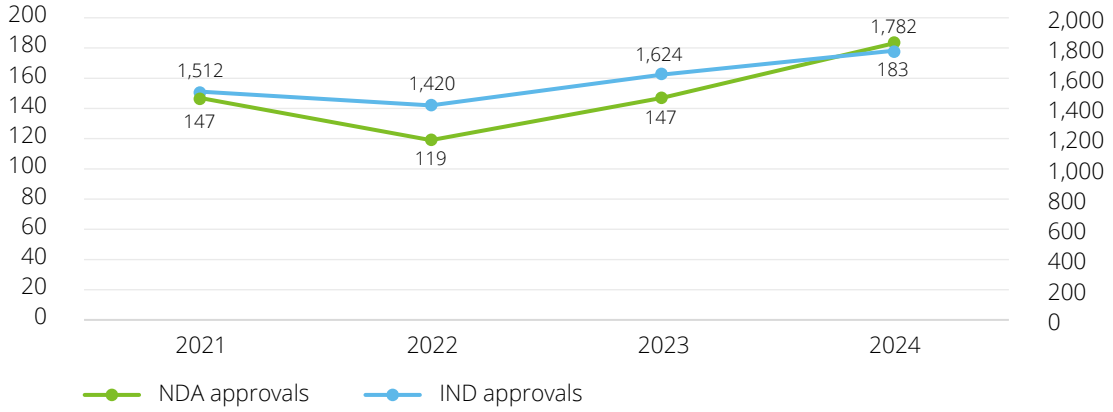


Source: Pharmaprojects, analysed by Deloitte
Note: The pipeline statistics indicated in Figure 4 is the active pipeline amount by each year operated by Chinese biopharma companies.

1.2.2 Number of IND and NDA for China Innovative Drugs

There has been a notable increase in the number of innovative pharmaceuticals that have been submitted for and granted with approval through the Investigational New Drug (IND) and New Drug Application (NDA) processes, thereby establishing a solid foundation for the further expansion of China innovative pharmaceutical market.

Figure 5. Number of IND and NDA for China Innovative Drugs from 2021 to 2024

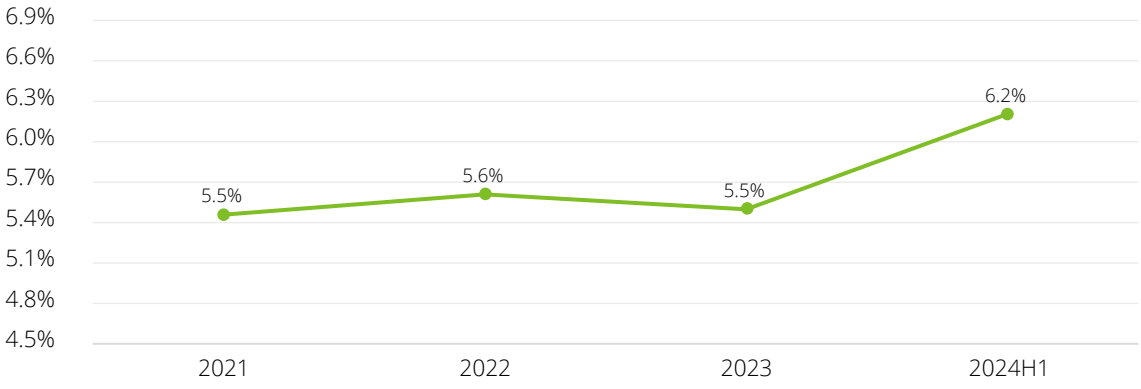


Source: Insight, Public information, analysed by Deloitte

1.2.3 Steady R&D Spending by Chinese Listed Biopharma Companies

Even in the midst of an industry trough over the past few years, Chinese biopharma companies on the A-share market and HKEX have still maintained a relatively stable of R&D expenditure as a percentage of revenue, which will be the groundwork to preserve the current pipeline size and future potential growth.

Figure 6. R&D Spending Percentage of Chinese Listed Biopharma Companies of A-Share and HKEX from the year 2021 to 2024H1*

