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## Private Equity Law

### Comparative Analysis of Local Rules Regarding Formation of Private Equity and Venture Capital Funds and Management Companies in China

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Against the backdrop of a huge amount of domestic liquidity from both state-owned and non-state-owned enterprises, the launch of the long-awaited Growth Enterprise Market in Shenzhen at the end of 2009 and the continued growth of private equity investment activity in China, China is expected to witness an upsurge in private equity and venture capital activity. In addition to establishing domestic and foreign-invested venture capital investment enterprises (“VCIEs”) and venture capital management enterprises (“VCMEs”), fund sponsors may also form domestic and foreign-invested equity investment fund enterprises (“EIFEs”) and equity investment management enterprises (“EIMEs”) in several of China’s major cities, including Beijing, Shanghai, Shenzhen, Tianjin and Chongqing, pursuant to local rules and incentive policies for the formation of EIFEs and EIMEs. This Han Kun Private Equity Commentary discusses national and local rules regarding and incentives for the formation of VCIEs, VCMEs, EIFEs and EIMEs from a comparative perspective.

### Venture Capital Enterprises

**Forms of Private Fund.** Foreign fund companies may form FIVCIEs and FIVCMEs pursuant to the *Administrative Regulations on Foreign-Invested Venture Capital Investment Enterprises*. VCIEs refer only to enterprises that make equity investments in unlisted high or new technology enterprises (hereinafter “**investee enterprise**”) and provide corresponding venture capital management services for the purpose of achieving capital gains. VCIEs and VCMEs may be established either in corporate form or non-legal-person form. The non-legal-person form mainly refers to sino-foreign contractual joint venture, not limited partnership. It was not until 2006

when the *Partnership Law of People's Republic of China* was revamped that limited partnership enterprises came into being, and the regulations on the formation of foreign-invested partnerships (FIPs) did not come out until March 1, 2010.

**Formation Requirements.** The minimum capital requirement for a non-legal person FIVCIE is US\$10 million, and each investor of the FIVCIE should subscribe for a minimum of US\$5 million. In addition to capital requirements, an FIVCIE is required to have a “requisite investor” with venture capital as its main line of business, which, similar to the general partner of a limited partnership, will assume joint and several liability for the debt of the FIVCIE. A requisite investor that is a foreign investor is required to have cumulative asset under management of no less than US\$100 million in the past three (3) years, at least US\$50 million of which shall have been used for venture capital investments. A requisite investor that is a Chinese investor is required to have cumulative asset under management of no less than RMB100 million in the past three (3) years, at least RMB50 million of which shall have been used for venture capital investments.

**Filing Requirements.** A VCIE may apply to file with the National Development and Reform Commission (“NDRC”) and thereby become eligible for certain tax incentives and for investment by the Social Security Fund if its paid-in capital is no less than RMB30 million, or the first installment of its paid-in capital is no less than RMB10 million and all of its investors undertake to pay the unpaid registered capital within five (5) years of the registration so that the aggregate paid-in capital reaches RMB30 million.

### **Formation of EIFEs and EIMEs**

**Permissible Entity Forms.** The State Council explicitly expressed its encouragement to actively grow China's equity investment fund industry in its Several Opinions of the State Council on Promoting the Development of Small and Medium Sized Enterprises in 2009.<sup>1</sup> Although so far there is no national regulation on equity investment funds, many municipalities, such as Beijing, Shanghai, Tianjin, Shenzhen and Chongqing, have already promulgated local rules to regulate and promote the formation of equity investment funds. In the aforesaid five cities, EIFEs and EIMEs may be established either in partnership or in corporate form. Since March 2010, foreign fund sponsors may also set up RMB funds as FIPs pursuant to the FIP Registration Rules issued by the State Administration of Industry and Commerce (the “FIP Rules”). Carlyle and the Shanghai-based Fosun Group were the first to take advantage of the new FIP Rules to jointly establish a US\$100 million equivalent RMB fund in Shanghai in the form of a foreign-invested general partnership.

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<sup>1</sup> *Several Opinions of the State Council on Promoting the Development of Small and Medium Sized Enterprises*, II(7)

**Capital Requirements.** The five cities set different minimum capital requirements for EIFEs and EIMEs. Both Shanghai and Shenzhen require RMB100 million for EIFEs and at least RMB 5 million for each shareholder/partner. In addition, Shenzhen requires the first installment of paid-in capital to be at least RMB50 million. While the Beijing municipal rules are silent on the minimum capital requirement, EIFEs formed in Haidian District are required to have a registered capital of at least RMB100 million. Of the five cities, Tianjin appears to have the lowest capital requirement for an EIFE, which is set at RMB10 million for EIFEs in corporate form, and there is no minimum capital requirement for partnership funds. The capital requirements for EIMEs are the highest in Haidian District of Beijing (RMB10 million for an EIME of any type), the second highest in Shenzhen (RMB10 million for companies limited by shares, or CLBSs, and RMB5 million for limited liability companies, or LLCs), and the third in Shanghai and Tianjin (RMB5 million for CLBSs and RMB1 million for LLCs)<sup>i</sup>, The capital requirements are lowest in Chongqing, which is set at RMB1 million for EIMEs in either corporate or partnership form.

