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Private Equity Law

What is Different About Zhuhai's New QFLP Pilot Scheme?

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On January 7, 2019, the Zhuhai Financial Work Bureau (“**Zhuhai Financial Bureau**”) published on its official website the *Interim Measures for Administration of the Pilot Scheme for Foreign-invested Equity Investment Enterprises in Zhuhai* (“**Zhuhai QFLP Measures**”), and an article entitled *QFLP Pilot Scheme Officially Landing in Zhuhai Will Help to Build An International Industry and Venture Capital Highland* to briefly introduce the background, main content, characteristics and goals of the Zhuhai QFLP Measures. The release of the Zhuhai QFLP Measures indicates the official launch of the foreign-invested equity investment enterprise (commonly known as “**QFLP**”) pilot scheme in Zhuhai, and henceforth a clear guidance is made available to investors who desire to establish QFLP pilot enterprises in Zhuhai. The Zhuhai QFLP Measures stipulate that they will take effect 30 days following their issuance. We noticed that the Zhuhai Financial Bureau has already published the Zhuhai QFLP Measures on its website on December 21, 2018 before reposted the exact same document on January 7, 2019. Thus, the Zhuhai QFLP Measures will come into force as of January 20, 2019.

Since Shanghai¹ took the initiative to promulgate its QFLP pilot scheme in late 2010 and launched its QFLP pilot work in early 2011, multiple cities, including Beijing², Tianjin³,

¹ Regarding the Shanghai QFLP pilot scheme, please refer to the Han Kun newsletter article entitled “Summary of Recent Regulation Interpretation Seminar on Qualified Foreign Limited Partner (QFLP) Pilot Scheme in Shanghai”, dated April 28, 2011

² Regarding the Beijing QFLP pilot scheme, please refer to the Han Kun newsletter article entitled “Introduction to Beijing QFLP Measures”, dated November 21, 2011.

³ Regarding the Tianjin QFLP pilot scheme, please refer to the Han Kun newsletter article entitled “Introduction to Tianjin QFLP Interim Measures and Its Implementing Rules”, dated November 25, 2011; regarding comparisons of QFLP pilot schemes in Beijing, Shanghai and Tianjin, please refer to the Han Kun newsletter article entitled “Comparisons of QFLP Pilot Schemes in Beijing, Shanghai and Tianjin”, dated January 5, 2012.

Chongqing, Shenzhen⁴, Qingdao, Guizhou and Pingtan⁵ (Fujian), have introduced QFLP pilot schemes to promote their respective local QFLP pilot work. To date, most of the said cities have implemented QFLP pilot schemes for several years and the results vary: some have successfully attracted quite a few of high-profile overseas private equity institutions which have successfully established and operated QFLPs therein, while some have already terminated their QFLP pilot schemes as the results fall short of expectations. In addition, some cities, including Shenzhen, have released new versions of their pilot schemes based on prior experience in order to achieve better results. Now, under the background of Chinese government's vigorous promotion of the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and great efforts to attract and retain foreign investments, by drawing on its geographic advantages of being adjacent to Hong Kong and Macao and relying upon prior experience, Zhuhai becomes the second city in Guangdong Province to implement a QFLP pilot scheme following Shenzhen. So, what are the main contents of the Zhuhai QFLP Measures? And what are the characteristics that distinguish the Zhuhai QFLP Measures from QFLP pilot schemes in other cities? In this article, we try to explore answers to those questions.

I. Main Contents and Characteristics of the Zhuhai QFLP Measures

1. Pilot Enterprises and the business scope

According to the Zhuhai QFLP Measures, pilot enterprises (“**Pilot Enterprises**”, each a “**Pilot Enterprise**”) include foreign-invested equity investment enterprises and foreign-invested equity investment management enterprises. Specifically, (i) foreign-invested equity investment management enterprises refer to the enterprises that the leading group for foreign-invested equity investment enterprise pilot work (the “**Leading Group**”) approves to establish in Zhuhai by foreign enterprises or individuals in accordance with the laws, to conduct the principal business of sponsoring or managing equity investment enterprises; and (ii) foreign-invested equity investment enterprises refer to enterprises that the Leading Group approves to set up in Zhuhai by foreign enterprises or individuals in accordance with the laws, to carry out the principal business of raising funds privately from domestic and/or offshore investors to invest in non-publicly traded corporate equities. The name of a Pilot Enterprise must include the words “equity investment management” or “equity investment”. Except the Pilot Enterprises approved the Leading Group, other Foreign-invested enterprises cannot include words “equity