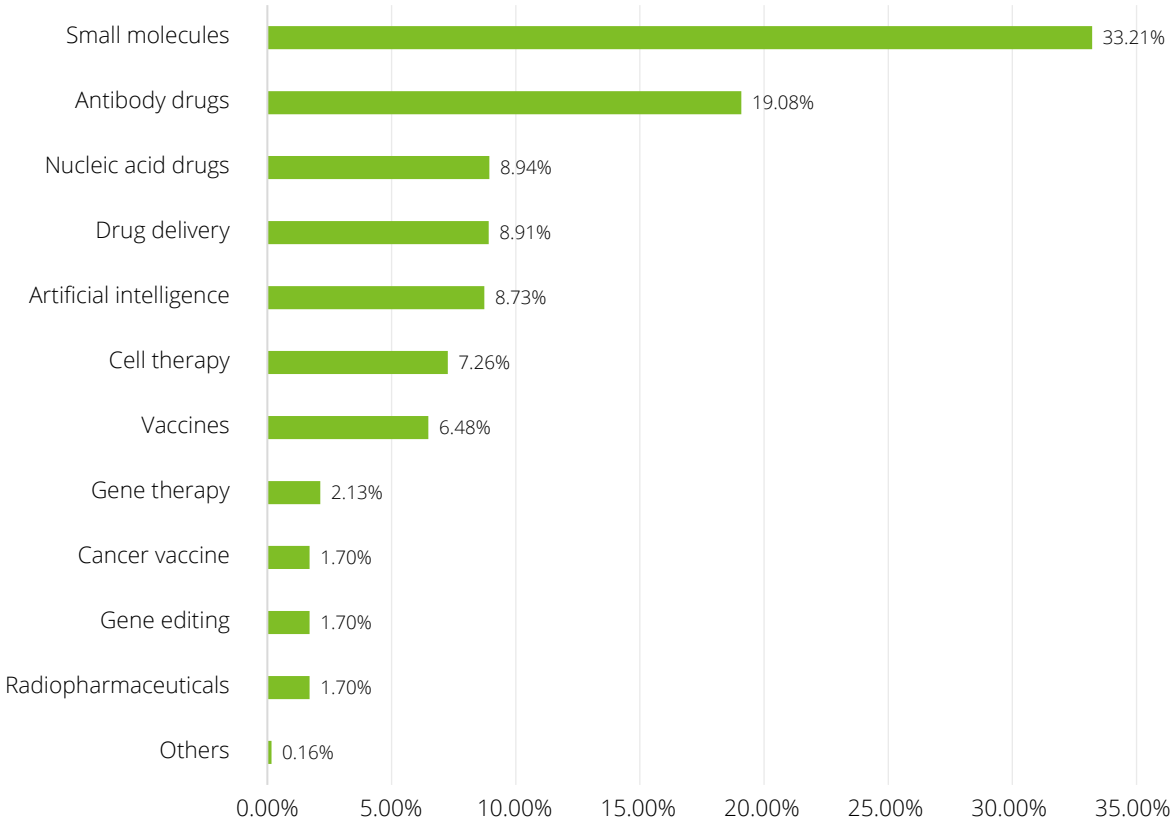


Source: Wind, analysed by Deloitte
Note: Figure 6 does not contain the Chinese listed biopharma companies without R&D expenses disclosed publicly; The R&D spending percentage of 2024H1 is based on the analysis of the H1 disclosure of Chinese listed biopharma companies of A-share and HKEX.

1.2.4 Viability in Therapeutic Area Financing and Emergence of New Technologies Equipped the Industry with Additional Innovation and Development Tools

Bolstered by the extensive and profound R&D capabilities of emerging pharmaceutical firms, we're witnessing commendable financing prowess in specialized Therapeutic Area. Especially in fields of small molecules, antibody drugs, and drug delivery, these areas has become the focal points of the industry that have garnered significant investor interest, with financing volumes trending upwards. It created sustained blood-making capabilities in those areas, which will further propel the growth of those striking areas within the industry. From a global perspective, these key areas may become the strongholds of China's biopharmaceutical industry, serving as the pillars of this world's second-largest market.

Figure 7. Percentage of Financing Volumes across the Therapeutic Areas by 2024Q2



Source: MedAlpha, analysed by Deloitte

Moreover, the burgeoning field of artificial intelligence has also shown an increased allure over the past two years. Emerging new technology generated new opportunities for this innovation-driven industry. It has been wildly discussed and agreed that Gen-AI technology can be the new potential value engine for biopharma company. Based on the statists on China financing market, the proportion of investment events for AI pharmacy started to become noticeable in 2023, totalling 7% of the investment market and growing up to more than 8% by mid-2024. Considering the application outlook of AI technology in the whole drug development cycle, it is expected to witness more Gen-AI driven development of the Chinese biopharma industry.

As one of the critical manifestations of Chinese biopharma player's growing R&D capacity and pursuing of success in various therapeutic areas, according to statists data, as a major player in the market, Chinese biopharma firms have experienced over a 200% increase in their fast follow pipelines from 2021 to 2024. And Chinese participators have made enormous progress in developing their own first-in-class ("FIC") products/pipelines – from 2021 to 2024, Chinese active FIC pipelines grow from 418 (as of 2021) to 836 (as of 2024), which has been doubled. These results should be thrilling to all the players. In the meantime, the number and proportion of pipelines advancing into clinical trials have also seen a substantial surge, which indicates not only the innovation capacity at present but also the potentials for future growth in China innovative drug market.

