HAN KUN

HAN KUN 2025 VC/PE DATA ANALYSIS REPORT

2026.7

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TABLE OF CONTENTS

Part 1 Introduction

Han Kun Law Offices is a full-service law firm in China and a leader in venture capital and private equity (VC/PE) transactions. Each year, we represent numerous institutional investors and corporate clients in a substantial volume of VC/PE transactions. These transactions, structured either onshore or offshore, span the entire lifecycle of the VC/PE universe from the angel/seed stage to the pre-IPO round. Our clients consist of a broad range of parties in the investment community, including highly recognized domestic and international investors, as well as corporate stars, unicorns and start-ups at the forefront of leading industries. The data distilled from these transactions, which form the basis of this Report, offer valuable insight into the VC/PE market in China. We publish this Report annually in the hope that participants in China's VC/PE market will find it useful to chronicle the development of the market, understand its underlying logic and gauge its trajectory.

Following a relatively subdued 2024, the VC/PE market began to recover in 2025, showing signs of resurgence. However, the market continues to face significant headwinds stemming from escalating geopolitical tensions, shifting domestic and international regulatory landscapes, and heightened uncertainty in exit channels. In contrast to the exuberant expansion seen before the pandemic, investment activities have become markedly more disciplined and risk-aware, with both investment trends and capital allocation patterns undergoing profound structural transformation. In 2025, Han Kun, serving as legal counsel, assisted clients in closing approximately 250 VC/PE deals.

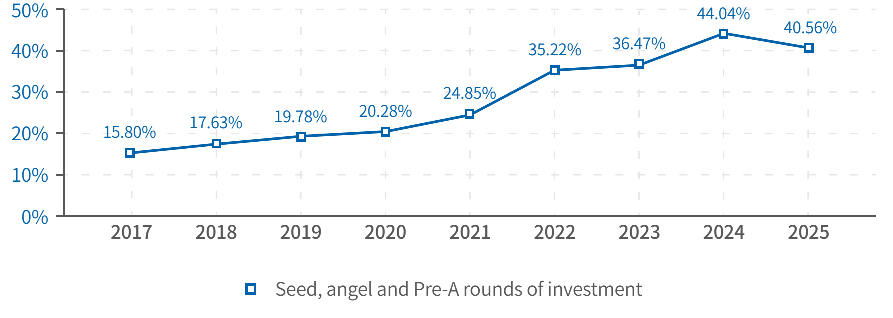
In this Report, we summarize data from the VC/PE transactions that we worked on in 2025 and analyze the investment structures and key legal terms commonly used in such transactions. Where appropriate, we cite data from over 4,300 VC/PE transactions completed in the previous nine years to highlight evolving trends and changes in the investment structures and key legal terms over that time span. Additionally, the newly revised Company Law of the People's Republic of China, which took effect on July 1, 2024 (the "PRC Company Law"), has had certain implications for the financing terms of onshore companies, and this Report also reflects some of our observations on this matter.

(Unless otherwise indicated, the transactions referred to in this Report are VC/PE transactions in which we served as legal counsel in the given year(s). Figures in this Report have been rounded to two decimal places.)

The VC/PE transactions advised by Han Kun in 2025 revealed the following characteristics:

- **Transaction volume rebounded after consecutive declines, while average deal size remained under pressure.** In 2025, the VC/PE market demonstrated renewed momentum. Compared to 2024, the number of VC/PE deals completed by Han Kun showed an increase. However, persistent market uncertainties led investors to maintain a cautious and rational approach, as evidenced by two notable developments: (1) the average deal value declined further, falling to its lowest point in the past nine years; and (2) capital allocation continued to skew toward early-stage rounds. In 2025, early-stage transactions (comprising seed, angel, and Pre-A rounds) accounted for 40.56% of the total. This suggests that investors remained focused on identifying high-potential companies in their early stages, while adopting increasingly conservative investment strategies overall. Consistent with this trend, investors' equity stakes in portfolio companies continued to shrink. Based on our 2025 data, deals in which investors acquired less than 5% equity in the investee company accounted for 24.76% of all VC/PE transactions for the year, the highest proportion recorded in recent years.

Percentage of Early-Stage Transactions — Changes Over the Past Nine Years

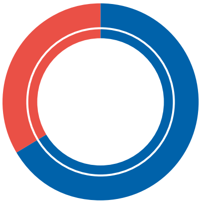


- **The proportion of onshore transactions declined slightly, but the pure domestic structure continued to gain momentum.** In VC/PE terminology, an onshore transaction (or onshore structure) refers to a scenario in which the investee company uses an entity registered in China as the financing vehicle (the "onshore vehicle"), and the founders and investors make their investments and hold equity interests directly in this onshore vehicle. By contrast, an offshore transaction (or offshore structure) involves the founders of the investee company directly or indirectly establishing an entity outside China (mostly in the Cayman Islands, the "offshore vehicle") to receive investments. The offshore vehicle controls the onshore operating entities through equity holding or other arrangements, while the group's principal business operations remain in China. In such a transaction, the founders and investors make investments and hold equity interests at the offshore vehicle level.

In 2025, transactions with an onshore structure accounted for 66.51% of the total, reflecting a downward trend compared to the previous two years. Correspondingly, RMB-denominated investments represented 64.62% of the VC/PE transactions in 2025. Onshore structures are primarily divided into: (1) **the pure domestic structure**, where the onshore vehicle is 100% owned by domestic entities with no foreign investment; and (2) **the foreign-invested enterprise (FIE) structure**, where the onshore vehicle is partially owned by foreign investors and registered under PRC law as a foreign-invested enterprise. Of the onshore transactions completed in 2025, those adopting the pure domestic structure accounted for 73.05%, the highest level since 2020, while those using the FIE structure made up only 26.95%. Furthermore, of the onshore vehicles, 87.20% were established as limited liability companies and 10.40% as companies limited by shares.

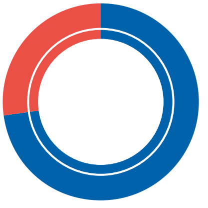
In 2025, 33.49% of the VC/PE transactions adopted the offshore structure, showing a slight rebound compared to the past three years. Offshore structures are primarily divided into: (1) **the VIE structure**, where the offshore vehicle controls the onshore operating entity through a series of contractual arrangements between its wholly owned subsidiary and the onshore operating entity; and (2) **the direct shareholding structure**, where the offshore vehicle directly owns the equity of the onshore operating entity without any contractual control mechanisms in the group structure. Among the offshore transactions in 2025, 40.85% adopted the VIE structure, a noticeable increase compared to 2024, though it still remains at a relatively low level compared to pre-2022 figures. On the other hand, the direct shareholding structures accounted for 59.15% of the offshore transactions in 2025, representing a decline from the previous year. In 2023, the direct shareholding structures outnumbered the VIE structures for the first time in terms of adoption rate, and this leading position was maintained in 2024 and 2025.

2025 VC/PE Transaction — Structures



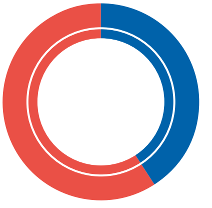
Transaction Structure

- Onshore structure 66.51%
- Offshore structure 33.49%



Onshore Structure

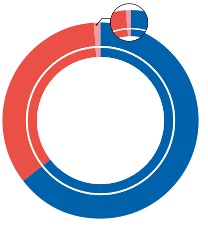
- Domestic structure 73.05%
- FIE structure 26.95%



Offshore Structure

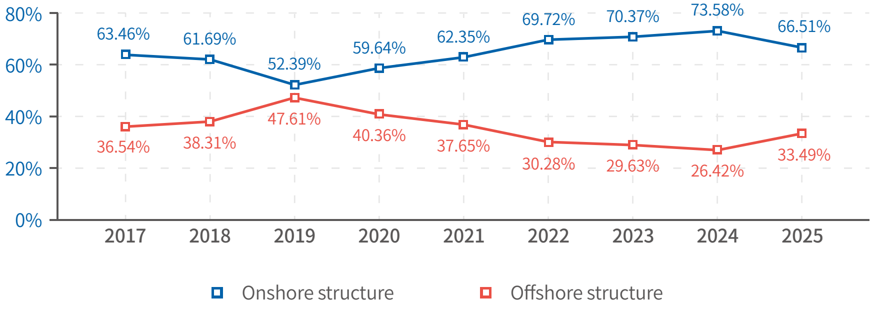
- VIE structure 40.85%
- Direct shareholding structure 59.15%

2025 VC/PE Investment Currency

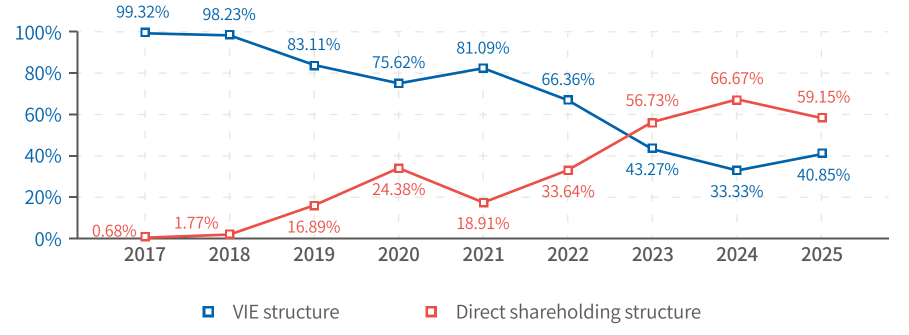


- RMB 64.62%
- USD 34.43%
- HKD 0.94%

Changes in Transaction Structures over the Past Nine Years



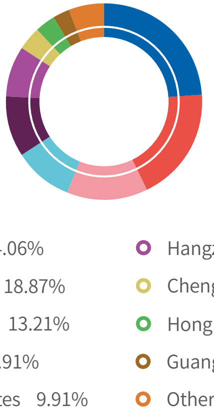
Changes in Transaction Structures over the Past Nine Years — Offshore Structure



- **A significant proportion of VC/PE investors have State/government backgrounds, while Hong Kong-listed companies also form a notable investor segment.** Our 2025 data show that nearly 40% of the VC/PE transactions involved investors with State-owned or government affiliations (such as State-owned funds or State-owned enterprises), with this figure exceeding 50% in onshore transactions. Our category of "State-owned or government-affiliated" investors encompasses wholly State-owned enterprises, State-controlled enterprises, and entities in which the State holds a minority stake; among these, the former two accounted for more than 70%. Additionally, in 2025, 11.71% of the VC/PE transactions featured listed companies (or their SPVs) as investors. Of these listed company investors, 45.83% were listed on the Hong Kong Stock Exchange, and 37.50% on mainland China's A-share market.