⁴ Regarding the 2013 Shenzhen QFLP pilot scheme, please refer to Han Kun's newsletter article entitled “Shenzhen Launches its QFLP Pilot scheme”, dated January 4, 2013; regarding the 2017 Shenzhen QFLP pilot scheme, please refer to Han Kun's newsletter article entitled “A Brief Overview of the Pilot Scheme for Foreign-funded Equity Investment Enterprises”, dated October 19, 2017.

⁵ Regarding the Pingtan QFLP pilot scheme, please refer to the Han Kun newsletter article entitled “Analysis of the Pingtan, Fujian QFLP Pilot Scheme”, dated April 13, 2018.

investment management” or “equity investment” in their names.

Zhuhai QFLP Measures are applicable to both foreign-invested equity investment enterprises and foreign-invested equity investment management enterprises established in Zhuhai. According to the Zhuhai QFLP Measures, both types of Pilot Enterprises are permitted to engage the following business activities, respectively:

Foreign-invested Equity Investment Enterprises	Foreign Invested Equity Investment Management Enterprises
<p>(1) Invest in domestic equities with proprietary funds within the scope permitted by the government, with the specific investment methods including the establishment of new enterprises, investment in established enterprises, purchase of equities from investors held in established enterprises and other methods permitted by national laws and regulations. (investments subject to special access administrative measures require government approval);</p> <p>(2) Provide management consulting to invested enterprises;</p> <p>(3) Other related businesses approved by the approval or registration authority.</p> <p>Foreign-invested equity investment enterprises shall invest in real economy industries and infrastructure projects conducive to the development of Guangdong-Hong Kong -Macao Greater Bay Area, or directly into the real economy sectors following the guidance of the <i>Catalog for the Guidance of Industries for Foreign Investment</i>. Fund of funds-model are prohibited (except for investments by strategic cooperative foreign-invested equity investment enterprises at or above the municipal level and investments in specific project funds that directly invest in real economy industries).</p>	<p>(1) Sponsor the establishment of equity investment enterprises;</p> <p>(2) Manage the investment business activities of and provide related services to equity investment enterprises;</p> <p>(3) Provide equity investment consulting;</p> <p>(4) Other related businesses approved by the approval or registration authority;</p> <p>Foreign-invested equity investment management enterprises cannot directly invest in specific investment portfolios.</p>

Under the QFLP pilot schemes promulgated by certain other cities (such as the abolished Shenzhen 2012 pilot scheme), the sole function of a foreign-invested equity investment management enterprise is to sponsor the establishment and to manage the foreign-invested equity investment enterprises. Accordingly, a foreign invested equity management enterprise is only permitted to raise funds from overseas institutional/individual investors (i.e., “FIE manager managing foreign capital” model), while a foreign-invested equity investment management enterprise is not allowed to raise funds from domestic investors to set up pure RMB funds (i.e., “FIE manager managing domestic capital”), and a domestic equity investment management enterprise is not permitted to raise funds from offshore investors to establish foreign-invested equity investment enterprises (i.e., “domestic manager managing foreign capital”). Under the Zhuhai QFLP pilot scheme, all three of these models -- “FIE manager managing foreign capital”, “FIE manager managing domestic capital” and “domestic manager managing foreign capital” -- are permitted.

2. Entry thresholds for offshore investors

Under the Zhuhai QFLP pilot scheme, “FIE manager managing foreign capital,” FIE manager managing domestic capital” and “domestic manager managing foreign capital” are all allowed. Accordingly, there are two primary routes for offshore investors to participate in the QFLP pilot scheme. First, offshore investors solely or jointly with domestic institutions may establish foreign-invested equity investment management enterprises, which subsequently may raise funds from domestic and/or overseas investors to establish foreign/domestic equity investment enterprises to make equity investments (i.e., participate as a general partner). Secondly, offshore investors may invest in foreign-invested equity investment enterprises, and through which the investors may indirectly participate in domestic equity investments. In the latter case, the offshore investors themselves only act as passive investors in an equity investment enterprise but do not participate in the fundraising, management and investment operation of the enterprise (i.e., participate as a limited partner).