According to the *14th Five-years Plan for the Development Bioeconomy*, the Biopharma sector has been the significant pillar industry for Chinese government as the growth engine for economy and public welfare. Earlier 2024, Chinese government started to issue a new set of comprehensive frameworks of public policy incentive, i.e., the Full-Chain Support for Innovation, to offer a full spectrum of incentives for the whole value chain of Chinese life science sector to support the industry development. With the roll-out of this new-incentive implementation, this article aims to provide an overall view of the relevant policies and implications to the industry players from finance and tax perspectives.

2

Footstep of Government Measures: Full-Chain Support for Innovation

Built on top of the earlier incentive framework and policies, Chinese government undertakes further actions to increase the industry supporting effort by introducing a new concept of "Full-Chain Support for Innovation" from 2024. The key footsteps for these new measures are as follows.

2.1 National strategy for the support of innovation drug development by central government

- In the *2024 Government Work Report* published the State Council in March 2024, the development for innovative drug is clearly stated as one of the emerging and future industry that should be nurtured actively.
- On 5th July 2024, the State Council has examined and approved the *Implementation Plan for Full-chain Support for the Development of Innovative Drugs* which emphasized the importance of policy coverage for the full-chain of innovation drug industry, including basic science, financing, drug examination and approval process, health insurance, price management for pharma market etc. This national strategy is proposed to organize resources from public/private sectors to provide innovative biopharma companies with necessary support for the major millstones of their new pipeline and product development.

These top-level strategies from the China central government mainly include the support to Chinese biopharma industry in respect of financial support, talent issue related support, introduction of new AI technology, data sharing, and a committed more efficient government approval process. These strategies will be supplemented by local government's detailed implementation measures.

2.2 Full-chain support policies for innovative drugs by local governments

Consistent with the top-level strategies from central government, multiple local governments have launched detailed policy guidelines and some of which has officially issued the local version of full-chain support for innovative drug policies for implementation purpose, specifically:

Table 1: Summary of the Representative Local Policies for Full-Chain Support for Innovation

Timing	Location	Local policy for Full-chain support for innovative drugs	Status
April 2024	Beijing	Measures on Supporting of the High-quality Development of Innovative Drugs	Effective
April 2024	Guangzhou Huangpu	Measures to Promote High-quality Development of Bio-pharma Industry	Effective
July 2024	Shanghai	Opinions on Supporting for Full-Chain Innovation of Bio-pharma Industry	Effective
August 2024	Suzhou	Measures on Full-chain Supporting for the Bio-pharma Industry	Effective
August 2024	Zhuhai	Notice on Several Measures to Promote High Quality Development of Biomedical and Health Industries	Effective
September 2024	Beijing	Work Plan to Further Optimize the Full Process Service for Innovative Drugs	Effective
October 2024	Zhejiang province	Measures on Full-Chain Supporting for High-quality Development of Innovative Drug and Medical Appliance	Exposure draft
October 2024	Tianjin	Opinions on Full-chain Supporting the Innovation Development of Bio-pharma Industry	Exposure draft

By October 2024, major cities with biopharma industry agglomeration advanced ahead to officially promulgate their local full-chain support policies. Meanwhile, other cities and provinces are closely following the national strategy either in the progress of guideline drafting or internal preparation.

Under the wide concept of Full-Chain support for innovation, local policies have presented a more comprehensive framework and measures than the previous local support measures, thought it may vary from different perspectives between locations, aiming to tackle the pain points of the industry players. Taking the effective local policies of Shanghai, Beijing and Suzhou as examples, we have summarized the main aspects and measures proposed by these local policies.

Table 2: Summary of the Typical Measures of Local Full-Chain Support for Innovation Policy

Aspects	Measures
Business environment improvement	
Biopharma industry project/ park	• Provide Environment Impact Assessment process convenience by allowing a combined application for faster approval. • Fund support with certain ratio, e.g., 30% for the new investment amount; 10% of total investment for qualified upgrading projects; one-off subsidies up to RMB 100 million for qualified biopharma park. • Provide standardized manufacturing plant space for qualified biopharma companies.
CXOs Supporting	• Provide the CXOs in the industry with fund support, e.g., subsidies by certain percentage of revenue.
Public service	• Provide legal and intellectual property right consulting and assistance support for biopharma companies. • Establish issue-resolution mechanism to provide necessary assistance to resolve operation matters for important projects.
Talent attraction	
Talents project incentive	• Support for top scientists, outstanding young talents and badly needed professionals by providing subsidies in accordance with local talents projects. • Assist qualified talents of biopharma industry in applying for provincial or national level talent projects.
Financing supporting	
Investment channel	• Enhance the government investment via the industry fund of funds (FOF) and its sub-fund for companies with high potential and valuable pipelines. • Encourage the establishment of Corporate Venture Capital (CVC) to invest in the value chain of the industry. Provide qualified CVCs with state-own fund or FOF investment. • Establish or encourage companies to establish merger and acquisition fund for biopharma industry.
Credit support	• Provide interest discount to the loan credit borrowed by qualified companies. Increase the guaranteed amount provided by government's guarantee fund to small and micro enterprises or high-tech enterprises. • Encourage financial institutions to provide various financial instruments for biopharma companies.