- **Suzhou and Hangzhou witnessed continued growth in VC/PE market activity.** Our 2025 data indicate that the principal business operations of most investee companies remained concentrated in Beijing, Shanghai, and Shenzhen. Collectively, these three cities attracted 56.14% of all VC/PE transactions during the year. In addition, Suzhou and Hangzhou have emerged as increasingly active investment hubs, capturing 9.91% and 8.49% of the VC/PE deals in 2025, respectively, both showing a notable increase compared to the previous two years. Furthermore, a growing number of VC/PE investments flowed into companies with principal business operations in the United States, which also accounted for 9.91% of the total in 2025.

2025 VC/PE Transactions — Principal Business Domiciles of Investee Companies



Note: "Other cities" include Nanjing, Singapore, Xiamen, Hefei, Changsha, Tianjin, Hainan, Zhuhai, etc.

● **Hot sectors for VC/PE investment: artificial intelligence, biomedical and semiconductors.** In 2025, artificial intelligence (AI) maintained its status as a dominant global industry. Among the VC/PE transactions of the year, AI software (including large language models and AI algorithms) captured 21.23% of the total, and AI hardware (including robotics) made up 18.87%. Collectively, these two segments reached a combined share of 40.10%, marking a significant increase from the 25.90% recorded in 2024. The biomedical sector (including biotechnology, healthcare, pharmaceuticals, and medical devices) ranked second, attracting 17.45% of the annual VC/PE investments, a slight decline from 2024. The semiconductor technology sector (including integrated circuits, chips and lithography equipment) took third place with an 8.49% share of the total. Collectively, these three sectors accounted for approximately two-thirds of all VC/PE deals in 2025.

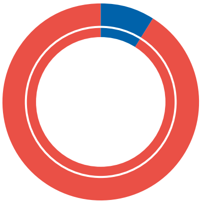
2025 VC/PE Transactions — Market Sectors

- Artificial intelligence software 21.23%
- Intelligent hardware 18.87%
- Biotechnology, healthcare, pharmaceuticals and medical devices 17.45%
- Semiconductor technology 8.49%
- Automobiles and transportation 5.19%
- New materials and new energy products 3.77%
- Internet finance and fintech 3.30%
- Other sectors 21.70%

Note: "Other sectors" include aviation, aerospace, satellite, gaming, big data, cloud computing, and food & beverage, etc.

- **Financial investments edged up slightly.** Among 2025 VC/PE transactions, financial investments accounted for 91.04% of the total, a slight increase from 2024; correspondingly, strategic investments made up 8.96%, a modest decline compared to 2024. Among strategic VC/PE transactions, 47.37% involved strategic or business cooperation agreements between investors and investee companies, a notable decrease compared to 2024.

2025 VC/PE Investment Type



- Strategic investments 8.96%
- Financial investments 91.04%

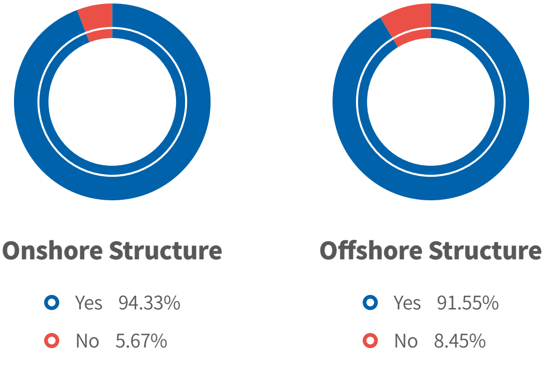
Part 2 Analysis of Key Legal Terms

Preemptive Right

The preemptive right grants certain shareholders (typically investors holding preferred shares[1]) a priority right over other shareholders and third parties to subscribe for newly issued shares of the company. This right is designed to protect the shareholdings of the investors from being diluted by the company's future capital raising.

According to our data, 93.40% of the VC/PE transactions in 2025 included the preemptive right. The following chart illustrates how preemptive right was adopted in onshore and offshore transactions in 2025:

Preemptive Right



Note: The PRC Company Law provides that when a limited liability company proposes to increase its registered capital, each shareholder has the preemptive right to subscribe for the new capital in proportion to its paid-in capital contributions on the same terms and conditions as those offered to third parties, unless all shareholders agree otherwise on the subscription ratio. Thus, in onshore transactions, absent an agreement to the contrary among all the shareholders, even if the transaction documents do not expressly provide for the preemptive right, all shareholders remain entitled to the preemptive right under the PRC Company Law.

[1] In VC/PE transactions, investors usually hold preferred shares in the company (also known as preferred shareholders), while founders usually hold common shares (also known as common shareholders). Preferred shares carry a series of preferred rights and privileges.

Typically, one of the following two formulas is used for calculating the number of newly issued shares that an existing investor is entitled to acquire under the preemptive right (the "preemptive quota"):

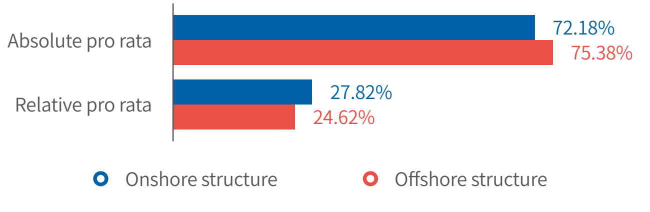
- *Absolute pro rata*. Under this formula, the preemptive quota of each existing shareholder is calculated based on its current shareholding percentage[2] in the company. As a result, the existing investors as a group cannot collectively acquire all the newly issued shares of the company.

- *Relative pro rata*. Under this formula, the preemptive quota of each existing investor is calculated based on its shareholding percentage relative to the shareholdings of all existing investors. As a result, the existing investors as a group can collectively acquire all the newly issued shares of the company.

Since the primary purpose of the preemptive right is to prevent dilution of an investor's shareholding in the company rather than to increase such shareholding, the absolute pro rata formula is used more often than the relative pro rata formula. Our data support this pattern: over the past nine years, about 70% to 80% of the VC/PE transactions that included the preemptive right adopted the absolute pro rata formula for calculating the preemptive quotas. In 2025, the figure was 73.23%.

The chart below shows how the two formulas were adopted in the VC/PE transactions that provided for the preemptive right in 2025:

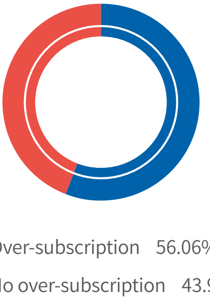
Preemptive Right — Absolute Pro Rata vs. Relative Pro Rata



[2] In offshore transactions, an investor's pro rata share (or shareholding percentage) in a company is usually determined by the number of common shares deliverable to it upon conversion of its preferred shares (i.e., on an as-converted basis). In both onshore and offshore transactions, the parties may further specify the formula for calculating the shareholding percentage (e.g., based on paid-in capital or on a fully diluted basis).

The over-subscription right often serves as a complement to the preemptive right. It allows a holder of the preemptive right who has fully exercised its preemptive right to subscribe for additional newly issued shares if any other right holder fails to exercise or does not fully exercise its preemptive quota. According to our 2025 data, 56.06% of the VC/PE transactions that included the preemptive right also provided for the over-subscription right.

Preemptive Right — Over-subscription Right

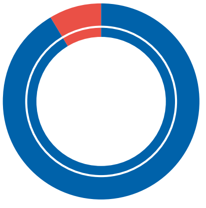


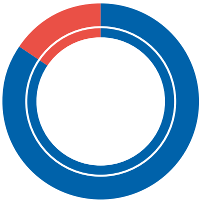
Right of First Refusal

When a specific shareholder (the “selling shareholder”) proposes to transfer its shares in the company, the right of first refusal (the “ROFR”) grants certain other shareholders (the “ROFR holders”) the right to purchase such shares on the same terms and conditions, in priority to any third-party transferee and/or other shareholders. The ROFR is designed to restrict share transfers by the selling shareholder and, when exercised, to increase the shareholding of the ROFR holders.

Based on our data, 89.15% of the VC/PE transactions in 2025 provided for the ROFR, the lowest level in the past three years. The figure below shows how the ROFR was used in onshore and offshore transactions in 2025:

Right of First Refusal





Note: the PRC Company Law contains specific provisions governing the transfer of shares in a limited liability company. Accordingly, in an onshore transaction, even if the ROFR is not expressly provided for in the transaction documents, all shareholders of a limited liability company are still entitled to the ROFR in the manner set forth in the PRC Company Law.

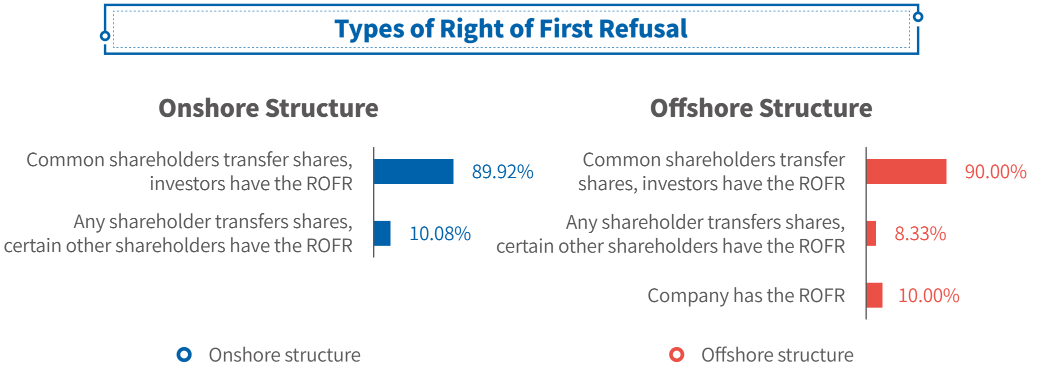
The ROFR may be exercised primarily in the following ways:

- *If common shareholders transfer shares, investors are entitled to the ROFR*. In most VC/PE transactions, common shareholders (typically the founders) are the primary parties subject to the ROFR. Thus, the most typical ROFR term in the transaction documents provides that if a common shareholder proposes to transfer its shares, the investors shall have the ROFR to acquire such shares. Our data show that, each year more than 90% of the ROFR provisions adopted this model. In 2025, this figure declined slightly to 89.95%.