The Zhuhai QFLP pilot scheme, by reference to the provisions of the 2017 Shenzhen QFLP pilot scheme, sets forth different entry requirements for the aforesaid two approaches in consideration of the significant differences in an investor’s involvement in the establishment and operation of QFLP Pilot Enterprises, as well as the undertaking of liability, which shows substantial differences compared to QFLP pilot schemes previously promulgated in some other cities(such as the abolished 2012 Shenzhen pilot scheme). The specific entry requirements for the two types of investors are as follows:

- a. Conditions for offshore investors to become a shareholder or partner of a foreign-invested equity investment management enterprise**

Hong Kong and Macau Investors	Other Offshore investors
<p>Shall satisfy one of the following conditions:</p> <p>(1) In the fiscal year prior to application, possess proprietary assets (net assets) of not less than USD 6 million or equivalent, or assets under management (AUM) of not less than USD 12 million or equivalent; requirements for Macao enterprises or individuals may be lowered as appropriate, subject to examination and approval of the Leading Group on a “case-by-case” basis.</p> <p>(2) Hold an asset management license issued by the financial supervision and administration authority in the region where the investor is located.</p>	<p>Shall satisfy one of the following conditions:</p> <p>(1) In the fiscal year prior to application, possess proprietary assets (net assets) of not less than USD 100 million or equivalent, or assets under management (AUM) of not less than USD 200 million or equivalent.</p> <p>(2) Hold an asset management license issued by an overseas financial supervision and administration authority.</p>

- b. Conditions for offshore investors to become limited partners of a foreign-invested equity investment enterprise

Hong Kong and Macau Investors	Non-Hong Kong and Macao Offshore investors
<p>Shall meet the qualified investor requirements as provided in <i>Guiding Opinions of the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange on Regulating the Asset Management Business of Financial Institutions</i> (Yin Fa [2018] No. 106) and the <i>Interim Measures for the Supervision and Administration of Private Investment Funds</i> (CSRC Order No. [105]) and other provisions.</p>	

3. Conditions for the establishment of Pilot Enterprises

Besides the requirements mentioned in above paragraph (2), offshore investors also need to meet other conditions to establish Pilot Enterprises to participate in the Zhuhai QFLP pilot scheme. The specific conditions for the establishment of the two types of Pilot Enterprises are briefly summarized as follows:

- a. Pilot conditions for establishing foreign-invested equity investment enterprises:

Conditions for establishing foreign-invested equity investment enterprises:		
Place of Registration	Must be registered in Zhuhai.	
Offshore shareholder s/partners	Hong Kong and Macau investors	Non-Hong Kong and Macao offshore investors
	<p>Shall meet one of the following conditions:</p> <p>(1) In the fiscal year prior to application, possess proprietary assets (net assets) of not less than USD 6 million or equivalent, or assets under management (AUM) of not less than USD 12 million or equivalent; requirements for Macao enterprises or individuals may be lowered as appropriate, subject to examination and approval of the Leading Group on a “case-by-case” basis.</p> <p>(2) Hold an asset management license issued by the financial supervision and administration authority in the region where the investor is located.</p>	<p>Shall meet one of the following conditions:</p> <p>(1) In the fiscal year prior to application, possess proprietary assets (net assets) of not less than USD 100 million or equivalent, or assets under management (AUM) of not less than USD 200 million or equivalent.</p> <p>(2) Hold an asset management license issued by an offshore financial supervision and administration authority.</p>
(In the case of a joint venture jointly established by domestic and offshore investors) domestic shareholder s/partners	<p>Shall satisfy one of the following conditions:</p> <p>(1) Be a commercial bank, securities company, insurance company, trust company, financial leasing company, public fund management company or other licensed financial institution approved by a national financial regulatory authority, or a first-tier subsidiary of a financial institution (in which case the financial institution shall control not less than 50% of such subsidiary);</p> <p>(2) Be an enterprise registered in Zhuhai and satisfy one of the following conditions: (i) in the fiscal year prior to application, possess proprietary assets (net assets) of not less than RMB 300 million, or have assets</p>	

