

To Norges Bank

26.06.2024

UNOFFICIAL ENGLISH TRANSLATION

**Recommendation to exclude RLX
Technology Inc from the Government
Pension Fund Global**

1 Introduction

Pursuant to section 3(1) of the Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global:

The GPFG shall not be invested in companies which themselves or through entities they control:

[...]

b) produce tobacco or tobacco products

[...]¹

The Council on Ethics has assessed whether the GPFG's investment in RLX Technology Inc (RLX)² falls within the scope of this provision.

RLX is listed on the New York Stock Exchange. At the close of 2023, the GPFG owned 0.72 per cent of the company's shares, worth NOK 230 million.

2 Background

RLX Technology Inc is a holding company registered in the Cayman Islands. The company states that it is *"a leading global branded e-vapor company. We deeply engage in the key activities in the e-vapor industry globally, from scientific research, technology and product development, supply chain management, to distribution of products."*³ RLX is the company behind Relx, the leading brand in the Chinese e-cigarette market, which had a market share of approximately 60 per cent in 2020. Apart from producing e-cigarette hardware, Relx is also known for selling its own brand of disposable e-cigarettes and cartridges containing e-liquid. A 2022 research report on Smoore, a Chinese producer of vaping equipment, lists Relx as one of the most important e-liquid brands and mentions that Relx sells cartridge models containing 3–5 per cent nicotine and 1.5–2 ml of e-liquid.⁴

With effect from October 2022, all synthetic nicotine and nicotine-free e-liquids have been banned in China, while e-cigarettes for export have been subject to

¹ Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global, 5 September 2022:

https://www.regjeringen.no/contentassets/9d68c55c272c41e99f0bf45d24397d8c/2022.09.05_gpfg_guidelines_observation_exclusion.pdf

² Issuer ID: 69393638

³ RLX's 20-F, filing to the US Securities and Exchange Commission (SEC) for 2023, p. 78: <https://www.sec.gov/ix?doc=/Archives/edgar/data/1828365/000110465924049421/rlx-20231231x20f.htm>

⁴ Report (in Chinese): [天风证券-电气设备行业深度研究-思摩尔：大国雾匠，乘风破浪-200705.pdf \(dfcfw.com\)](https://pdf.dfcfw.com/pdf/H3_AP202007061389749090_1.pdf) - https://pdf.dfcfw.com/pdf/H3_AP202007061389749090_1.pdf

the same rules as those intended for the Chinese domestic market. This means that all e-liquid produced by Chinese manufacturers must, by law, contain nicotine and that this nicotine must have been extracted from tobacco plants.⁵

3 Matters assessed by the Council

The Council on Ethics has assessed whether RLX owns or controls entities that produce tobacco products in the form of e-liquid containing nicotine extracted from tobacco plants.

3.1 Sources

The Council has written to the company several times to ask whether it is involved in tobacco production but has received no reply. The Council rests its assessment on information provided on the company's website and its 20-F filing to the US Securities and Exchange Commission (SEC) for 2023. The Council has also employed the services of a consultant to search in Chinese sources.

3.2 Corporate structure

RLX is a holding company with no operations of its own. The company's annual report for 2023 (20-F filing to the SEC) states that, for regulatory reasons, no one outside of China is permitted to *own shares* in companies in the e-cigarette segment. It is for this reason that RLX has entered into a number of contractual agreements with companies in China, which are responsible for the company's actual operations and production,⁶ and formed a so-called Variable Interest

⁵ For an overview of Chinese regulations relating to the country's tobacco control laws, visit: <https://www.tobaccocontrolaws.org/legislation/china/e-cigarettes/main-policies>. See also the article published by ECigIntelligence on 3 May 2022: <https://ecigintelligence.com/china-bans-synthetic-nicotine-while-new-e-cig-standard-could-affect-global-market/>

⁶ From item 4 in the 20-F filing for 2023: *History and Development of the Company*: "We commenced operations on January 2, 2018, when Shenzhen Wuxin Technology Co., Ltd., or Shenzhen Wuxin, was established. Relx Inc. was established in Cayman Islands in August 2018 as the offshore holding company for the business both inside and outside China. Relx Inc. established Relx HK Limited in Hong Kong in August 2018 as its intermediary holding company. Relx HK Limited subsequently established a wholly-owned principal subsidiary in China, Beijing Yueke Technology Co., Ltd., or Beijing Yueke, in October 2018. Relx Inc. obtained control and became the primary beneficiary of Beijing Wuxin Technology Co., Ltd., or Beijing Wuxin, which wholly owns Shenzhen Wuxin, in October 2018 by entering into a series of contractual arrangements with Beijing Wuxin and its shareholders through Beijing Yueke, in light of the PRC legal restrictions on foreign ownership of value-added telecommunication services and certain other businesses at the time."