Aspects	Measures
Global development	
Import & export facilitation	• Improve the import policy design for materials of biopharma R&D by establishing "whitelist" mechanism based on the company's credit and expanding the scope of special item supervision mechanism to include the cell therapy and other necessary products for convenient import and export.
Subsidies for products registered abroad	• Grant subsidies based on R&D contribution for innovative drug or instruments approved by FDA, EMA, CE, PMDA or other jurisdictions' drug regulator.
International communication and cross-border transaction	• Inspire international pharmaceutical academic and business exchanges with administrative support or fund support. • Encourage local biopharma companies to explore global market via cross-border transactions.
Digital empowerment	
Database and data sharing mechanism	• Encourage to apply new technologies such as big data, generative AI, block chain etc., to establish database covering multiple aspects in the industry. • Encourage to establish data sharing mechanism between medical institutes, research institutes, biopharma companies, health care and insurance agencies etc.
Empower drug discovery via AI technology	• Encourage to apply AI technology to support the target discovery and identification, drug design, safety analysis etc.
Innovation ability	
Basic theory innovation and cutting-edge technology breakthrough	• Coordinate the research and innovation resources of universities and research institutes, make early deployments in frontier fields, and accelerate the integration of scientific research resources. • Grant fund support for innovative research projects by certain ratio.
Conversion from scientific results to pre-clinical R&D	• Grant interest discount to the qualified pre-clinical projects. • Encourage enterprises to construct multi-principal consortium for result transformation for Full-Chain innovation.
Increased support for the R&D for innovative drug and instrument	• Grant tiered subsidies for innovative drug project in different stages of pre-clinical, clinical I, II, III. • Grant tiered subsidies for innovative medical instrument that is in the special examine process for innovative medical instrument and that obtains MAH for the first time.

Aspects	Measures
Clinical trial support	
Research-oriented hospital	• Encourage top-level hospital to transform its main function into clinical and innovative research and establish a certain proportion of research-oriented beds.
Efficiency in ethics review for clinical trial	• Aim to manage and shorten the timeline of ethics review to be within 3 weeks. • Encourage a wide recognition upon the result of ethics reviews.
Shorten the start-up period for clinical trial	• Aim to shorten the start-up period for clinical trial within 20- 28 weeks by integrating the data systems and optimizing the internal trial preparation process.
Incentives for clinical trial service providers	• Grant subsidies for the qualified clinical trial projects conducted by CROs including domestic and overseas clinical trial. • Grant subsidies or non-cash incentives for the medial institutes and clinical trial teams conducting qualified clinical services.
Approval process acceleration	
Shorten the review period of NMPA	• Following the reform of National Medical Products Administration (NMPA) on pharma review process, aim to manage the IND review period to 30 working days, and review period for supplementary application to 60 working days.
Pre-application guidance	• Arrange specialists to provide guidance for the preparation of important pipelines and projects for application.
Acceleration of Class II medical instrument review	• Encourage valuable and innovative Class II medial instrument to apply for special review program for advance review and registration.
Commercialization of innovative products	
Expand medical insurance payment scope	• Aim to expand the scope of medical insurance payment for qualified innovative drugs and medical instrument.
Optimize the distribution channel	• Encourage local hospital to adopt the innovative medical instrument and cooperate with companies to conduct post-market review.

From the above summary, it is apparent that the Full chain support policy is different from the previous fragmented policy system in respect of a full support to the whole value chain of the innovative drug development cycle, and the support includes aspects of direct financial subsidies, administrative approval facilitation, transaction encouragement, and resources integration.

Within the overall landscape of Chinese biopharma industry, biopharmaceutical industrial parks ("BPIPs") is a conspicuous carrier of the industry development. In the BPIPs, the biotech startups are nurtured, and more established enterprises are supported for step-up, driven by the policy incentives from local and central level for the BPIPs.[1] Before the dawn of this full-chain support policy, local BPIPs have already been exploring a model to integrate upstream and downstream industrial resources to support biopharmaceutical companies' R&D activities, drug approval process and commercialization of products.