**Name Requirements.** The name requirements in the five cities are also somewhat different. In Beijing and Shenzhen, the fund names are allowed to contain “fund” (“基金”) or “investment fund” (“投资基金”). In Shanghai and Chongqing, the fund names are allowed to contain “equity investment” (“股权投资”) without reference to “fund.” In Tianjin, the fund names are allowed to contain “equity investment funds” (“股权投资基金”) and “equity investment fund management” (“股权投资基金管理”).

### **Foreign-invested Fund Management Enterprises**

It is important to note that the local rules in all five cities, including the minimum capital requirements set forth above, generally apply to both purely domestic and foreign-invested EIFEs and EIMEs. However, Beijing and Shanghai have also issued a different set of trial rules for the formation of foreign-invested EIMEs in Zhongguancun District and Pudong District, respectively, both of which require a significantly higher minimum registered capital of US\$2 million for foreign-invested EIMEs. One significant distinction between the two sets of trial rules on foreign-invested EIMEs is that, under the Pudong trial rules, at least one shareholder of the foreign-invested EIME (or an affiliate thereof) is required to be engaged in equity investment or equity investment management business, whereas such a requirement does not exist in the Zhongguancun trial rules. Another distinction between the Pudong and Zhongguancun trial rules is that the cooperation joint venture form is available in Pudong but not in Beijing. While technically the Pudong trial rules on foreign-invested EIME were set to expire on June 30, 2010, it is our understanding that the trial rules will be extended for another year through June 30, 2011. Based on our informal discussion with relevant regulators in Tianjin, while there is not an express separate capital requirement for

foreign-invested EIMEs, there is a soft requirement in practice that they have a minimum registered capital of US\$1 million, although Tianjin appears to be willing to be quite flexible and may approve the formation of foreign-invested EIMEs with a registered capital as low as US\$100,000 - US\$150,000.

### **Tax Treatment of Partners in Partnership Funds**

In China, partnerships are tax pass-through entities and the partners pay taxes on income allocated to them on an annual basis. According to Circular 159 of the State Taxation Administration issued in December 2008 and older tax regulations on sole proprietorships and partnership enterprises referenced therein, partners (limited partners and general partners) who are natural persons shall pay progressive income tax ranging from 5% to 35%, subject to certain deductions. The relevant tax rules in four of the five cities, however, provide differentiated tax treatment of partners depending on their status as limited partner (“LP”) or general partner (“GP”), which represents a deviation from Circular 159. In Shanghai and Shenzhen, individual GPs, who are executive partners, shall pay progressive income tax ranging from 5% to 35% on income from the fund, subject to certain deductions, and individual LPs, who are non-executive partners, shall pay tax at a flat 20% rate on interest and dividend income from the fund (it is not clear if gain on the disposition of LP interests is also included).

In Tianjin, both individual LPs and individual GPs (with respect to their capital interests rather than profit interests in the fund) shall pay tax at a flat 20% rate on interest or dividend income or income from the disposition of their interests in the fund. In Beijing, both individual LPs and individual GPs, whether executive partners or not, pay tax at a flat 20% rate on all fund-related income (presumably including interest or dividend income or income from the disposition of interests in the fund), which represents the most radical deviation from Circular 159. In Chongqing, non-executive individual LPs pay personal income tax at a flat 20% rate on all equity investment gains they receive from the limited partnership. While it can be argued that since individual income tax revenues belong to local governments as opposed to the central government, local governments have the authority to lower such tax in order to promote local private equity investment management business, the legality of such local rules is questionable because it involves the change of the type of the applicable tax rate (i.e., from a progressive rate of 5% to 25% to a flat 20% rate) rather than just lowering the tax rate. Besides, in Chongqing, it is also provided that with respect to the operational income and other income of the equity investment related enterprises established in the form of limited liability company or joint stock company, if such investment conforms to the Western Development policy, a lower tax rate of 15% will be adopted.

### **Formation Rewards and Incentives for VCIEs**

Only VCIEs that satisfy relevant requirements and are filed with the competent registration authority for VCIEs (i.e., development and reform commission) are eligible to receive incentives described below. The capital requirements for VCIEs are: (1) the paid-in capital of a VCIE shall be no less than RMB30 million, or the first installment of paid-in capital is no less than RMB10 million and all the investors undertake to pay the unpaid registered capital within five (5) years of the registration so that the aggregate paid-in capital reaches RMB30 million; (2) the contribution of any single investor shall be no less than RMB1 million.