- *If any shareholder transfers shares, certain other shareholders are entitled to the ROFR*. Each year, a small number of transactions include an agreement that when any shareholder proposes to sell its shares, certain other shareholders shall have the ROFR to acquire such shares. Depending on the deal specifics, such "certain other shareholders" may refer to all investors or all non-selling shareholders. This method is not widely used because transfers by investors would also be restricted by the ROFR. Among the 2025 VC/PE transactions that provided for ROFR, 9.52% of the ROFR provisions adopted this approach, reaching the highest level in recent years; and in 72.22% of these cases, the transactions involved strategic investors.

- *The company is entitled to ROFR*. When a selling shareholder proposes to transfer its shares, the company itself is entitled the ROFR. It is commonly agreed that when a shareholder proposes to sell its shares, the company has the first opportunity to exercise the ROFR, to the extent the company does not exercise its ROFR in full, other ROFR holders may then acquire the remaining shares proposed to be transferred. Under Cayman Islands law, share repurchases by companies are relatively straightforward to implement. Hence, this approach is commonly adopted in offshore transactions.

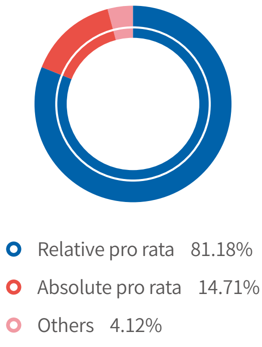
The following chart shows how the different approaches were adopted in 2025 VC/PE transactions that include the ROFR:



Note: The data include cases where multiple types of the right of first refusal were used simultaneously.

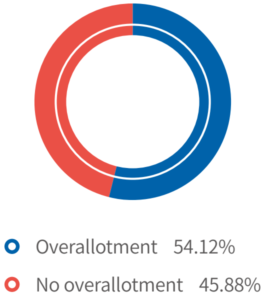
Like the preemptive right, the ROFR may also be exercised on an absolute pro rata or relative pro rata basis. Unlike the preemptive right, however, the ROFR is exercised predominantly on the relative pro rata basis. The rationale is that under the "if common shareholders transfer shares, investors are entitled to the ROFR" scenario, the relative pro rata formula maximizes the ability of investors to acquire all the shares proposed to be transferred by the founders, thereby effectively restricting the founders from selling their shares to third parties. According to our 2025 data, 81.18% of the VC/PE transactions that adopted this model used the relative pro rata approach to calculate the number of shares that each investor is entitled to acquire.

Right of First Refusal — Absolute Pro Rata vs. Relative Pro Rata



Overallotment is an important companion to the ROFR. It is designed to further restrict the selling shareholder's ability to dispose of its shares by allowing ROFR holders to acquire shares in addition to those they are otherwise entitled to acquire. Specifically, if a ROFR holder does not fully exercise its right to acquire all the shares it is entitled to, any other ROFR holder who has fully exercised its ROFR can further acquire the leftover shares. According to our 2025 data, the overallotment right was provided for in 54.12% of the VC/PE transactions that adopted the model "if common shareholders transfer shares, investors are entitled to the ROFR", with a higher adoption rate in offshore transactions.

Right of First Refusal — Overallotment Right

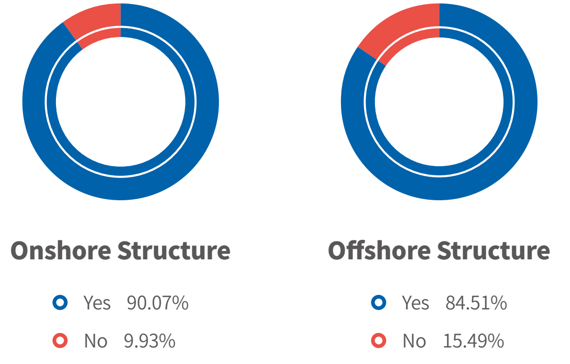


Co-sale Right

The co-sale right is a common preferential right in VC/PE transactions. It serves two purposes: first, it allows investors to exit simultaneously with the founders when the latter seek to sell their shares, and second, it further restricts the founders' freedom to transfer shares. Specifically, when a common shareholder proposes to sell its shares, each investor who has not exercised its ROFR may participate in such sale, whereby it is entitled to sell its shares at a pre-agreed ratio alongside the selling common shareholder. As a result, the number of shares planned to be sold by the selling shareholder will be correspondingly reduced. If the prospective buyer refuses to acquire the shares from the co-sale investors at the same time, the selling common shareholder will be unable to consummate its own sale.

Based on our data, 88.21% of the VC/PE transactions in 2025 provided for the co-sale right. The figure below shows how the co-sale right was adopted in onshore and offshore transactions in 2025:

Co-sale Right



The key to the co-sale right lies in the formula for calculating the maximum number of shares an investor is entitled to co-sell. The table below sets out the most common formulas for the co-sale right and how they were adopted to implement co-sale right in 2025 transactions. As shown in the table below, the first formula, which maximizes the number of shares an investor is able to co-sell, was the most popular in both onshore and offshore transactions. Moreover, the first formula saw the highest usage in 2025 compared to previous years.

Co-sale Ratio Calculation Formula	Onshore Structure	Offshore Structure
Shares held by the investor / (shares held by all investors exercising co-sale right + shares held by the transferor)	71.65%	68.33%
Shares held by the investor / (shares held by all investors entitled to exercise co-sale right + shares held by the transferor)	17.32%	23.33%
Shares held by the investor / (shares held by all investors + shares held by the transferor)	0.00%	0.00%
Shares held by the investor / all issued and outstanding shares	2.36%	1.67%
Other formulas	8.66%	6.67%

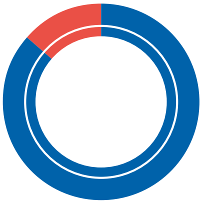
Finally, among the 2025 VC/PE transactions that included the co-sale right, 22.46% provided for "special co-sale right under change of control" provision. Pursuant to this provision, if a share transfer by any common shareholder would lead to a change of control of the company, the investors may co-sell the whole of their shares. According to our 2025 data, the "special co-sale right under change of control" provision was more commonly used in onshore transactions than offshore ones.

Redemption Right

The redemption right (also known as the repurchase right) provides investors with a mechanism to divest their investment in the company. Specifically, it allows investors to require the company and/or the founders to redeem their shares at a pre-agreed price upon the occurrence of one or more trigger events (the "redemption trigger events").

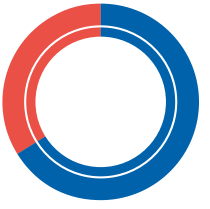
Based on our data over the past nine years, the redemption right was overwhelmingly adopted in both onshore and offshore transactions. However, as indicated by our data, the number of VC/PE transactions without the redemption right has been rising each year. In 2025, only 79.72% of the VC/PE transactions provided for the redemption right, marking a nine-year low, and those that did not provide for the redemption right were notably more prevalent in offshore transactions. The following chart shows how the redemption right was used in onshore and offshore transactions in 2025:

Redemption Right



Onshore Structure

- Yes 86.52%
- No 13.48%



Offshore Structure

- Yes 66.20%
- No 33.80%

Based on our statistical analysis, the rising proportion of VC/PE transactions without a redemption right may be attributed to the following factors: (i) early-stage transactions consistently represented a significant share of overall transactions. In such rounds, some investors agreed to waive certain stringent protective clauses to expedite fundraising, with the expectation that more comprehensive investor rights, including the redemption right, would be negotiated in subsequent financing rounds; (ii) in recent years, high-profile disputes involving redemption rights have heightened founders' awareness of the associated risks, leading to greater resistance to accepting such provisions during negotiations; (iii) an increasing share of VC/PE investments is being directed toward companies primarily operating in the United States, where market practice typically limits the use of redemption rights.

In onshore and offshore transactions, parties bearing the redemption obligation are generally as follows:

(1) the company alone bears the redemption obligation;

(2) the company and founders jointly bear the redemption obligation under all circumstances;

(3) the founders share the redemption obligation with the company only under limited circumstances;

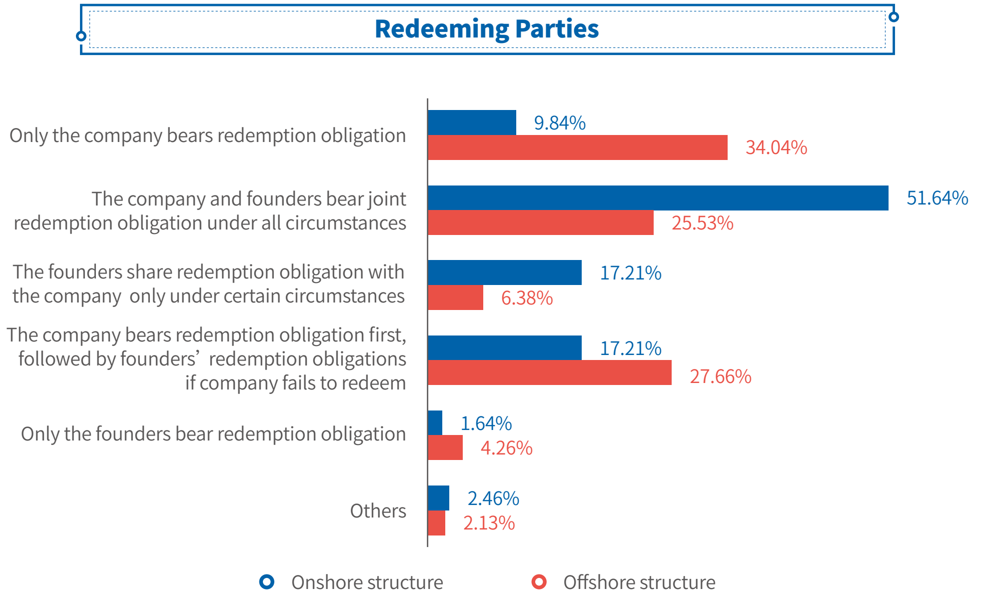
(4) the company bears the obligation first and the founders are required to share the redemption obligation if the company fails to fulfill its redemption obligation; or

(5) the founders alone bear the redemption obligation.