Taking Shanghai Zhangjiang Biopharmaceutical Industrial Park and Suzhou Industrial Park's Biopharmaceutical Industrial Park ("Bio Bay") as examples, these BPIPs have been coordinating local investment funds to create a better financing environment, establishing platform service companies to provide comprehensive support services such as analytical testing, supply chain services, talent training and talent policy application, public space management, CRO service advisory, and offering guidance and assistance for the approval of new drugs. Meanwhile, these BPIPS also put much effort to coordinate with R&D institutions and universities around Yangtze River Delta to enhance the academic work transformation. The ecosystem created via the form of BPIPs, aligns with the core philosophy of the new full-chain support policy, which is to create an effective ecosystem to ensure the sustainable development of biopharma companies at all stages. It is expected that the BPIPs would continue to play an important role of landing and implementation of the full-chain support policies.

For individual participants in the biopharma industry, including both domestic enterprises and MNCs, how to explore and incorporate the policy benefit into their China and even global development strategies should be considered with full attention.

1. See "China's Biotech Parks – Leveraging the ecosystem for success" published by Deloitte China China's Biotech Parks – Leveraging the ecosystem for success | Deloitte China | Life Sciences and Health Care

3

Strategies of Biopharma Companies

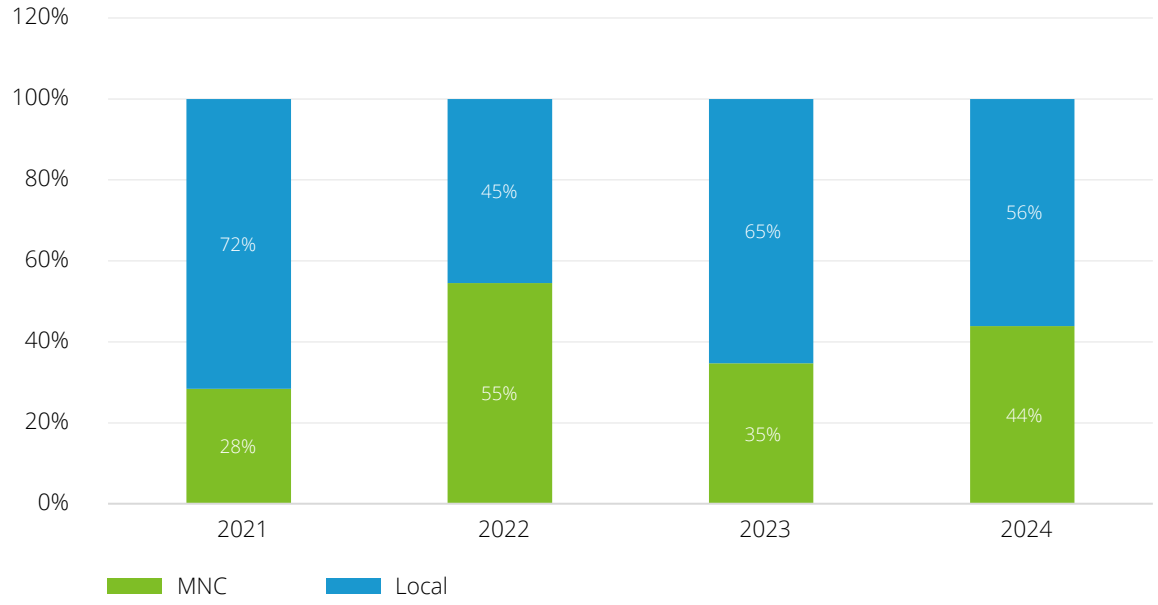
Stakeholders of China biopharma industry have already taken actions to explore the Full chain supporting policies, whilst considering their overall business strategies and initiatives. Based on our observations and analyses, MNCs and local Chinese companies are taking respective approaches to explore the benefit from the full chain supporting policies.

3.1 Strategies of MNCs

Amid the stronger competition from local biopharma companies and the external price reduction pressure due to government initiatives such as volume-based procurement (VBP) and insurance catalogue entry pricing negotiations, MNCs have placed a great deal of effort on local cost management as well as local market share gaining approaches. The full-chain support to local R&D is expected to motivate the MNCs to adopt a number of strategies, fitting to their respective overall strategies.

- **Increased effort of introducing innovative product and therapy solutions to the Chinese market** - MNCs have been more focused on introducing their mature products into China to fill the market gap in the past. However, for recent years, the return for mature products in China market has been impacted by state-lead purchasing programs such as VBP, which brings the local substitutes with much lower prices in the centralized purchase programs organized by government for the public medical institutions. Meanwhile with the more open and faster approval of new product, it is expected that MNCs would speed their new product introduction into the China market.
- **Increased local R&D partnership and local self-R&D activities** - Though MNCs are not necessarily building up their own local R&D capacities, MNCs tend to find local R&D partners to conduct local trials and share the future profit of commercialization, which could be an efficient way to speed up the local market approval and entry of new products. This is partly due to the increased R&D capabilities of the local companies. Meanwhile, some of the top biopharma MNCs also commits to invest in R&D in China on their own taking the advantage of local policy benefits, talents, etc. to have a deep ploughing in the China market. According to Deloitte's research, from 2021 to 2023, the phase III clinical trial pipelines held by MNCs in China has grown from 52% to 61%. The innovative drug approved by NMPA has also been bounced back in recent years. We expect there will be continued growth of local R&D activities and new Phase III clinic trials, either via collaboration with local R&D partners or self-controlled RD activities by the MNCs.