Currently, incentive policies for VCIEs mainly include investment from government guiding fund of funds, risk subsidies and tax incentives. Different cities have adopted somewhat different incentives. What follows is a comparison of the incentives of four major cities, Beijing, Shanghai, Shenzhen and Tianjin (there are currently no explicit incentives for VCIEs formed in Chongqing). Please note that, with respect to the eligibility requirements for incentives, only the measurable requirements and not soft requirements (such as solid management team and good reputation) are listed in the chart below.

	<b>Beijing (Zhongguancun)</b>	<b>Shanghai (Pudong New District)</b>	<b>Shenzhen</b>	<b>Tianjin Economic-Technological Development Area (TEDA)</b>
Government FOF for Venture Capital	<p><b>1. Eligibility Requirements:</b></p> <p>(1) The paid-in capital is no less than RMB50 million, and all investors contribute in the form of currency;</p> <p>(2) Having at least 3 successful exits of investments in small or medium-sized enterprises, i.e., the average annual rate of return for the equity interest is no less than 20%, or the gain from the equity transfer is at least 20% over the original investment.<sup>2</sup></p> <p><b>2. Limitations on Government FOF's Investment</b></p> <p>(1) The investment by Government FOF to the VCIE shall not</p>	<p><b>1. Eligibility Requirements<sup>4</sup></b></p> <p>(1) The asset under management ("AUM") of any newly formed investee VCIE shall be no less than RMB200 million in principle (the AUM of any newly formed investee VICE focused on seed-stage investments shall be no less than RMB100 million in principle), and all contributions must be paid up within 3 years, the first installment of which shall be no less than 30% of its subscribed contribution, and all investors shall make their contributions in the form of currency.</p> <p>(2) The investee VCIE shall have filed with and subjected itself to the supervision by VCIE filing authority.</p>	<p>Shenzhen provides governmental subsidies to VCIEs:</p> <p><b>1. Eligibility Requirements<sup>6</sup>:</b></p> <p>(1) The investee VCIE shall be formed in Shenzhen and have passed the filing inspection by the VCIE filing authority.</p> <p>(2) The investee VCIE shall invest in early stage enterprises with indigeneous innovation.</p> <p>(3) The enterprise has completed the modification registration with administrations for industry and commerce, and its contribution has been fully paid in. The duration of all contributions shall be no less than 2 years.</p> <p><b>2. Governmental Subsidy<sup>7</sup>:</b></p>	<p><b>1. Eligibility Requirements</b></p> <p>(1) The VCIE shall be formed in Binhai New District and mainly invest in Binhai New District.<sup>8</sup></p> <p>(2) The investee VCIE shall mainly invest in new technological areas, such as information technology, biological technology and modern pharmacy, new material, modern manufacturing, alternative energy, and environmental protection.<sup>9</sup></p> <p><b>2. Scale of Government FOF and Contribution Limits</b></p> <p>(1) Government FOF in Tianjian is established in corporate form, with a registered capital of RMB200 million contributed by</p>

<sup>2</sup> Interim Measures of Beijing on Implementation of Fund of Venture Capital Funds for Small and Medium Sized Enterprise, Article 8

<sup>3</sup> Interim Measures of Beijing on Implementation of Fund of Venture Capital Funds for Small and Medium Sized Enterprise, Article 10 and 11

<sup>4</sup> Interim Measures of Shanghai for Administrations of Fund of Venture Capital Funds, Chapter IV

<sup>5</sup> Interim Measures of Shanghai for Administrations of Fund of Venture Capital Funds, Article 7

<sup>6</sup> Shenzhen Guidelines for Venture Capital Enterprises Support Scheme, Article 4

<sup>7</sup> Shenzhen Guidelines for Venture Capital Enterprises Support Scheme, Article 5

<sup>8</sup> Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 8

<sup>9</sup> Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 9

	<b>Beijing (Zhongguancun)</b>	<b>Shanghai (Pudong New District)</b>	<b>Shenzhen</b>	<b>Tianjin Economic-Technological Development Area (TEDA)</b>
	<p>exceed 30% of the total paid-in capital to the VCIE, and Government FOF cannot be the largest shareholder.</p> <p>(2) The duration of the investee VCIE shall not exceed 10 years.<sup>3</sup></p>	<p>(3) The investee VCIE shall focus on investing in seed-stage enterprises or early to mid stage enterprises in industries supported or encouraged by government, and have a specific investment area of focus.</p> <p>(4) The investee VCIE shall make investment in Shanghai on a preferred basis.</p> <p><b>2. Limitations on Government FOF's Investment<sup>5</sup></b></p> <p>(1) Government FOF may not be the largest shareholder in the investee VCIE.</p>	<p>(1). Governmental subsidy from the municipal technology and research fund equal to 15% of the actual investment by the VCIE.</p> <p>(2). In case it is the first time for the investee VCIE to receive investment, the percentage of subsidy may be increased to 20%. The amount of subsidy shall not exceed RMB500,000 each time, and the annual cumulative amount of subsidy granted to any VCIE shall not exceed RMB2 million.</p>	<p>Binhai New District Administrative Committee and National Development Bank. The duration of the Government FOF is 15 years.<sup>10</sup></p> <p>(2) The investment principle of FOF is that it shall not be the controlling shareholder in order to ensure the independence of the decisionmaking and operation of the investee VCIE and its commercial operation through a properly designed shareholding structure.<sup>11</sup></p> <p>(3) Generally, the duration of the investee VCIE shall be no more than 10 years.<sup>12</sup></p>