Onshore and offshore transactions differ substantially in respect of the party(ies) bearing the redemption obligation. In offshore transactions, it is more typical for the redemption obligation to rest solely with the company. In onshore transactions, by contrast, founders and the company are usually jointly liable for the redemption obligation (including the circumstances outlined in (2), (3) and (4) above). This divergence primarily stems from the differences in legal frameworks and judicial practices across the jurisdictions where the financing vehicles are established. In some foreign jurisdictions (typically, the Cayman Islands), procedures for share redemption are straightforward, affording investors greater control over enforcing their redemption rights. However, under the PRC law, procedures for share repurchase by limited liability companies are comparatively complex, creating greater uncertainty as to the enforceability of such rights. As a result, investors in onshore transactions usually require that founders and companies be jointly responsible for the redemption to ensure effective enforcement of the redemption right.

Despite the aforementioned legal practice, it is noteworthy that the share of offshore transactions where the redemption obligation rests solely with the company has steadily declined in recent years. In 2025, only 16.57% of the VC/PE transactions with redemption rights designated the company as the sole party responsible for the redemption obligation, specifically 9.84% in onshore transactions and 34.04% in offshore transactions, both representing a notable decline from previous years. By contrast, the share of VC/PE transactions in which founders are also required to bear a joint redemption obligation has increased slightly. This trend reflects investors' growing emphasis on achieving greater certainty of exit in recent years.

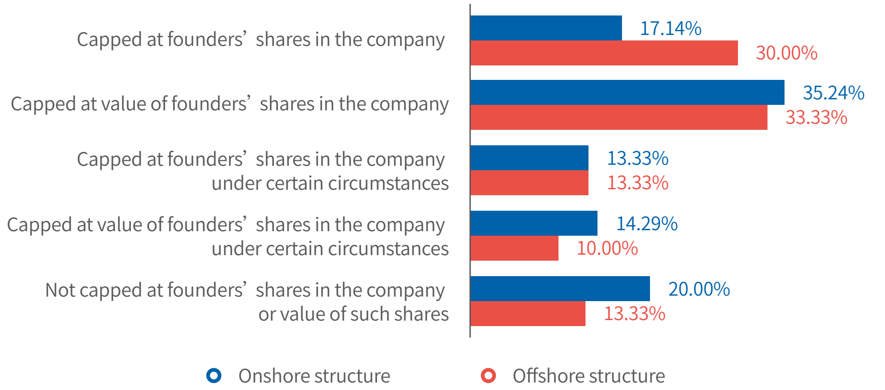
The chart below shows the specific choices of redemption obligors in VC/PE transactions that provided for the redemption right in 2025:



Where founders are responsible for the redemption obligation (including the circumstances outlined in (2), (3), (4) and (5) above), they often seek to cap their obligation so as to avoid excessive exposure of their personal and family assets. Typically, the cap is structured such that, under all or specific circumstances, the founders' redemption obligation is limited to their shares in the company or the value of such shares.

The chart below shows how various caps were adopted in the 2025 VC/PE transactions where founders assumed the redemption obligation:

Redeeming Parties — When Founders Assume Redemption Obligations, the Capped Amount

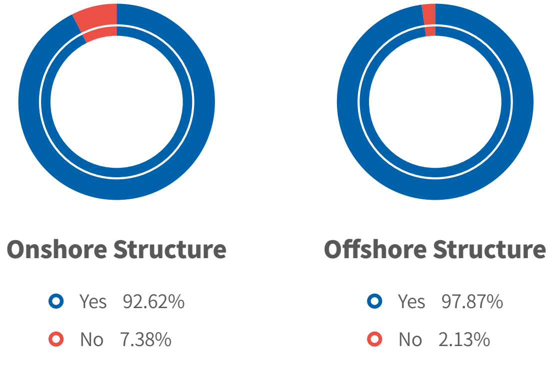


As to the exercise of the redemption right, investors may only demand that the company and/or the founders redeem their shares if a trigger event occurs. In this context, three trigger events are most common, as follows:

(1) Material breach by the company and/or founders of the transaction documents

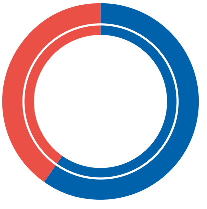
In 2025, this was the top trigger event for investors to demand redemption. It was adopted in 94.08% of the VC/PE transactions with the redemption right.

Redemption Trigger Event — Material Breach of Transaction Documents by Company and/or Founders



Since the benchmark for materiality is elusive, it is often difficult to ascertain whether a breach constitutes a material breach that triggers investors' redemption rights. To resolve this uncertainty, companies and founders often request a grace period to cure the breach, such that investors may demand redemption only if the breach remains uncured after expiration of the grace period. In 2025, about 59.75% of the transactions with this trigger event set out a grace period.

Redemption Trigger Event — Material Breach of Transaction Documents by Company and/or Founders — Use of Grace Period



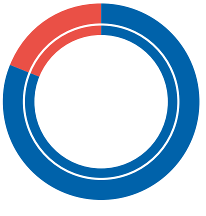
With grace period 59.75%

Without grace period 40.25%

(2) Failure to consummate a qualified IPO within requisite time limit

Among the VC/PE transactions in 2025 that provided for the redemption right, 83.43% stipulated that if the company failed to complete a qualified IPO within a specified period following the closing, the investors could demand redemption of their shares.

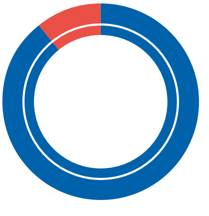
Redemption Trigger Event — Company's Failure to Complete Qualified IPO within Required Time Limit after Closing



Onshore Structure

Yes 81.15%

No 18.85%



Offshore Structure

Yes 89.36%

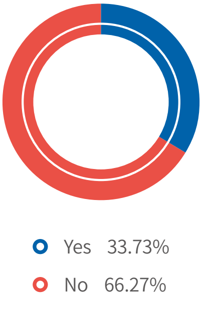
No 10.64%

A three-to-five-year period is typical for investors to require a company to complete a qualified IPO (the "IPO time limit"). However, in angel, seed or Pre-A round transactions, the IPO time limit often exceeds five years. Among the 2025 VC/PE transactions that adopted this trigger event, 41.13% set an IPO time limit longer than five years, a substantial portion of which came from early-stage and Series A investments. Conversely, only 39.72% set an IPO time limit within the three-to-five-year range, similar to the figure recorded in 2024 but a noticeable decrease compared to previous years.

(3) Demand for redemption by other investors

In 2025, among the VC/PE transactions that adopted the redemption right, 33.73% provided that if one investor demanded redemption, any other investor could also demand redemption (the "cross-trigger right"). This percentage was the lowest in recent years.

Redemption Trigger Event — Cross-trigger Right



The rationale for the cross-trigger provision is to prevent an investor from being disadvantaged if another investor exercises its redemption right ahead of it, which could deplete the company's cash reserves and suppress its valuation. Since each round of financing would have an IPO time limit that begins running from the financial close, in companies that have undergone multiple rounds of financing, the IPO time limit of a subsequent financing would expire later in time than that set in an earlier round. As a result, the redemption rights of the earlier-round investors would be triggered before those of the subsequent-round investors. For this reason, investors in subsequent rounds of financing sometimes seek to align the timing of redemption triggers by requiring the earlier-round investors to extend their IPO deadlines. Companies may also welcome such extensions, as this would relieve the time pressure on the company to accomplish the IPO. According to our 2025 data, in VC/PE transactions featuring a cross-trigger provision, in 40.74% of cases all earlier-round investors agreed to extend their IPO deadlines, while in about one-third of cases, none of the earlier-round investors agreed to do so.

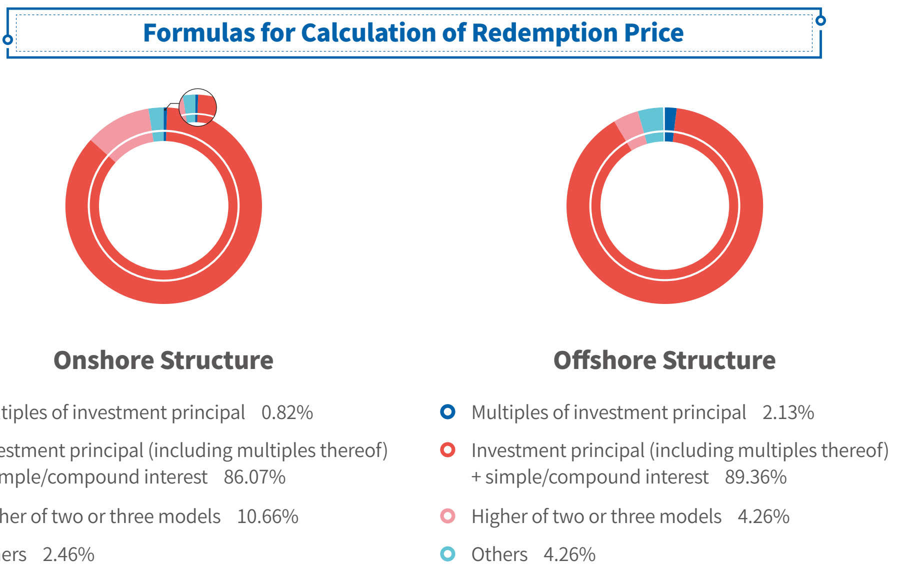
In addition to the three redemption trigger events discussed above, other common triggering events include: (i) failure of the founders or the company management to meet applicable integrity requirements, (ii) conviction of the founders of a criminal offense, (iii) termination of the founders' employment or loss of their control over the company; (iv) failure of the company to obtain or retain key licenses or intellectual properties, and (iv) illegality of the company's business operations resulting from a change in the PRC regulatory environment.