Figure 8. NMPA Approved Innovative Drugs by Origin



Source: Desktop research by Deloitte

- **Increased collaboration or acquisition of pipeline rights from local enterprises** - It has been observed that some leading MNCs are conducting quite significant M&A transactions expeditiously to refine their R&D pipeline strategy and transformation initiatives within the Chinese market. This is achieved by acquiring the shares of biopharma companies that possess valuable or suitable pipelines, thereby securing prospective revenues, or forging deeper strategic alliances with local partners. By 2024Q2, there were several M&A cases reported (including the first acquisition by MNC for Chinese biopharma company's full share, AstraZeneca's acquisition of Gracell in 2023 for cell therapy ambition across oncology and autoimmune diseases) in which MNCs purchases local biopharma companies to enhance their pipelines. With the full chain support policy, we expect that this type of collaboration or acquisition will continue.

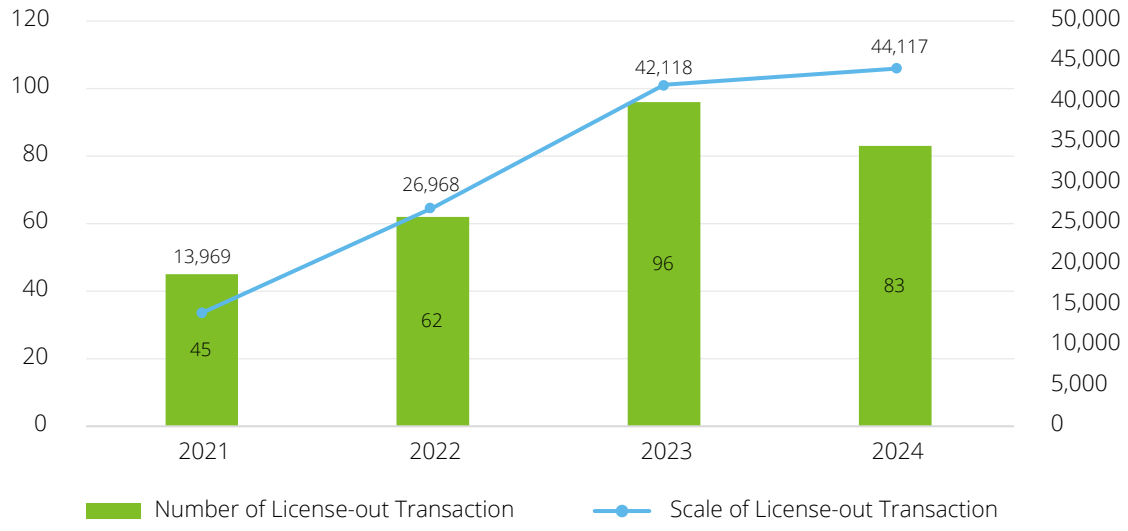
- **Increased consideration on Supply Chain Localization and Potential Carve-out Mature products** - With the increased competition from local companies and the pricing pressure, MNCs may potentially restructure their China product portfolio with potential carve-out of the established product portfolio to local buyers. Where self-production continues, supply chain sustainability and cost saving would be the key concerns, with local sourcing of APIs and local production. This kind of supply-chain reorganization is compatible with the MNC's increased focus on innovative product introduction and collaboration with the local partners on R&D and commercialization. The full-chain support policy will facilitate such transformation for MNCs.

3.2 Strategies for local Chinese biopharma companies

Chinese Biopharma companies are also taking concrete actions to seize the Full-chain support related benefit.

- **Proactively advocating and negotiating supporting benefits to fits their overall R&D strategy** - Full-chain support policies are evaluated and granted on an individual case basis. For nascent biopharma enterprises currently engaged in the development phase, there is an incentive and benefit of navigating and ascertain eligibility for policy incentives, as well as advocating and negotiating for the most advantageous benefits and support by engaging in proactive discussions and negotiations with the local governments.
- **Organize R&D activities to leverage local advantages in multiple locations within China** - Considering the varying support policies for the biopharma/biotech industry across different locations, along with the distribution the difference focus of talent and infrastructure, many enterprises are considering build up multiple R&D locations with different focus to fully leverage potential resources and benefits.
- **Increased cross-border 3rd party or cross-border intercompany license-out deals to speed up the recovery of R&D costs and tap into commercialization in the overseas market** - Chinese biopharma companies now have a consensus and demand to enter the international market, and in the past two years, the number and scale of License-out transactions have increased significantly. The reasons are manifold, including profit seeking, fund recycling, and boosting performance in the capital market. The full-chain support policies will further facilitate such cross-border activities.