<sup>10</sup> Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 4

<sup>11</sup> Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 6

<sup>12</sup> Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 10

	<b>Beijing (Zhongguancun)</b>	<b>Shanghai (Pudong New District)</b>	<b>Shenzhen</b>	<b>Tianjin Economic-Technological Development Area (TEDA)</b>
Risk Subsidies	<p>Following are the measures for administration of venture capital risk subsidies in Zhongguancun National Indigineous Innovation Exemplary Zone</p> <p><b>1. Requirements<sup>13</sup></b></p> <p>(1) The enterprise must be recognized as Venture Capital Partner of Zhongguancun (requiring the VCIE or VCME to have a registered capital of no less than RMB100 million or AUM of no less than RMB300 million) .</p> <p>(2) If the VCIE invests through a management enterprise, the subsidies will be granted only to the management enterprise.</p>	<p>Shanghai has established Special Fund for Venture Capital Risk Subsidy, to which VCIEs pay risk reserve funds voluntarily annually. In case of failure in investment, such VCIEs will receive certain compensation. The arrangement is described as follows:</p> <p>(1) VCIEs filed with the competent authority that have passed the annual inspection of the competent authority may pay an amount of no more than 10% of its annual after-tax profits as risk reserve funds voluntarily; or pay an amount of no more than 5% of its registered capital as risk reserve funds.<sup>15</sup></p> <p>(2) The municipal government will pay an amount equal to the risk reserve funds paid by VCIEs, which will come</p>	N/A	<p>TEDA has established a Development Fund for Venture Capital (DCVC) of RMB50 million for co-investments and risk subsidies.<sup>19</sup></p> <p><b>1. Requirements<sup>20</sup></b></p> <p>(1) Having a registered capital of no less than RMB30 million or AUM of no less than RMB100 million.</p> <p>(2) Having successful investment exits or investee enterprises are performing well.</p> <p>(3) Having filed with the competent authority.</p> <p><b>2. Amount of Subsidy<sup>21</sup></b></p> <p>(1) With respect to the actual amount VCIEs invest in small or medium-sized technology enterprises, the cumulative amount of subsidy a VCIE may</p>

<sup>13</sup> Measures of Zhongguancun National Innovation Zone for Administration of Risk Subsidy for Venture Capitals, Chapter II

<sup>14</sup> Measures of Zhongguancun National Innovation Zone for Administration of Risk Subsidy for Venture Capitals, Chapter III

<sup>15</sup> Measures of Shanghai for Administration of Special Funds for Risk Subsidy for Venture Capital › Section II(1).



	<b>Beijing (Zhongguancun)</b>	<b>Shanghai (Pudong New District)</b>	<b>Shenzhen</b>	<b>Tianjin Economic-Technological Development Area (TEDA)</b>
	<p>(3) The VCIE shall invest only in unlisted hi-tech enterprises in Zhongguancun, and it should be no more than 5 years from the incorporation of the enterprise to the execution of the investment agreement entered into by the investee enterprise and the VCIE.;</p> <p>(4) The investment has been completed, i.e., the investment capital has been paid to the investee enterprise in the Zone and the AIC modification registration has been completed.</p> <p><b>2. Amount of Subsidy<sup>14</sup></b></p> <p>(1) The subsidy is granted in the form</p>	<p>out of the technology budget of the municipal.<sup>16</sup></p> <p>(3) VCIEs that satisfy certain conditions may receive compensation from the Special Capital for Risk Subsidy for its losses arising out of liquidation due to investment failures or exits of venture capital projects for a loss.<sup>17</sup></p> <p>(4) VCIEs that become ineligible for filing due to cancellation of filing by the competent filing authority, business closure, liquidation or cessation of venture capital business for other reasons or decide not to pay risk reserve funds to the Special Capital for Risk Subsidy, may withdraw the capital already paid but not used, and automatically lose its eligibility for receiving</p>		<p>apply for with respect to its investment in any investee enterprise shall not exceed RMB1 million.</p>

<sup>16</sup> Measures of Shanghai for Administration of Special Funds for Risk Subsidy for Venture Capital · Section II(2).