The redemption price is typically calculated based on the following formulas:

(a) multiples of the investment principal amount;
(b) investment principal amount (or certain multiples thereof) + simple or compound interest accrued thereon; or
(c) the higher of (i) the amount calculated as per (a) or (b) above and (ii) certain benchmarks such as the fair market value or audited net asset value.

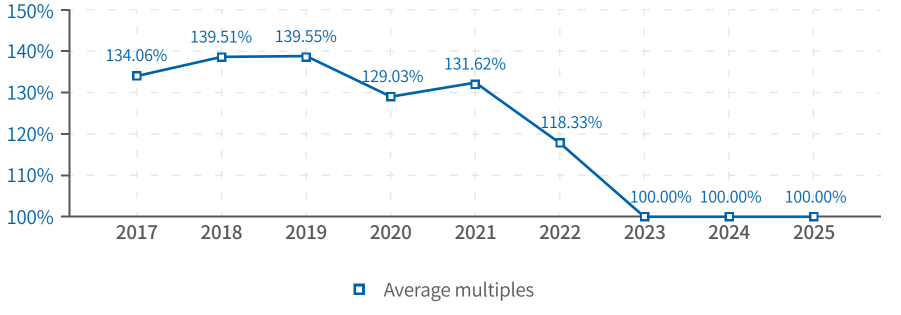
As shown in our data over the past nine years, formula (b) has been the most popular for the calculation of the redemption price, regardless of whether the underlying transactions were structured onshore or offshore. According to our 2025 data, formula (b) was used in 86.98% of the transactions that adopted the redemption right, reaching the highest percentage recorded in the past nine years. This seems to suggest that investors and companies preferred a formula that could adjust the price by factoring in the timing of the exit.

The chart below shows how the various formulas were used in the 2025 transactions that included the redemption right:

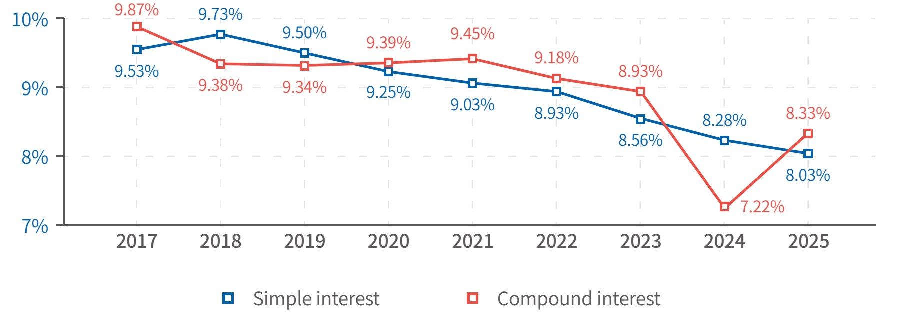


Based on our 2025 data, where the redemption price was calculated based on formula (a) (multiples of the investment principal), the average multiple was 100%, same as in 2024 and 2023, remaining the lowest in the past nine years. Where the redemption price was calculated based on formula (b) (investment principal or certain multiples thereof + simple or compound interest accrued thereon), the average interest rate was 8.03% annualized simple interest or 8.33% annualized compound interest.

Redemption Price — Multiples of Investment Principal
Average Multiples Trend over the Past Nine Years



Redemption Price — Investment Principal (or certain multiples thereof) + Simple/Compound Interest
Average Interest Trend over the Past Nine Years

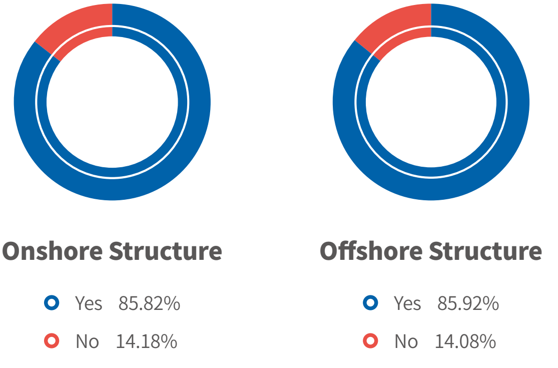


Anti-dilution Right

When a company raises a new round of financing at a price lower than the previous round (a down round), the anti-dilution right allows the existing investors to adjust the price per share they paid in the previous round in accordance with a pre-agreed formula, such that they are entitled to obtain additional shares to compensate for the higher price they paid before. In offshore transactions, the anti-dilution right is often effected by adjusting the conversion price between the preferred shares and common shares, such that each preferred share can be converted into additional common shares. In onshore transactions where share conversion is not explicitly permissible by law, the adjustment is often effected in one of the following ways: (i) the company issues additional shares to the affected investors at a nominal price, (ii) the founders transfer part of their shares to the affected investors at a nominal price or (iii) the company and/or founders provide cash compensation to the affected investors.

According to our data, over the past nine years, approximately 90% of the VC/PE transactions included the anti-dilution right. However, in 2025, this percentage dropped to 85.85%, reaching a nine-year low. The chart below illustrates how the anti-dilution right was adopted in onshore and offshore transactions in 2025:

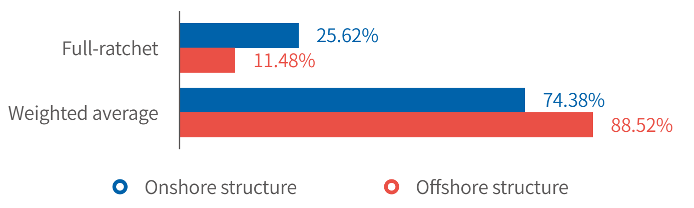
Anti-dilution Right



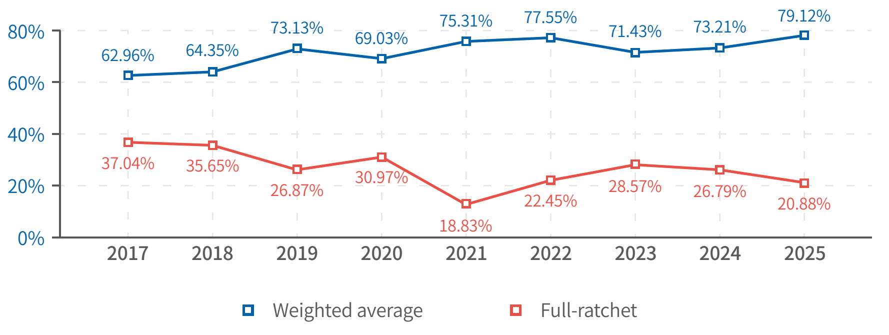
For the share price adjustment, there are two main methodologies-the “full-ratchet” and the “weighted average”. Although the weighted average formula offers less robust protection to investors than the full-ratchet formula, it is more agreeable to companies and more widely used in VC/PE transactions.

The chart below illustrates the application of these two formulas in 2025 transactions that provided for the anti-dilution right. As shown in the chart, the overwhelming majority used the weighted average formula to adjust the share price in both onshore and offshore transactions. Specifically, the weighted average formula was more dominant in offshore transactions, whereas the full-ratchet formula saw relatively greater use in onshore transactions.

Anti-dilution Right — Full-ratchet vs. Weighted average



Formulas for Calculation of Anti-dilution Right over the Past Nine Years

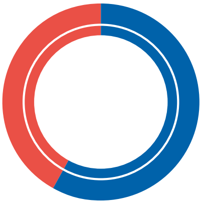


Drag-along Right

The drag-along right grants certain investors the right to require all other shareholders of the company to participate in a trade sale of the company when specific pre-agreed conditions are satisfied. A trade sale involves the sale of all or substantially all of the company's equity and/or assets to a third party. When a prospective trade sale offers a favorable price and/or conditions, it provides investors with a path to exit their investment and realize a desirable return. However, since investors are usually minority shareholders with no control over the company, they cannot proceed with the trade sale without the consent and cooperation of other shareholders. The drag-along right is therefore important for investors to achieve an exit.

As our data show, 60.85% of the VC/PE transactions in 2025 provided for the drag-along right, which was more common in offshore transactions than in onshore ones. The chart below illustrates the use of the drag-along right in onshore and offshore transactions in 2025:

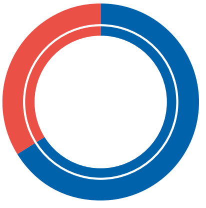
Drag-along Right



Onshore Structure

Yes 58.16%

No 41.84%

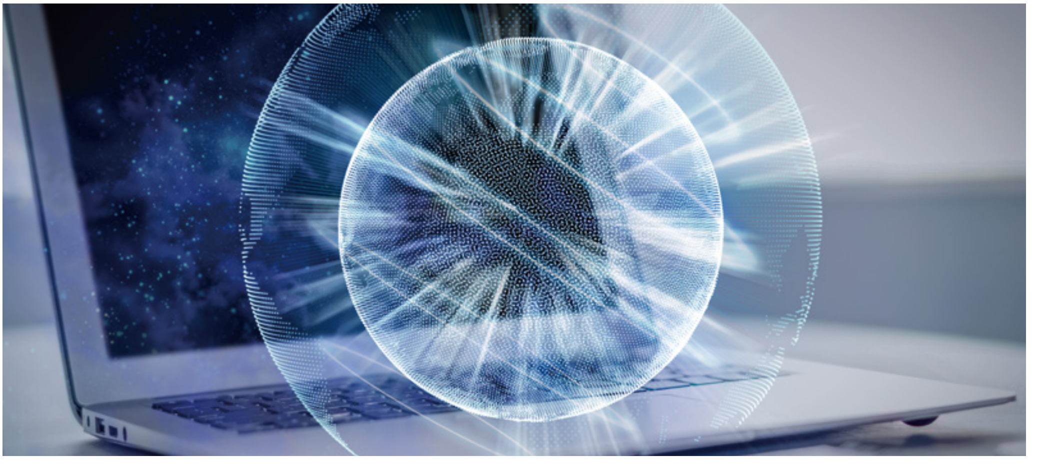


Offshore Structure

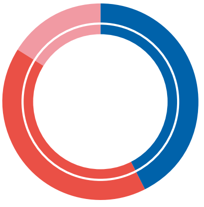
Yes 66.20%

No 33.80%

Parties entitled to the drag-along right are usually investors, including specific investor(s) or investor(s) holding a requisite percentage of shares. However, in some VC/PE transactions, founders may also insist that the trade sale of the company be subject to their approval or that of their appointed directors. Among the 2025 transactions that provided for the drag-along right, 31.01% required only the consent of the investors to effectuate the drag-along right, with most of them occurring in onshore transactions. Transactions also requiring the consent of the founders or their appointed directors accounted for 52.71% of the total, predominantly in offshore transactions.