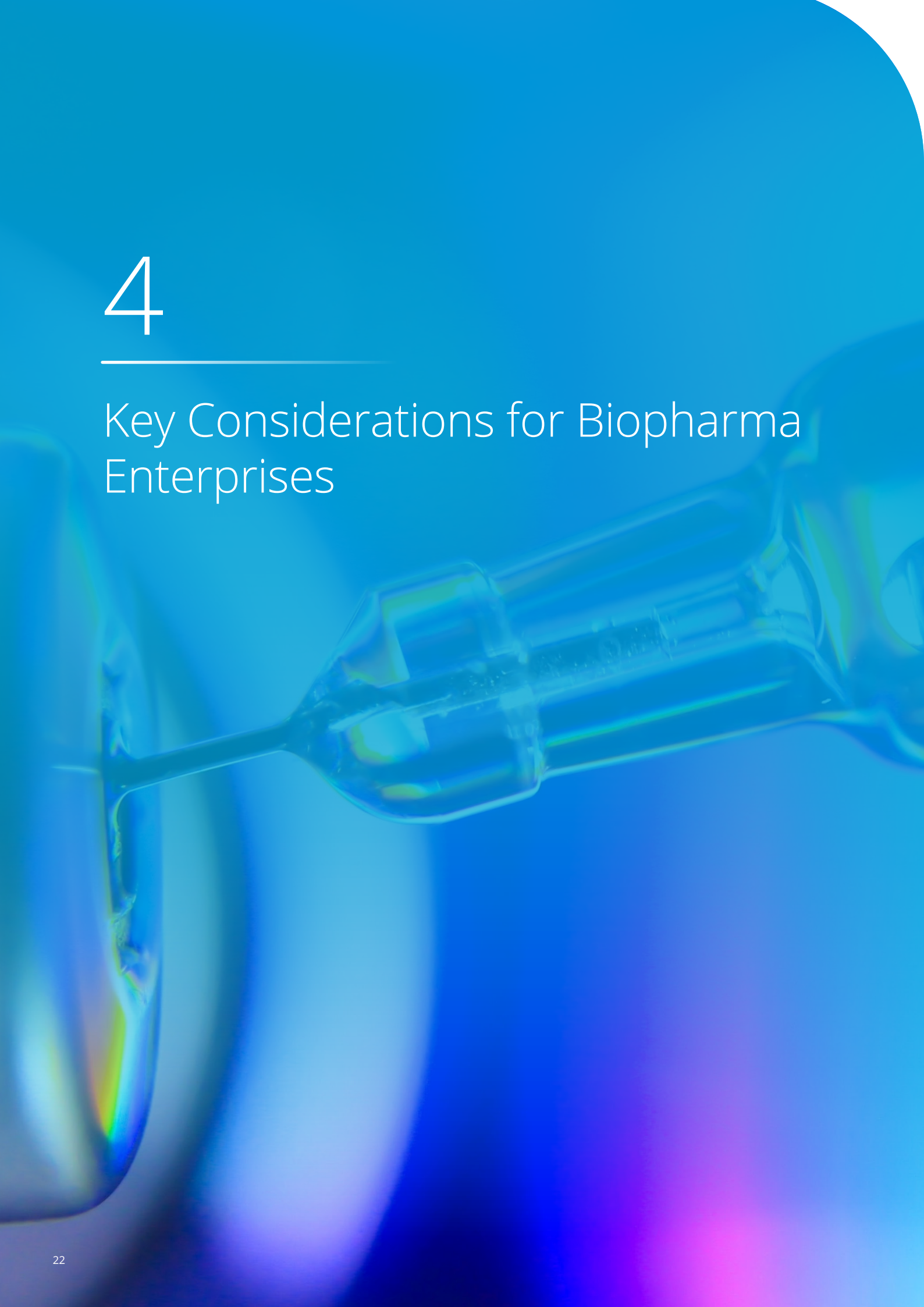
Figure 9. Change of License-out Transaction of Chinese Innovative pipelines (US$ million) *



Source: NextPharma, public information, analysed by Deloitte
Note: Statistics License-out transaction for 2024 is up to December 15, 2024.

4

Key Considerations for Biopharma Enterprises



From the perspectives of MNCs and domestic enterprises, tax and relevant regulatory consideration is one of the important factors that need full attention from management when considering their China strategies.