<sup>17</sup> Measures of Shanghai for Administration of Special Funds for Risk Subsidy for Venture Capital · Section III

<sup>18</sup> Measures of Shanghai for Administration of Special Funds for Risk Subsidy for Venture Capital · Section VIII

<sup>19</sup> Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 4

<sup>20</sup> Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 7

<sup>21</sup> Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 23

	<b>Beijing (Zhongguancun)</b>	<b>Shanghai (Pudong New District)</b>	<b>Shenzhen</b>	<b>Tianjin Economic-Technological Development Area (TEDA)</b>
	<p>of currency for VCIE's actual investment in investee enterprises. The amount of subsidy is 10% of the actual investment in an investee enterprise, and any single subsidy may not exceed RMB1 million.</p> <p>(2) The cumulative amount of subsidy a VCIE may apply with respect to its investment in any investee enterprise shall not exceed RMB1 million.</p> <p>(3) The subsidy granted to one VCIE shall not exceed RMB 3 million every year.</p>	<p>subsidies from the Special Capital for Risk Subsidy.<sup>18</sup></p>		

	<b>Beijing (Zhongguancun)</b>	<b>Shanghai (Pudong New District)</b>	<b>Shenzhen</b>	<b>Tianjin Economic-Technological Development Area (TEDA)</b>
Rewards	N/A	N/A	N/A	<p>Applicable in TEDA only:</p> <p>(1) If the cumulative amount of the tax paid by the invested small or medium-sized technology enterprises reaches RMB2 million in 3 years after filing, the VCIE will be rewarded RMB 200,000.<sup>22</sup></p> <p>(2) If the invested small or medium-sized technology enterprises in the development zone successfully completes an initial public offering, the VCIE will be rewarded RMB1 million for each listed investee enterprise.<sup>23</sup></p>
Tax Incentives	<p>Where a VCIE invests in an unlisted small or medium-sized high &amp; new tech enterprise by means of equity investment and holds the investment for a period of at least 2 years (24 months), and satisfies the following conditions, the income tax payable by such enterprise may be offset by 70% of the amount of investment in the small or medium-sized high &amp; new tech enterprise in the current year when its ownership of the equity has reached 2 years; where the amount of investment is insufficient to offset its income tax in the current year, it may be carried forward to the following tax years:</p> <p>(1). The business scope of the enterprise conforms to the provisions of the Interim Measures for Administration of Venture Capital Investment Enterprises (“Interim Measures”) and its registration in administrations for industry and commerce is professional VCIE with legal person status such as a venture capital investment company limited or a venture capital investment company limited by shares;</p>			

<sup>22</sup> Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 32

<sup>23</sup> Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 33

	<b>Beijing (Zhongguancun)</b>	<b>Shanghai (Pudong New District)</b>	<b>Shenzhen</b>	<b>Tianjin Economic-Technological Development Area (TEDA)</b>
	<p>(2). The enterprise has submitted a record-filing in accordance with the requirements and procedures as set forth in the Interim Measures; and the investment of the enterprise is consistent with relevant provisions of the Interim Measures as verified by annual inspection of the competent record-filing authority;</p> <p>(3). The small and medium-sized high &amp; new tech enterprises in which the VCIEs invest shall have no more than 500 employees, annual sales of no more than RMB200 million and total assets of no more than RMB200 million in addition to being recognized as a high &amp; new tech enterprise in accordance with the provisions of the Circular on Printing and Distributing the Administrative Measures on Determining High &amp; New Tech Enterprises (Guo Ke Fa Huo [2008] No. 172) promulgated by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation and the Circular on Printing and Circulating the Guideline of the Management Work Over Determining High &amp; New Tech Enterprises (Guo Ke Fa Huo [2008] No. 362).</p>			
	N/A	N/A	N/A	<p><b>Special Tax Incentives</b></p> <p>(1) Within 5 years from the year the VCIE is certified, TEDA will refund 50% of the portion of business tax and enterprise income tax payable by VCIEs to TEDA.<sup>24</sup></p> <p>(2) Within 5 years from the VCIE is certified, with respect to the portion of income tax on individual partners' gains from production and operation of the VCIE partnership in excess of</p>

<sup>24</sup> Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 30

	<b>Beijing (Zhongguancun)</b>	<b>Shanghai (Pudong New District)</b>	<b>Shenzhen</b>	<b>Tianjin Economic-Technological Development Area (TEDA)</b>
				20%, TEDA will waive 100% of the portion retained by TEDA. <sup>25</sup>

### **Rewards and Incentives for EIFEs and EIMEs**

Beijing, Shanghai, Shenzhen, Tianjin and Chongqing have promulgated various incentive policies and reward systems for locally formed EIFEs and EIMEs as set forth in the chart below. Please note that the adoption of further implementing rules may be required for some of these policies to be fully implemented.