	under management (AUM) of not less than RMB 500 million; or (ii) be profitable for the last three consecutive years (as a whole), with cumulative net profits of not less than RMB 60 million and cumulative tax payments of not less than RMB 18 million; or (iii) be a domestic or foreign main board-listed enterprise or the controlling shareholder of such enterprise.
Senior officers	Have at least two senior officers who meet the following conditions (directors, supervisors, general managers, deputy general managers, financial controllers, board secretaries of an incorporated enterprise or other officers as provided in the articles of association, or the general partners in a partnership or other officers as provided in the partnership agreement): (1) Have more than five years' experience engaging in equity investment or equity investment management; (2) Have served for more than two years as a senior management officer; (3) Have experience engaging in domestic equity investment or working for domestic financial institutions; (4) Have no record of regulatory violations in the past five years nor are subject to any pending economic dispute lawsuits and have maintained a good personal credit status.
Registered capital / capital contribution	The registered capital (subscribed capital contributions) shall be not less than USD 2 million or equivalent, and contributions are limited to currency. The registered capital (or subscribed capital contributions) shall be paid up to 20% or more within three months from the date of issuance of the business license, and the remaining shall be paid within two years from the date of establishment of the enterprise.
Other conditions	In view of the need for foreign-invested equity investment management enterprises to apply to AMAC to register managers as private fund managers, it is also necessary to satisfy all AMAC registration conditions (including but not limited to personnel, office premise, etc.).

b. Pilot conditions for establishing foreign-invested equity investment enterprises

Conditions for establishing <u>foreign-invested equity investment enterprises</u>	
Place of registration	Must be registered in Zhuhai.
General	Foreign-invested equity investment management enterprises and

partner	domestic-funded private equity and venture capital fund management enterprises that qualify under the provisions of Article 10 of the Zhuhai QFLP Measures shall act as general partners of the equity investment enterprises that they establish.	
Limited partners (including domestic and foreign limited partners)	<p>(1) All domestic and offshore limited partners shall meet the qualified investor requirements under the <i>Guiding Opinions of the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange on Regulating the Asset Management Business of Financial Institutions</i> (Yin Fa [2018] No. 106), the <i>Interim Measures for the Supervision and Administration of Private Investment Funds</i> (CSRC Order No. [105]) and other related regulations.</p> <p>(2) Where the same person is the actual controller of a general partner and a limited partner in a foreign-invested equity investment enterprise, the capital contribution of that person to the enterprise cannot exceed 50%.</p>	
Registered capital / capital contributions	Equity investment enterprises established by Hong Kong or Macao enterprises or individuals	Equity investment enterprises established by other offshore enterprises or individuals
	Subscribed capital contributions of not less than USD 6 million or equivalent, contributions are limited to currency. Contributions shall be paid out of investor's proprietary assets and from legitimate fund sources.	Subscribed capital contributions of not less than USD 15 million or equivalent, contributions limited to currency. Contributions shall be paid out of the investor's proprietary assets and from legitimate fund sources.

4. Entry thresholds for domestic institutions under the “domestic capital managing foreign investment” model

As mentioned above, the Zhuhai QFLP Measures permits the model of “domestic manager managing foreign capital,” which means that a pure domestic fund management institution may raise funds from offshore investors to establish a foreign-invested equity investment enterprise. The conditions for domestic fund management institutions to participate in the establishment or the entrusted management of foreign-invested equity investment enterprises are clearly provided in the Zhuhai QFLP Measures. Specifically, these

domestic fund management institutions should be institutional private equity or venture capital fund managers, and shall concurrently satisfy the following conditions:

- Such domestic fund management institution or its controlling shareholder shall be legally registered and established in China and shall have been registered with the AMAC for six months or more;
- For the previous fiscal year, such domestic fund management institution or its controlling shareholder shall possess proprietary asset (net assets) of not less than RMB 300 million or assets under management (AUM) of not less than RMB 500 million;
- Such domestic fund management institution shall have been operating legally, has sound governance structures and internal controls, and for the preceding three years, has not been punished by the judicial authorities and relevant regulatory authorities, has not been entered into the National Enterprise Credit Information Publicity System List of Dishonest Enterprises Committing Serious Violations of Law or the AMAC's List of Non-reporting (Abnormal) Institutions.
- Such domestic fund management institution shall be registered in Zhuhai.