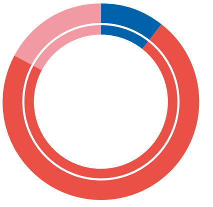


Dividend Preference



Onshore Structure

- Require consent of investors only 42.68%
- Require consent of founders (or their appointed directors) 41.46%
- Other forms of exercising parties 15.85%



Offshore Structure

- Require consent of investors only 10.64%
- Require consent of founders (or their appointed directors) 72.34%
- Other forms of exercising parties 17.02%

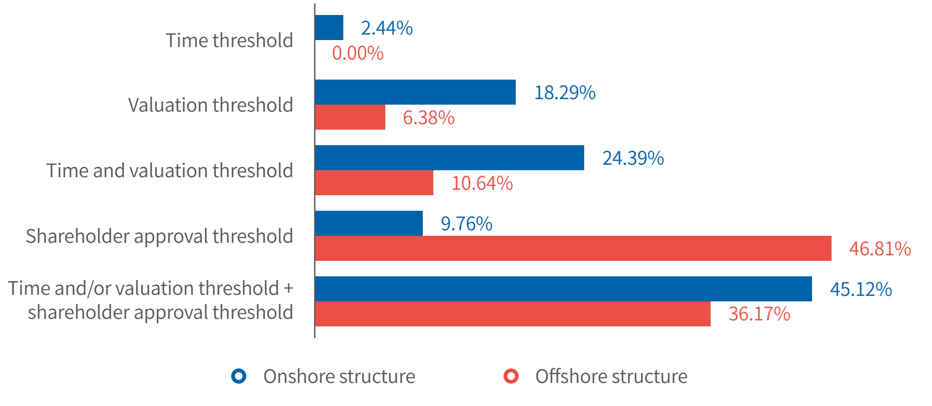
Since the exercise of the drag-along right may cause drastic changes to the company's equity structure and/or assets, it is often agreed that investors may not exercise the drag-along right unless certain preconditions are satisfied, which typically include the following:

- elapse of a specific period after the investment close (the "time threshold");
- achievement of a target valuation of the company in the trade sale (the "valuation threshold");
- satisfaction of both the time threshold and the valuation threshold (the "time and valuation threshold");
- approval of the trade sale and its terms by shareholders holding a requisite percentage of the shares of the company (the "shareholder approval threshold"); or
- satisfaction of the time threshold and/or the valuation threshold, together with the shareholder approval threshold (the "time and/or valuation threshold + shareholder approval threshold").

As shown in our 2025 data, shareholder approval is a prerequisite in most VC/PE transactions for investors to enforce the drag-along right. In 2025, the "shareholder approval threshold" and "time and/or valuation threshold + shareholder approval threshold" were the two most widely used preconditions for the drag-along right, accounting for 23.26% and 41.86% of the VC/PE transactions with the drag-along right, respectively. Notably, the "shareholder approval threshold" was significantly more common in offshore transactions than in onshore ones. The "time and valuation threshold" ranked as the third most popular precondition, appearing in 19.38% of the VC/PE transactions that included the drag-along right, predominantly in onshore transactions.

The chart below shows a breakdown of the preconditions in the 2025 transactions that provided for the drag-along right:

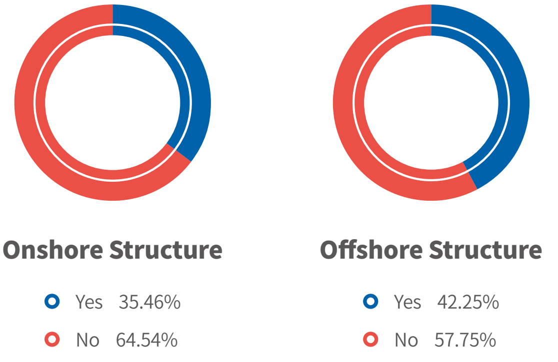
Drag-along Right — Preconditions



Dividend Preference

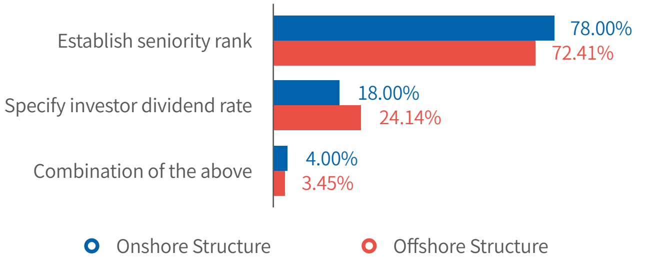
The dividend preference grants investors the right to receive dividends in priority to common shareholders. In practice, many investors do not demand a dividend preference because dividend income is not their primary motivation for investment, especially for start-up companies that are not expected to become profitable in the early stages. In 2025, 62.26% of the VC/PE transactions did not include the dividend preference, and this was especially prevalent in onshore transactions.

Dividend Preference



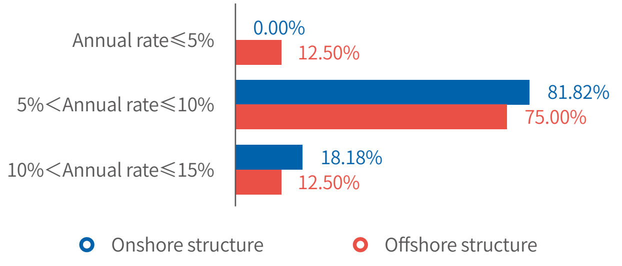
Investors' dividend preference is typically effected in two ways: (i) establishing a seniority rank that entitles investors to receive dividends prior to other shareholders; and (ii) specifying an investor dividend rate, under which investors' dividend amounts are calculated based on an annual interest rate accrued on the principal of their investment. Among the 2025 VC/PE transactions that provided for the dividend preference, 75.95% specified the investors' seniority rank in dividend distributions, 20.25% defined the investors' dividend amounts using the investor dividend rate, and 3.80% incorporated both mechanisms.

Dividend Preference — Exercise Method



The investor dividend rates typically ranged between 5% and 10% per annum. In 2025, 78.95% of the investor dividend rates fell within the 5%—10% range, while 15.79% fell within the 10%—15% range. The following chart shows how the different investor dividend rates were distributed in the 2025 VC/PE transactions. As shown in the chart, the investor dividend rates in onshore transactions are generally higher than those in offshore ones.

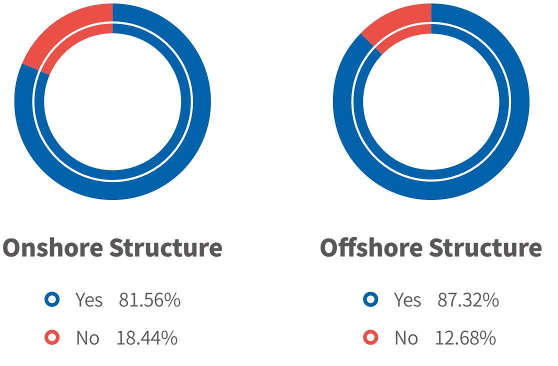
Preferential Dividend Rates



Protective Provisions

Protective provisions grant specific shareholders the right to veto important matters of the company. Matters subject to the veto right, known as "reserved matters", often relate to issues vital to the company such as the company's share structure, business operations, disposal of assets, incurrence of debt, corporate restructuring and liquidation. According to our data, 83.49% of the VC/PE transactions in 2025 included protective provisions, the lowest percentage in the past nine years.

Protective Provisions



Since the protective provisions are designed to protect the interests of investors, the veto right is generally granted to the investors (including specific investors or investors holding a certain percentage of voting rights) and/or their appointed directors. Among the 2025 VC/PE transactions that included protective provisions, 95.48% granted investors the veto right. The veto right may be exercised at the shareholder level, the board level, or both. Reserved matters subject to the veto right at the shareholder level generally involve fundamental matters such as share structure, shareholder rights, amendments to the articles of association, mergers, splits, liquidation and dissolution of the company. Reserved matters subject to the veto right at the board level more often relate to material business operations of the company.

At the shareholder level, the veto right is generally structured as follows:

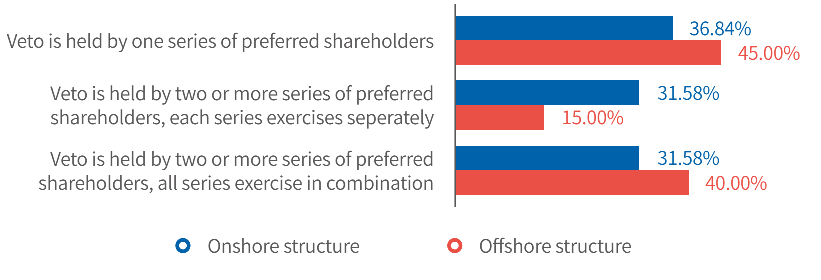
- only one series of preferred shareholders (including any specific preferred shareholder(s)) enjoys the veto right, which usually occurs in early-stage financing;
- where there are two or more series of preferred shares, holders of a certain percentage of voting rights in each series of the preferred shares exercise the veto right separately; or
- where there are two or more series of preferred shares, holders of a certain percentage of voting rights across all series of the preferred shares, calculated in the aggregate, exercise the veto right.