<sup>25</sup> *Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital*, Article 31

Type	Beijing <sup>ii</sup>	Shanghai	Shenzhen	Tianjin	Chongqing
Formation Rewards for Fund	<p>Applicable to enterprises that are formed in or moved to Haidian District after January 1st, 2007 only:</p> <p>1. RMB 500,000 if the registered capital more than RMB 100 million but less than RMB 500 million and make the first investment in enterprises registered with Haidian administrations for industry and commerce and tax authority.</p> <p>2. RMB 800,000 if the registered capital reaches RMB 500 million and the first investment is made in an enterprise registered with Haidian administrations for industry and commerce and tax</p>	<p>Corporate form fund incorporated in Pudong District only:</p> <p>1. RMB 5 million if the registered capital reaches RMB 500 million;</p> <p>2. RMB 10 million if the registered capital reaches RMB 1.5 billion;</p> <p>3. RMB 15 million if the registered capital reaches 3 billion.<sup>27</sup></p>	<p>Corporate form fund only, and the fund shall not move away from Shenzhen within 5 years (effective through December 31, 2011):</p> <p>1. RMB 5 million if the registered capital reaches RMB 500 million;</p> <p>2. RMB 10 million if the registered capital reaches RMB 1.5 billion;</p> <p>3. RMB 15 million if the registered capital reaches 3 billion.<sup>28</sup></p>	N/A	N/A

<sup>26</sup> Measures on Supporting the Development of Equity Investment Enterprises in Haidian District, Article 9

<sup>27</sup> Shanghai: Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District, Article 3

<sup>28</sup> Shenzhen: Several Rules on Promoting the Development of Equity Investment Funds, Section IV(1)

Type	Beijing <sup>ii</sup>	Shanghai	Shenzhen	Tianjin	Chongqing
	<p>authority.</p> <p>3. In case the first investment is made in a district other than Haidian, an subsidy amounting to 70% of the aforesaid reward amount shall be granted. In case the EIFE subsequently invests in an enterprise in Haidian, it may apply for the remaining 30% of the aforesaid rewards amount.<sup>26</sup></p>				

Type	Beijing <sup>ii</sup>	Shanghai	Shenzhen	Tianjin	Chongqing
Formation Rewards for Management Enterprises	<p>1. For management enterprises filed with Beijing Municipal Bureau of Financial Work with a registered capital no less than RMB 30 million; RMB 8 million if the cumulative paid-in capital under management reaches RMB 500 million; RMB 10 million if the cumulative paid-in capital under management reaches or exceeds RMB 1 billion.<sup>29</sup></p> <p>2. EIMes registered or moved into Haidian District after January 1, 2007 can also be rewarded as described above.<sup>30</sup></p>	<p>For Partnership fund in Pudong District, the cash reward will be granted to its management enterprise only:</p> <p>RMB 5 million if the fund's annual actual raised capital reaches RMB 1 billion; RMB 10 million if the fund's raised capital reaches 3 billion; RMB 15 million if the fund's annual actual raised capital reaches 5 billion. The reward can be further raised if the fund significantly contributes to Pudong finance industry.<sup>31</sup></p>	<p>For Partnership fund, the cash reward will be granted to its management enterprise only, and the fund shall not move away from Shenzhen within 5 years (effective through December 31, 2011):</p> <p>RMB 5 million if the annual actual raised capital reaches RMB 1 billion; RMB 10 million if the annual raised capital reaches RMB 3 billion; RMB 15 million if the annual actual raised capital reaches RMB 5 billion.<sup>32</sup></p>	N/A	N/A

<sup>29</sup> Beijing: *Opinions on Promoting the Development of Equity Investment Funds*, Article 9&10; *Implementation Rules on Promoting the Development of Financial Industry in the Capital*, VII

<sup>30</sup> *Measures on Supporting the Development of Equity Investment Enterprises in Haidian District*, Article 9 & 12

<sup>31</sup> Shanghai: *Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District*, Article 3

<sup>32</sup> Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(1)



Type	Beijing <sup>ii</sup>	Shanghai	Shenzhen	Tianjin	Chongqing
Tax Incentives for Fund	N/A	N/A	Full refund of the local retained part of the paid enterprise income tax in the first 2 years and half refund in following 3 years. <sup>33</sup>	N/A	<p>1. Full refund of the business tax for the first and second year by the financial department, and 50% refund from the 3rd year to the 5th year</p> <p>2. Full refund of the local retained part of the paid enterprise income tax, and half refund in the following 3 years.</p> <p>3. For EIFEs that have difficulties paying taxes for newly bought or built offices, waiver of deed tax and property tax for 3 years.</p> <p><sup>34</sup></p>

<sup>33</sup> Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(3)

<sup>34</sup> Chongqing: *Opinions of People's Government of Chongqing on Encouraging the Development of Equity Investment Related Enterprises*, Section II