Entity (VIE) structure (see the red arrow in the figure below).⁷ The operations in China are recognised in RLX’s financial statements and are considered to be part of the business in RLX’s annual report.⁸

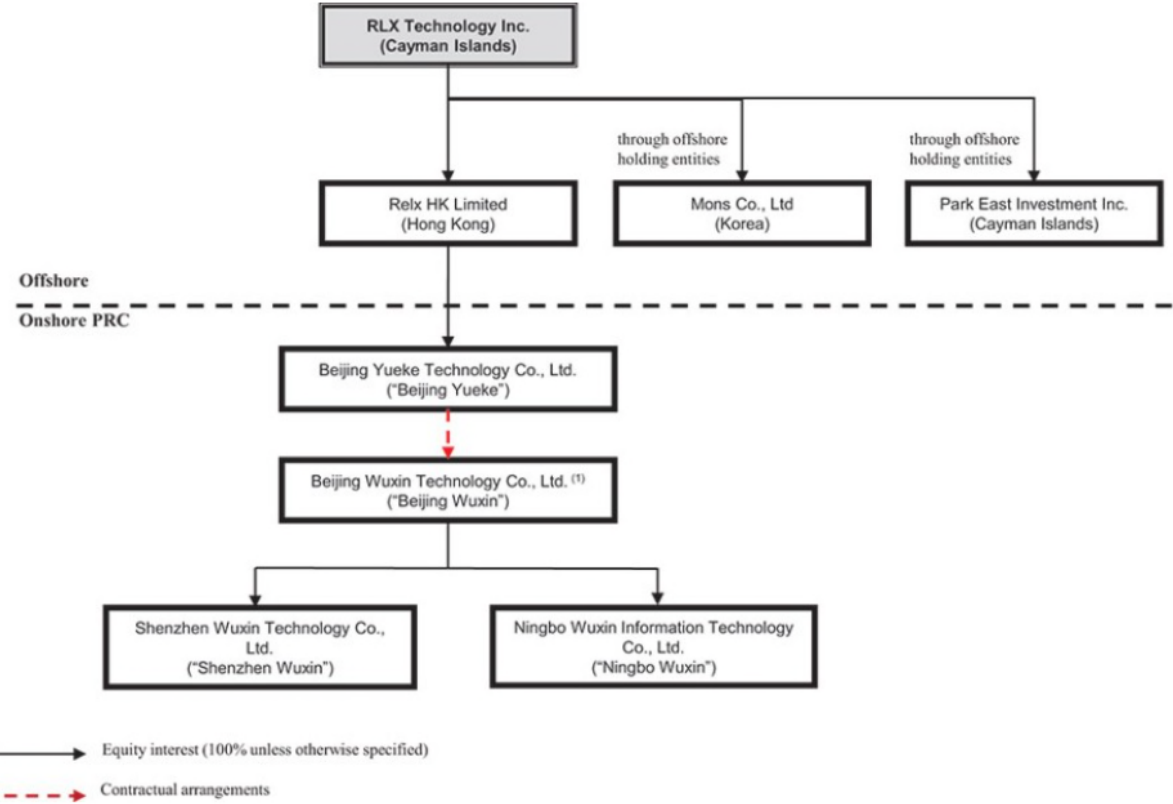


Fig. 1: Corporate structure

⁷ For an explanation of the background to the use of the VIE structure in Chinese companies, see the article “Variable Interest Entity Structure in China”, written by King and Wood and published in China Law Insight in February 2012: <https://www.chinalawinsight.com/2012/02/articles/foreign-investment/variable-interest-entity-structure-in-china/>

⁸ On page 6 of its 20-F filing for 2023, the company describes how the VIE structure gives it control of the business: “A series of contractual agreements, including exclusive business cooperation agreement, power of attorney, equity interest pledge agreements, exclusive option agreement, and exclusive assets option agreement have been entered into by and among our subsidiaries, the consolidated VIE and its shareholders. Our Cayman Islands holding company and its subsidiaries do not have legal majority ownership in the VIE, but depend on these contractual arrangements to provide our subsidiaries with a “controlling financial interest” in the consolidated VIE, as defined in FASB ASC 810, making it the primary beneficiary of the consolidated VIE for accounting purposes. Terms contained in these contractual arrangements with the consolidated VIE and their respective shareholders are substantially similar, which enable us to (i) have power to direct activities of the consolidated VIE that most significantly affect the economic performance of the consolidated VIE, and (ii) receive the economic benefits from the consolidated VIE that could be significant to the consolidated VIE.”