At the board level, the veto right is generally structured as follows:

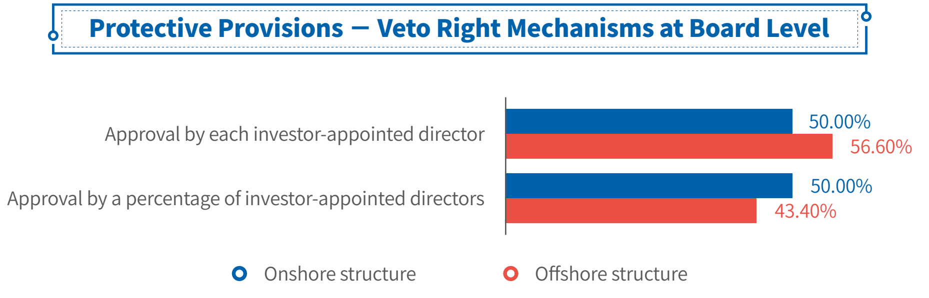
- approval by each investor-appointed director is required; or
- approval by a certain percentage of all investor-appointed directors is required.

The chart below presents a breakdown of the veto right mechanisms at the shareholder level in the 2025 transactions:

Protective Provisions — Veto Right Mechanisms at Shareholder Level

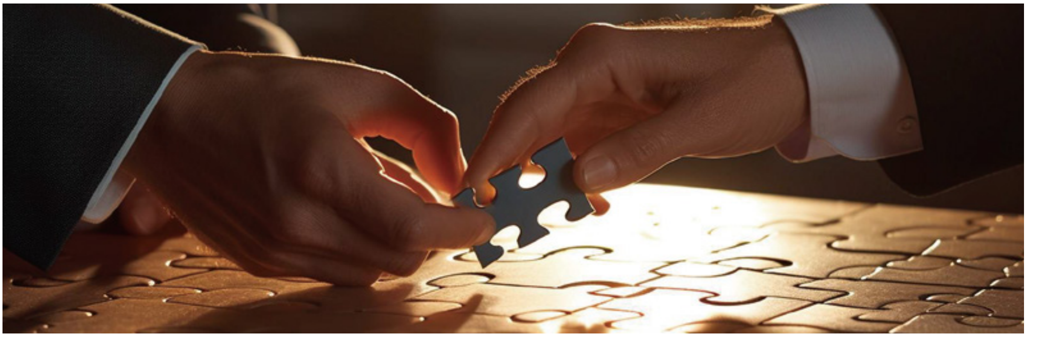


The chart below presents a breakdown of the veto right mechanisms at the board level in the 2025 transactions:



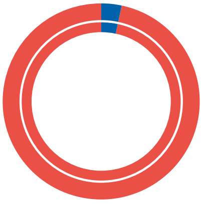
In some VC/PE transactions, the company establishes a threshold to limit investors' veto rights. Typically, an investor (or its appointed director) would be entitled to the veto right only if such investor's shareholding percentage in the company meets a specific threshold. The veto right would be relinquished if the investor's shareholding percentage falls below the threshold, whether as a result of share transfer or dilution. In the 2025 VC/PE transactions that included the protective provisions, 6.51% implemented such thresholds to restrict investors' veto rights, the lowest in the past nine years, and such thresholds appeared predominantly in onshore transactions.

Finally, after multiple rounds of financing, founders' share ownership may be diluted up to a point where they lose controlling interest in the company. For example, in 2025, in about 11% of the VC/PE transactions, the founders' shareholding in the company fell below 30% after the capital raising. Given this situation, founders may seek to reserve for themselves a special veto right over matters critical to the company. As shown in our data, in each of the past nine years about 4% to 10% of the VC/PE transactions granted a special veto right to the founders (or their appointed directors). In 2025, this percentage was 6.21% (including cases where founders had veto rights individually or jointly with investors).



The following chart shows whether the founders (or their appointed directors) were granted a special veto right in 2025:

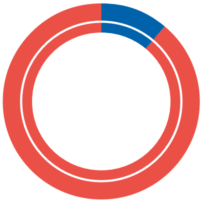
Protective Provisions — Whether Founders (or their appointed directors) Have Veto Right over Reserved Matters



Onshore Structure

Yes 3.48%

No 96.52%



Offshore Structure

Yes 11.29%

No 88.71%

Note: The data include cases where investors were given the veto right simultaneously.

Board Composition

In most VC/PE transactions, directors appointed by founders hold the majority of seats on the company board. For example, in each of the past nine years, there were only 2% to 5% of VC/PE transactions where the votes controlled by founder-appointed directors were less than or equal to those controlled by investor-appointed directors.

To counter the dominance of founder-appointed directors and to participate in vital decisions for the company, investors usually demand the right to appoint directors. According to our data from the past nine years, in about 70% to 80% of the VC/PE transactions each year, investors secured the right to appoint directors, however this percentage has declined significantly in 2025. From the company's perspective, as the number of investors grows, the company may want to cap the number of investor-appointed directors. One option is to impose a threshold for investors to meet in order to appoint directors. Specifically, the company may require investors to hold a minimum percentage of shares as a condition for appointing directors. This practice is similar to the threshold mechanism applicable to investors' veto right discussed above. Our data over the past nine years show that this practice has become increasingly prevalent. In the 2025 VC/PE transactions that included investors' right to appoint directors, 43.33% of the companies established a threshold to limit such right, more often in onshore transactions than in offshore ones.

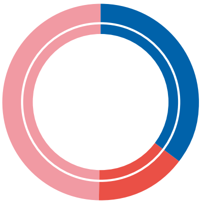
Investors Must Hold a Certain Percentage of Shares to Appoint Directors

In VC/PE transactions that granted investors the right to appoint directors, over 90% of such investors exercised this right at the closing. With respect to the directors appointed at the closing, 26.32% of the companies entered into director indemnification agreements with them.

Employee Equity Incentive Plans

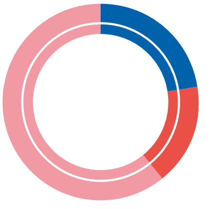
Employee equity incentive plans (commonly known as "ESOPs") are widely used among start-up companies. They are designed to motivate senior officers and key employees to serve the company and create greater value on a continuous basis. Our data show that in the 2025 VC/PE transactions, 31.13% of the companies adopted specific ESOP programs at the investment close, while 53.30% reserved shares for ESOPs at the investment close and planned to establish specific ESOP programs afterwards. The chart below illustrates a breakdown of the investee companies that established or plan to establish ESOPs at the investment close in onshore and offshore transactions in 2025:

ESOPs at the Closing



Onshore Structure

- Have complete ESOP 35.46%
- No ESOP 14.89%
- Reserved shares and will establish ESOP after closing 49.65%

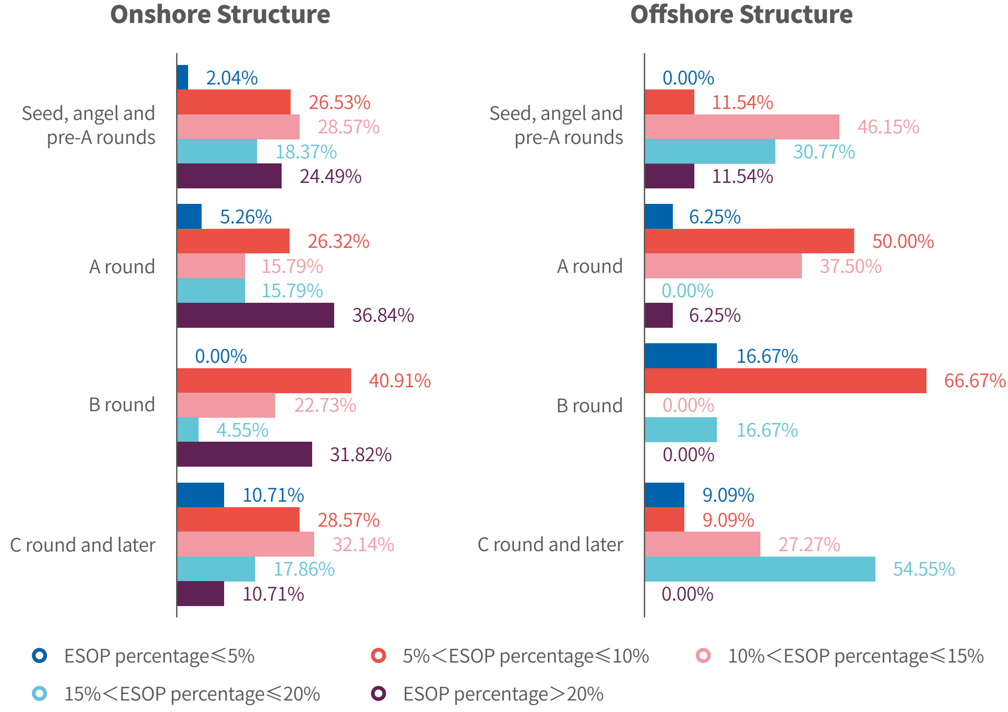


Offshore Structure

- Have complete ESOP 22.54%
- No ESOP 16.90%
- Reserved shares and will establish ESOP after closing 60.56%

The proportion of share capital allocated to ESOPs may be adjusted by the company based on its business needs and the financing stage. As shown in our 2025 data, in onshore transactions, most companies allocated 5%—10% or 10%—15% of their share capital to support ESOP programs, while in offshore transactions, the percentage was more concentrated in the 10%—15% range. The chart below shows the percentage of shares reserved for ESOPs in the company's post-closing share capital at each financing stage:

Percentage of Shares Reserved for ESOPs in Each Financing Round



Equity incentives under ESOPs may take different forms, with the following being the most common:

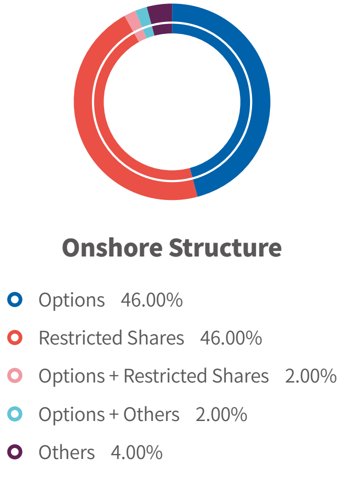
- *Stock options*. The company grants employees a right to acquire a specified number of shares at a predetermined price and on pre-agreed conditions within a specific period of time. The options typically vest over time according to a schedule set forth in the relevant agreement between the company and the employees. When employees exercise their vested options, the company will issue shares to them accordingly.