II. Comparison of Entry Conditions in Shenzhen and Zhuhai

Zhuhai and Shenzhen are both located in the Guangdong-Hong Kong-Macao Greater Bay Area, and they have similar geographical characteristics as neighbors to Hong Kong and Macau. Compared with Zhuhai, Shenzhen introduced its QFLP pilot scheme as early as 2012 and then revised and issued a new version of the QFLP pilot scheme in 2017 based on its prior experience. A comparison of the provisions of Zhuhai's QFLP pilot scheme and the 2017 Shenzhen pilot scheme shows that there are many similarities, and we can infer that the formulation of the Zhuhai QFLP pilot scheme drew from the 2017 Shenzhen QFLP pilot scheme. However, the Zhuhai QFLP pilot scheme is also different from the Shenzhen QFLP pilot scheme in certain aspects. For example, with respect to the entry thresholds for offshore investors, the Zhuhai QFLP pilot scheme sets different conditions for Hong Kong and Macau investors and for other offshore investors (this point is similar to the previous QFLP pilot scheme introduced in Pingtan, Fujian). In addition, the Zhuhai QFLP pilot scheme is also based on practical considerations to appropriately reduce some threshold conditions compared to the Shenzhen QFLP pilot scheme, as follows:

Issue	2017 Shenzhen QFLP pilot scheme	Zhuhai QFLP pilot scheme
Entry conditions for	Shall satisfy one of the following conditions:	Shall satisfy one of the following conditions:

Issue	2017 Shenzhen QFLP pilot scheme	Zhuhai QFLP pilot scheme
<p>offshore shareholders or partners of foreign-invested management enterprises</p>	<p>(1) In the fiscal year prior to application, possess proprietary assets (net assets) of not less than USD 100 million or equivalent or assets under management (AUM) of not less than USD 200 million or equivalent.</p> <p>(2) Hold an asset management license issued by the Hong Kong Securities Regulatory Commission (or other offshore financial regulatory authority).</p>	<p>(1) In the fiscal year prior to application, Hong Kong and Macau investors shall have proprietary assets (net assets) of not less than USD 6 million or equivalent or assets under management(AUM) of not less than USD 12 million or equivalent; other offshore investors should have proprietary assets (net assets) of not less than USD 100 million or equivalent or assets under management(AUM) of not less than USD 200 million or its equivalent; to promote a moderate and diversified Macau economy, Macau enterprises or individuals may be subject to relaxed requirements by the Leading Group on a case-by-case basis based on specific circumstances.</p> <p>(2) Hold an asset management license issued by an offshore financial supervision and administration authority.</p>
<p>Entry requirements for domestic shareholders or partners in foreign-invested equity management</p>	<p>Shall satisfy one of the following conditions:</p> <p>(1) Be a commercial bank, securities company, insurance company, trust company, financial leasing company, public fund management company or other licensed</p>	<p>Shall satisfy one of the following conditions:</p> <p>(1) Be a commercial bank, securities company, insurance company, trust company, financial leasing company, public fund management company or other licensed</p>

Issue	2017 Shenzhen QFLP pilot scheme	Zhuhai QFLP pilot scheme
enterprises	<p>financial institution approved by a national financial regulatory authority, or a first-tier subsidiary of a financial institution (in which case the financial institution shall control not less than 50% of such subsidiary);</p> <p>(2) Be a large-scale enterprise introduced and supported by the municipal communist party committee or government, and have proprietary assets (net assets) of not less than <u>RMB 500 million</u>, or have assets under management (AUM) of not less than <u>RMB 1 billion</u>; be profitable for the last three consecutive years (as a whole), with cumulative net profits of not less than RMB 60 million and cumulative tax payments of not less than RMB 18 million.</p>	<p>financial institution approved by a national financial regulatory authority, or a first-tier subsidiary of a financial institution (in which case the financial institution shall control not less than 50% of such subsidiary);</p> <p>(2) <u>Be an enterprise registered in Zhuhai and satisfy one of the following conditions:</u> (i) in the fiscal year prior to application, have proprietary assets (net assets) of not less than <u>RMB 300 million</u>, or have assets under management(AUM) of not less than <u>RMB 500 million</u>; or (ii) be profitable for the last three consecutive years (as a whole), with cumulative net profits of not less than RMB 60 million and cumulative tax payments of not less than RMB 18 million; or (iii) <u>be a domestic or foreign main board-listed enterprise or the controlling shareholder of such enterprise.</u></p>
Entry conditions for limited partners in foreign-invested equity investment enterprises	<p>Concurrently satisfy the following conditions:</p> <p>(1) Be an institution or individual that possesses the corresponding ability to assess and bear risk;</p> <p>(2) With regard to institutional investors, they shall have sound governance structures and</p>	<p>All limited partners shall meet the qualified investor requirements under the <i>Guiding Opinions of the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange on Regulating the Asset Management Business of Financial</i></p>