3.3 Production by entities controlled by RLX

The Council has investigated whether tobacco or tobacco products are produced by entities controlled by RLX. In its 20-F filing for 2023, RLX states that it produces e-liquid at a factory in Shenzhen.⁹ RLX discloses no further details about the factory, other than that it is owned and operated by a subsidiary. A research report published by the Chinese financial services company Guolian Securities in August 2023¹⁰ describes Shenzhen Fangxin Technology (深圳芳芯科技) as China's market leader for e-liquids and identifies it as a supplier of e-liquid to Relx. Shenzhen Fangxin Technology produces e-liquid that contains nicotine from tobacco plants.

As described in section 3.1 above, RLX has a controlling interest in the company Shenzhen Wuxin Technology Co Ltd (深圳雾芯科技有限公司). A search of Chinese company registers revealed that Shenzhen Wuxin Technology Co Ltd owns 72 per cent of Shenzhen Fangxin Technology (深圳芳芯科技).¹¹

4 The Council's assessment

On the basis of the information available, the Council has assessed whether RLX Technology Inc or entities under its control produce tobacco or tobacco products. The Council finds that RLX Technology Inc controls Shenzhen Wuxin Technology Co Ltd, whose subsidiary Shenzhen Fangxin Technology produces e-liquid containing nicotine from tobacco plants.

⁹ 20-F filing for 2023, p. 4.

¹⁰ Goulian Securities, 8 August 2023, Report (in Chinese):

https://pdf.dfcfw.com/pdf/H3_AP202308081593484980_1.pdf?1691485532000.pdf

¹¹ The Council's consultant has performed searches in the Chinese company register:

https://webcache.googleusercontent.com/search?q=cache%3Ahttps%3A%2F%2Fwww.qcc.com%2Ffirm%2F1e25ffdd7d34e222bfa37e422b18cf20.html&sca_esv=8ce8be85696c52dc&source=hp&ei=zHn5ZaKOC6uChbIP2qq-4Ak&iflsig=ANes7DEAAAAAZfmH3EfwFBlegGOxEjGCHDBvju5Ta_jA&ved=0ahUKEwiipO-Vn4CFAXUrQUEAHVqVD5wQ4dUDCA4&uact=5&oq=cache%3Ahttps%3A%2F%2Fwww.qcc.com%2Ffirm%2F1e25ffdd7d34e222bfa37e422b18cf20.html&gs_lp=Egdnd3Mtd2l6lkrjYWNNoZTpodHRwczovL3d3dy5xY2MuY29tL2Zpcm0vMWUyNWZmZGQ3ZDM0ZTIyMmJmYTM3ZTQyMmlxOGNmMjAuaHRtbDIKEAAYgAQYRhj5ATIFEAAyAQyBRAAGIAEMgUQABiABDIFEC4YgAQyBRAAGIAEMgUQABiABDIFEAAyAQyBRAAGIAEMgUQABiABEijEFAAWMsJcAB4AJABAjgBTqABWgKqAQE2uAEDyA EA-AEB-AECmAlGoALeAsICCAAGIAEGLEDGIMBwgIIEAAYgAQYsQPCAgSQLhiABBixAxiDAcICERAUgIAEGL EDGIMBGMcBGNEDwglOEC4YgAQYsQMYxwEY0QPCAggQLhiABBixA8ICERAUgIAEGLoFGLLEDGMcBGK8BwglUEC4YgAQYigUYsQMYgwEYxwEY0QPCAg4QABiABBixAxiDAcICCAuGIAEGMcBGK8BwglIHEAAYgAQYCsICCAuGLEdGIAEmAMakgcBNqAHyj8&sclient=gws-wiz

5 Recommendation

The Council recommends that RLX Technology Inc be excluded from the GPFG because of the company's production of tobacco or tobacco products.

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