Type	Beijing <sup>ii</sup>	Shanghai	Shenzhen	Tianjin	Chongqing
Tax Incentives for Management Enterprises/ GP	<p>1. For corporate PE management company managing a fund with more than RMB 500 million paid-in capital, full refund of the district/county local retained part of its paid enterprise income tax in the first 2 years and half refund in the next 3 years;<sup>35</sup></p> <p>2. Business tax exemption for the GP in partnership funds if it contributes intangible assets or real properties, participations in the profit allocation and jointly assume investment risks and upon the transfer of its equity in the fund.<sup>36</sup></p>	N/A	<p>1. Full refund of the local retained part of the paid enterprise income tax in the first 2 years and half refund in the next 3 years;<sup>37</sup></p> <p>2. Full refund of the local retained part of the paid business tax in the first 2 years and half refund in the next 3 years;<sup>38</sup></p> <p>3. Business tax exemption for the GP in partnership funds if it contributes intangible assets or real properties, participations in the profit allocation and jointly assume investment risks and upon the transfer of its equity in the fund.<sup>39</sup></p>	<p>For management companies filed with Tianjin NDRC:</p> <p>1. Full refund of the local retained part of the paid enterprise income tax in the first 2 years and half refund in the next 3 years;</p> <p>2. Full refund of the local retained part of the paid business tax in the first 2 years and half refund in the next 3 years;</p>	<p>1. Full refund of the business tax for the first and second year by the financial department, and 50% refund from the 3rd year to the 5th year</p> <p>2. Full refund of the local retained part of the paid enterprise income tax, and half refund in the following 3 years.<sup>41</sup></p>

<sup>35</sup> Beijing: *Opinions on Promoting the Development of Equity Investment Funds*, Article 9&10

<sup>36</sup> Beijing: *Opinions on Promoting the Development of Equity Investment Funds*, Article 6

<sup>37</sup> Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(2)

<sup>38</sup> Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(3)

<sup>39</sup> Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section III(4)

<sup>40</sup> Tianjin: *Measures on Promoting the Development of Equity Investment Funds*, VIII

<sup>41</sup> Chongqing: *Opinions of People's Government of Chongqing on Encouraging the Development of Equity Investment Related Enterprises*, Section II

Type	Beijing <sup>ii</sup>	Shanghai	Shenzhen	Tianjin	Chongqing
				3. The office purchase or construction will be exempt from real estate tax for 3 years and from deed tax. <sup>40</sup>	
Office Subsidy	<p>For corporate PE management company managing a fund with more than RMB 500 million paid-in capital (Jinrong Jie, Xicheng District, Beijing CBD and Chaoyang District only):</p> <p>1. A lump-sum subsidy of RMB 1,000/m<sup>2</sup> with a 5-year transfer lock-up upon an office purchase;</p> <p>2. A lease subsidy of 50%, 30% and 10% of the fund's office rental in first 3 years, respectively<sup>42</sup></p>	<p>Pudong District only:</p> <p>1. A subsidy of 1.5% of the purchase price if purchasing an office in Lujiazui or Zhangjiang;</p> <p>2. A subsidy of RMB 500/m<sup>2</sup>/year for office lease in Lujiazui or Zhangjiang.<sup>43</sup></p>	<p>1. A subsidy of 1.5% of the purchase price up to RMB 5 million with a 10-year transfer lock-up upon office purchase in Shenzhen;</p> <p>2. A subsidy of 30% of the market rental for 3 years up to RMB 1 million for office lease in Shenzhen.<sup>44</sup></p>	<p>1. A lump-sum subsidy of RMB 1,000/m<sup>2</sup> up to RMB 5 million with a 10-year transfer lock-up upon office purchase in Tianjin;</p> <p>2. A subsidy of 30% of the lower of the actual office rental and the market rental for 3 years up to 1,000m<sup>2</sup></p>	<p>1. A lump sum subsidy of RMB 1000/m<sup>2</sup> within a 5 year lease lock-up upon office purchased or established in the central commercial district, core financial district or northern new district. The office can not be leased to any third party if such subsidy is granted,</p> <p>2. A subsidy of 30% of the market rental for 3 years for office lease in</p>

<sup>42</sup> Implementation Rules on Promoting the Development of Financial Industry in the Capital, Section 8&9

<sup>43</sup> Shanghai: Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management

Type	Beijing <sup>ii</sup>	Shanghai	Shenzhen	Tianjin	Chongqing
	<p>Applicable in Haidian District only:</p> <p>For EIFEs and headquarter EIMEs, a lease subsidy of 50%, 30 and 20% of the fund's office rental in the first 3 years, respectively.</p>			and RMB 1 million for office lease in Tianjin. <sup>45</sup>	Chongqing. (the specific subsidy standard shall be calculated based on the average rental in the same area.)