Issue	2017 Shenzhen QFLP pilot scheme	Zhuhai QFLP pilot scheme
	<p>sound internal controls, and have not been punished by the judicial authority and relevant regulatory authorities in the country or region where the applicants are located in the past two years; offshore institutional investors shall possess net proprietary assets of not less than USD 5 million or equivalent and single investments that investors makes should not be less than USD 1 million or equivalent; domestic institutional investors should possess proprietary assets of not less than RMB 10 million and single investment that investors make should not be less than RMB 1 million.</p> <p>(3) With regard to Individual investors, they are required to sign equity investment enterprise (fund) risk disclosure statements; and each domestic and offshore individuals shall possess financial assets of not less than RMB 3 million or annual incomes in the most recent three years of not less than RMB 500,000 and make single investments of not less than RMB 1 million.</p>	<p><i>Institutions</i> (Yin Fa [2018] No. 106), the <i>Interim Measures for Supervision and Administration of Private Investment Funds</i> (CSRC Decree No. 105) and other related regulations.</p>
Conditions for the establishment	Concurrently satisfy the following conditions:	Concurrently satisfy the following conditions:

Issue	2017 Shenzhen QFLP pilot scheme	Zhuhai QFLP pilot scheme
of domestic institutions and the management of foreign-invested equity investment enterprises	<p>(1) Be a domestic enterprise legally registered and established in China;</p> <p>(2) Be a domestic private equity or venture capital investment fund management company registered for six months or more with the Asset Management Association of China;</p> <p>(3) During the entire preceding fiscal year, possess proprietary assets (net assets) of not less than RMB 500 million or manage assets of not less than RMB 1 billion;</p> <p>(4) Have sound governance structures and internal controls, and not have been punished by the judicial authorities and relevant regulatory authorities in the preceding three years;</p> <p>(5) Be registered in Shenzhen.</p>	<p>(1) (such management institution or its controlling shareholder) Be a domestic enterprise legally registered and established in China, and have been registered with the Asset Management Association of China for six months or more;</p> <p>(2) (such management institution or its controlling shareholder) During the entire preceding fiscal year, possess proprietary assets (net assets) of not less than RMB 300 million or manage assets of not less than RMB 500 million;</p> <p>(3) Have been operating legally, have sound governance structures and internal controls, and have not been punished by the judicial authorities and relevant regulatory authorities in the preceding three years; not have been entered into the National Enterprise Credit Information Publicity System List of Dishonest Enterprises Committing Serious Violations of Law or the AMAC List of Out-of-Contact (Abnormal) Institutions.</p> <p>(4) Be registered in Zhuhai.</p>

III. Operating Requirements

The Zhuhai QFLP Measures provide a series of specific requirements for the operation of Pilot

Enterprises after their establishment:

1. Custodianship

According to the Zhuhai QFLP Measures, foreign-invested equity investment management enterprises shall entrust a commercial banking institution to be the fund custodian bank, and domestic RMB funds managed by a foreign-invested equity investment enterprise or a foreign-invested equity investment management enterprise shall entrust a commercial banking institution to be the project fund custodian bank. The custodian bank shall be a commercial bank at the branch level or above that is approved by the state financial supervision department and possesses the ability and qualifications to serve as a fund custodian. The custodian bank shall examine the authenticity and compliance of the use of funds within the escrow accounts of the Pilot Enterprise, and supervise the Pilot Enterprise to use capital within the escrow account within its business scope and in accordance with the law, make anti-fraud and anti-money laundering investigations at account settlement, and urge the Pilot Enterprise to pay relevant taxes and fees.