4.1 Key tax considerations for MNCs

With introduction of new products and pipelines, MNCs would need to consider questions such as: what is the proper license-in or product introduction route for the pipeline or product to be introduced to the Chinese market; what should be done to ensure the overseas principal would properly compensated from Transfer Pricing perspective without excessive tax liabilities, and what should be done to ensure successful implementation from Chinese tax, Customs, Foreign Exchange, and other regulatory perspectives.

With the increased collaboration with domestic R&D partners or acquisition of pipeline rights from domestic enterprises, MNC would need to consider question such as: which entity should be the acquirer and holder of the pipeline right, should it be an overseas entity or a Chinese entity? Whether a special vehicle entity should be established for the acquisition considering the potential tax costs? Whether there should be a split of the Chinese rights and other global rights in the holding? And what would be the optimal business model and pricing split to accommodate such a split?

With the consideration on Supply Chain Localization and Potential Carve-out Mature products, MNCs would need to consider questions such as: how should the overseas principal's IP ownership including product IP and manufacturing know be properly compensated from transfer pricing perspective with the localized of the whole supply chain? What would be the feasible operating models from regulatory, tax, transfer pricing, Customs and FX perspectives to enable localization of supply chain whilst ensure a proper compensation to principal? What are the tax implications for the carve-out of the mature products and is there any optimal way to structure the carve out from tax perspective to meet the business needs whilst mitigate potential tax risks? And what are the implementation hurdles from tax, FX and Customs perspectives?

4.2 Key tax considerations for Chinese biopharma/biotech companies

With the organization of R&D activities in multiple locations to utilize the local advantages, Chinese biopharma companies may consider whether such an allocation of R&D activities between entities in different locations would be in line with the overall IP ownership strategy within the group? And would be it tax efficient from the group perspective?

With the increased cross-border 3rd party or intercompany license-out deals, Chinese biopharma and biotech companies would need to consider questions such as: what is the best way to transfer the relevant pipeline or product rights to the targeted licensee entity? which entity should be the license out entity and what the proper license out route to avoid excessive cash tax liabilities; how the licensed out or commercialized revenue should be split among group entities to ensure the relevant value contributors or IP contributor within the group would be properly compensated from transfer pricing perspective; and is there any tax (direct or indirect tax) preferential treatment could be explored in the license out deals. All those questions are critical questions to avoid excessive tax liabilities and ensure tax efficiency.

4.3 Other common considerations for both MNCs and Chinese biopharma/ biotech companies

There also are other common consideration for MNCs and Chinese Biopharma Companies when exploring the full-chain support from Chinese government. This includes but not limited to whether there is good talent candidate for the R&D related operations; how good and competent is the infrastructure in support of the contemplated R&D activities; is there a right level concentration of the downstream and upstream players to facilitate future operations; is there any other concerns from regulatory perspective including data protection and easy access to regulatory bodies etc. All of those factors could play a decisive role in the overall consideration of the right business and investment decisions for the enterprises.

5

Outlook

Although Chinese biopharma industry is currently under pressure, it is expected to continue to grow. This is due to the Chinese government's unwavering commitment to deepen healthcare reforms and bolster the biopharmaceutical sector, the well-based innovation-friendly environment in the industry, and the inherent innovation drive among the industry players. While external factors like the global economy and geopolitical shifts would influence the industry, the drive for innovation and the universal demand for superior healthcare will persistently propel the industry, particularly as we may be standing on the brink of the global economic recovery. Enhanced opportunities are emerging from the government's new "full-chain support for innovation" incentive policies, which are set to accelerate the industry's overall growth.

With the growing innovation capabilities, including the buildup of pipelines and expected continuous surge of license-out transactions, the Chinese enterprises will have the prospect to not only thrive in this vast domestic market but also to stride onto global market as one of the global industry leaders. the policy incentives could be one of the pivotal opportunities for growth and transformation of the Chinese domestic industry players. For MNCs, transformation and collaboration are the keys to further delving and integration into the Chinese market.

This full-chain support strategy from the central government and the implementation measures from the local governments are aimed to encourage industry players to continue to invest on R&D and innovation and to further improve the innovation-friendly environment to support the future growth of the biopharma industries. MNCs and local biopharma/biotech companies have been taking corresponding strategies towards such government backed supporting policies, with an expected increase of introduction of new product, local R&D collaborations, and supply chain reorganization initiatives from MNCs, and also with an expected increase of cross-border license out deals for Chinese Biopharma enterprises.

There are important tax and regulatory considerations for MNCs and Chinese biopharma companies when contemplating the exploration of the full-Chain support policies. Careful addressing of those considerations is critical to avoid excessive cash tax burden and ensure tax efficiency for the industry players.

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