Type	Beijing	Shanghai	Shenzhen	Tianjin	Chongqing
Local Investment Rewards	N/A	<p>Pudong District only:</p> <p>Cash reward of 50% of Pudong local retained tax from the fund's investment in portfolio companies organized in Pudong and engaged in an encouraged industry.<sup>46</sup></p>	<p>Cash reward of up to RMB 3 million from local tax revenues derived from investments in and disposition of portfolio companies or projects in Shenzhen.<sup>47</sup></p>	<p>Cash reward of 60% of local retained tax revenues derived from investments in and disposition of portfolio companies or projects in Tianjin.<sup>48</sup></p>	N/A

*Enterprises in Pudong New District*, Article 6

<sup>44</sup> Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV

<sup>45</sup> Tianjin: *Measures on Promoting the Development of Equity Investment Funds*, VIII(4)

<sup>46</sup> Shanghai: *Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District*, Article 5

<sup>47</sup> Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(4)

<sup>48</sup> Tianjin: *Measures on Promoting the Development of Equity Investment Funds*, VIII(6)

Type	Beijing	Shanghai	Shenzhen	Tianjin	Chongqing
Rewards to Individuals	<p>For corporate PE management company managing a fund with more than RMB 500 million paid-in capital:</p> <p>Cash refund up to RMB 300,000 from the local retained individual income tax revenue to senior officers who have been in employ by the finance enterprise for more than 2 years, which may be used for purchasing a residential property, an automobile and professional training in Beijing<sup>49</sup></p>	<p>Pudong District only:</p> <p>1. For corporate fund and management companies, a 40% individual income tax refund to chairperson and vice chairperson of the board, general manager and deputy general manager and a 20% individual income tax refund to investment managers and core members of project management team;</p> <p>2. RMB 200,000 housing subsidy for chairperson and vice chairperson of the board, general manager and deputy general managers if the registered capital of corporate fund reaches RMB 500 million or if the assets under management of management company reaches RMB 1 billion.<sup>50</sup></p>	<p>Senior offices, satisfying certain conditions and verified by the human resources and insurance authorities, can benefit from talents introduction policies, get rewards and help with the settlement of their spouse, education of their children and medical insurances.</p>	<p>Cash refund of local retained individual income tax to senior officers who have been in employ by the finance enterprise for more than 2 years, which may be used for the first-time purchase of a residential property, automobile or professional training in Tianjin for up to 5 years.<sup>51</sup></p>	<p>Full refund of the local retained part of the paid individual income tax to senior officers for the first 3 years, and half refund for the following 2 years, to encourage and support their further education and training, purchase of real estate or so.</p>

<sup>49</sup> *Implementation Rules on Promoting the Development of Financial Industry in the Capital*, Section 6

<sup>50</sup> Shanghai: *Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District*, Article 4

<sup>51</sup> Tianjin: *Measures on Promoting the Development of Equity Investment Funds*, VIII(5)

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<sup>i</sup> The Beijing rules do not expressly impose any minimum capital requirement for EIFEs or EIMEs but do require an actual paid-in capital of RMB500 million in order for an EIFE to become eligible for various tax incentives and rewards in Beijing. In addition, based on our informal discussion with Beijing Bureau of Financial Work, in practice, the registration of EIMEs with Beijing Bureau of Financial Work, which is a pre-condition for becoming eligible for the various incentive policies in Beijing, requires the EIME to have a minimum registered capital of RMB30 million.

<sup>ii</sup> For enterprises to apply for incentives of Haidian District, some conditions should be satisfied in the first place. For EIFEs, following are the conditions on their scope of business and registered capital: invest in unlisted enterprises only and the amount of its investment in each enterprise shall not exceed 20% of the investee enterprise's total capital; the registered capital of the EIFE shall be no less than RMB 100 million or equivalent foreign currency; the first installment of no less than 20% of its registered capital shall be paid in before registration, and the balance shall be paid up within 5 year from the issuance of its business license; in case of foreign-invested EIFEs invested by foreign investors, the first installment of contribution shall be no less than 15% of their respective subscribed contribution, and must be paid up within 3 months from the issuance of the business license, with the balance paid up within 3 years from the issuance of the business license. For EIMEs, following are the conditions on their scope of business and registered capital: invest in unlisted enterprises only and the amount of its investment in each enterprise shall not exceed 20% of the investee enterprise's total capital; the registered capital of the EIFE shall be no less than RMB10 million or equivalent foreign currency; the first installment of its contribution must be paid in before registration and its paid-in capital shall be no less than 20% of its registered capital, and the balance shall be paid up within 2 year from the issuance of its business license; in case of foreign-invested EIMEs, the first installment of no less than 15% of their respective subscribed contribution shall be paid up within 3 months from the issuance of the business license, with the balance paid up within 3 years from the issuance of the business license.

## **Important Announcement**

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