2. Registration and Filing

The Zhuhai QFLP Measures require Pilot Enterprises to go through the corresponding fund manager registration and fund filing procedures in accordance with the requirements of applicable regulations, and make clear requirements for the time limit for completion of registration and registration procedures. Specifically, all foreign-invested equity investment management enterprises should complete registration with the AMAC and establish the first foreign-invested equity investment enterprise or domestic private equity and venture capital fund within twelve months of obtaining the notice of determination. All foreign-invested equity investment enterprises or domestic private equity and venture capital funds established will complete filing with the AMAC within six months of establishment. If any Pilot Enterprise fails to complete fund manager registration and fund filing procedures within the prescribed time, the Leading Group will cancel the enterprise's qualifications to participate in the pilot scheme, make a public announcement of the cancellation and order the enterprise to go through deregistration formalities within 90 days.

3. Examination and Approval of Changes

According to the Zhuhai QFLP Measures, a Pilot Enterprise needs to obtain a notice of determination of the Zhuhai Financial Bureau before processing the registration amendment procedures with AIC if it intends to change its registration items, such as the company's articles of association (or partnership agreement), company name, legal representative (or executive partner or its representative), senior management, shareholders (or partners) or registered address. Therefore, a pilot equity investment

enterprise should first submit the relevant application materials to the Zhuhai Financial Bureau if it needs to increase the number of limited partners or increase subscribed capitals of the existing limited partners. In case of admission of any new partner, the enterprise also needs to submit a certification document proving that the new limited partner meets the entry conditions.

4. Reporting of significant events

According to the Zhuhai QFLP Measures, Pilot Enterprises shall report to the Zhuhai Financial Bureau every six months any of the following significant events that has occurred in the course of investment operations during the preceding six months.

- Operation of investment projects;
- Modify important legal documents such as articles of association or partnership agreements;
- Other events as required by Zhuhai Financial Bureau.

The custodian bank of the Pilot Enterprise shall be responsible for matters including but not limited to:

- Within ten business days after the end of each quarter, report to the Leading Group Office and the relevant units of the Leading Group about information related to the operation of the escrow funds and the status of investment projects of the Pilot Enterprise for the previous quarter.
- Within 15 business days after the end of each fiscal year, submit to the office of the Leading Group and the relevant units of the Leading Group an annual report on the domestic equity investments of the Pilot Enterprise for the previous year that has been approved by all parties.
- Supervise the investment operation of the Pilot Enterprises and refuse to implement and report immediately to the Zhuhai Financial Bureau if it finds the investments of the Pilot Enterprise violate the laws and regulations or custody agreements;
- Other supervisory duties as stipulated by the Leading Group.

5. Exit approval

According to the Zhuhai QFLP Measures, a Pilot Enterprise may make profit distributions, liquidate and exit from investments in accordance with the company's articles of association or partnership agreements. A Pilot Enterprise needs to submit the relevant tax payment certificates or tax filing forms to the custodian bank and seek approval from the custodian bank if it intends to remit offshore the profits, dividends and/or bonuses.

IV. Summary

Since the launch of the QFLP pilot in Shanghai in early 2011, many cities have introduced their own QFLP pilot schemes to promote the implementation of QFLP pilot work, aiming to attract prestigious investment institutions and to promote the development of the local equity investment industry. Zhuhai launched QFLP pilot scheme several years later than some of its counterparts, therefore lost some opportunities, but in turn Zhuhai has an advantage of drawing lessons from the experiences of previous pilot schemes. The Zhuhai QFLP pilot scheme has a clear position that runs throughout the entire text, which is to support the moderate diversification of the Macao economy, and provide a convenience for Hong Kong and Macao investors to set up Pilot Enterprises in Zhuhai. We believe the promulgation of the Zhuhai QFLP pilot scheme will help Zhuhai to attract more offshore investors (especially Hong Kong and Macao investors) to participate in the domestic equity investment industry development in the future.⁶

⁶ Regarding the common schemes and related oversight on overseas funds participating in domestic equity investment, please refer to Han Kun's newsletter article entitled "How Does Overseas Capital Participate in Domestic Equity Investment? - FDI, QFLP/R-QFLP & More", dated September 5, 2018.

● **Important Announcement**

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