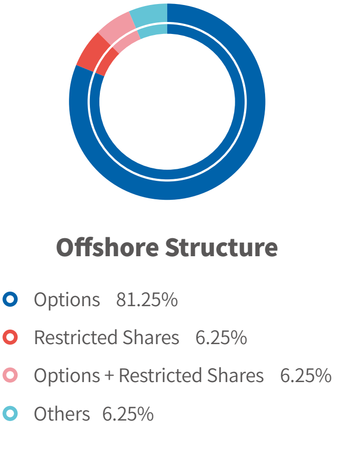
- *Restricted shares*. The company directly issues shares to the employees, which are subject to certain restrictions for a definitive time. The restrictions typically involve a schedule that governs the release of the shares. Prior to release, the shares are subject to certain restrictions on shareholders' rights, such as restrictions on transfer, restrictions on voting and the company's right to redeem the shares.

Other forms of equity incentives may include restricted share units and stock appreciation rights.

According to our data for 2025, among the VC/PE transactions that had established specific ESOP programs, 87.50% of offshore companies and 50% of onshore companies adopted stock options, while 12.50% of offshore companies and 48% of onshore companies adopted restricted shares[3]. Compared to 2024, there was a significant decrease in the issuance of stock options by onshore companies in 2025, while the grant of restricted shares in onshore transactions saw a noticeable increase.

Forms of Equity Incentives





Equity incentives may be issued to employees through various channels, with the following being the most common:

(a) *Direct issue*. The company directly issues equity incentives to employees.

(b) *Platform issue*. The company has the founders or senior officers set up one or more platforms, which hold the equity of the company. Eligible employees are granted equity incentives at the platform level in an amount corresponding to their entitlement in the company under the ESOP programs.

(c) *Nominee holding method*. The founders hold equity incentives on behalf of the incentivized employees, with the arrangement formalized by a nominee holding agreement between the founders and the employees.

[3] For stock options, the percentages include cases where only stock options were granted and cases where multiple forms of incentives (which include stock options) were granted concurrently. Similarly, for restricted shares, the percentages include cases where only restricted shares were granted and cases where multiple forms of incentives (which include restricted shares) were granted concurrently.

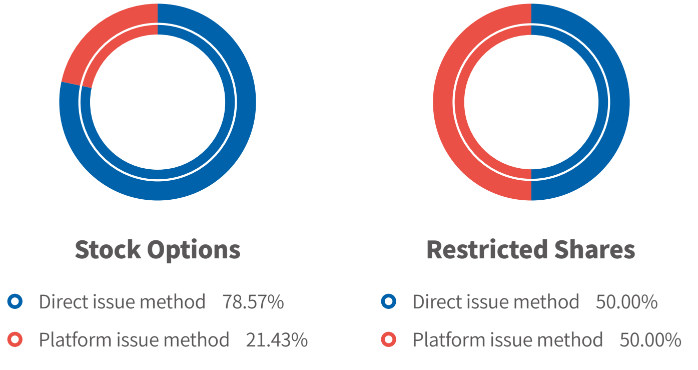
Due to differences in laws and regulations, the methods used to issue equity incentives differ significantly between offshore and onshore transactions.

(1) Offshore Transactions

For both stock options and restricted shares, offshore companies often implement ESOP programs through the direct issue method. This approach is favored because in some offshore jurisdictions (typically the Cayman Islands), the procedures for directly issuing options or shares are relatively straightforward. This is particularly the case for stock options, where it is not necessary for the company to register the stock options or update the shareholder registrar at the time of grant. Under Cayman Islands company law, a company may reserve a certain number of shares from its authorized share capital for the ESOP program (commonly known as the "ESOP pool"), and then grant stock options to the employees exercisable against the shares in the ESOP pool. When an employee exercises his stock options in accordance with the vesting schedule, the company will issue corresponding shares from the ESOP pool to the employee. Prior to exercise, the employee does not legally own the underlying shares. The direct issue method is easy to effectuate and is commonly used for stock options. It is noteworthy that directly issuing shares to PRC-national employees may trigger foreign exchange registration obligations under PRC law. For this reason, offshore companies are generally more cautious when issuing shares directly to PRC-national employees.

Based on our 2025 data, in offshore transactions where specific ESOP programs were established, 75% of the companies chose the direct issue method, while 25% opted for the platform issue method.

ESOP — Offshore Structure — Issue Methods



Note: The data are based on cases in which multiple issue methods are adopted simultaneously.

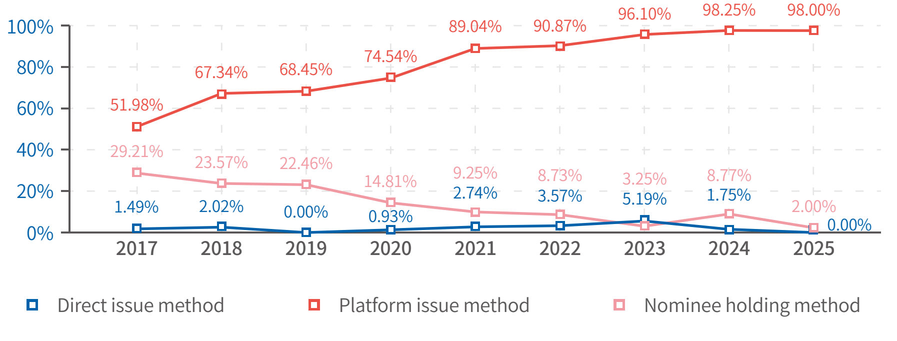
(2) Onshore Transactions

Under the PRC Company Law, the concept of reserved shares is not recognized, and the number of shareholders in a limited liability company may not exceed fifty. As a result, in onshore VC/PE transactions, very few companies implement ESOP programs through the direct issue method. Instead, onshore companies typically use a platform to issue equity incentives. At the platform level, employees may own the shares or units of interest either (i) by direct ownership or (ii) through a contractual arrangement with the company, with their entitlements recorded but without completing the requisite registration.

According to our 2025 data, 98% of the onshore companies that established ESOP programs chose the platform method to issue equity incentives. Meanwhile, a small number of onshore companies used the nominee holding method, either singly or in conjunction with other methods.

Where the platform structure is adopted, the vast majority of onshore companies opt for limited partnerships as their ESOP platforms to achieve tax efficiency, with only a very small minority using limited liability companies as platforms. This was certainly the case in 2025 when all of the platforms used by onshore companies for their ESOP programs were structured as limited partnerships. ESOP platforms typically obtain the incentive equity of the company through one of two methods: (i) subscribing for newly issued equity of the company, or (ii) acquiring equity transferred from the founders. According to our 2025 data, about 60% of the ESOP platforms obtained incentive equity by subscribing for newly issued equity, while about 40% obtained incentive equity through transfers from founders.

ESOP — Onshore Structure — Issue Methods over the Past Nine Years



Note: The data are based on cases in which multiple issue methods are adopted simultaneously.

Liquidation Preference

The liquidation preference grants investors the right to receive asset distributions ahead of other shareholders (particularly common shareholders) when a "liquidation event" occurs. It is designed to ensure that investors will have the priority right to receive their investment principal and the agreed return on their investment upon the occurrence of the liquidation event.

The "liquidation event" is often defined to include the liquidation, dissolution or trade sale of the company. The liquidation preference allows investors to receive distribution of the company's assets in one of the two ways, as follows:

- *Participating*. Investors are entitled to receive their liquidation preference amounts based on a pre-agreed formula prior to other shareholders. Subsequently, they may participate in the distribution of the remaining assets of the company, if any, with other shareholders on a pro-rata basis.

  Under this arrangement, the amount distributable to investors is sometimes subject to a cap agreed by the parties. For example, if the amount distributable to an investor pursuant to the participating liquidation preference exceeds the cap (usually certain multiples of its investment principal), the investor will not participate in any further distribution. Alternatively, if the company's valuation in the liquidation event exceeds a pre-agreed threshold, the participating liquidation preference will cease to apply to the investor.

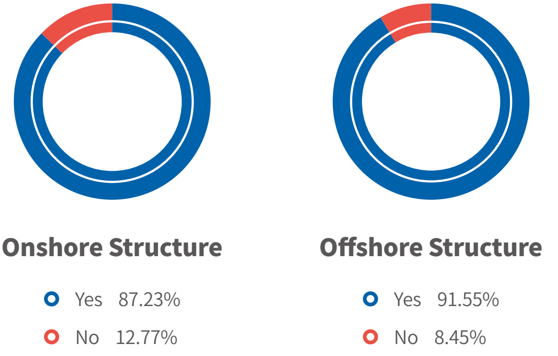
- *Non-participating*. Investors will only receive distributions in an amount calculated pursuant to a pre-agreed formula and will not, thereafter, participate in the distribution of any remaining assets of the company with other shareholders.

Despite these liquidation preference arrangements, if an investor would receive a greater distribution based on its shareholding in the company than pursuant to any of the liquidation preference arrangements, the investor could simply elect to directly share the company's assets with all other shareholders on the pro-rata basis.

Based on our data from the past nine years, around 90% of the VC/PE transactions each year provided for the liquidation preference, with most of them opting for the participating approach. In 2025, 88.68% of the transactions provided for liquidation preference, and 80.85% of them adopted the participating liquidation preference, both being the lowest levels observed over the past nine years. The proportion of VC/PE transactions adopting the participating liquidation preference was noticeably higher in onshore transactions than in offshore ones, whereas the share of non-participating liquidation preference was notably higher in offshore transactions. Furthermore, among the VC/PE transactions that provided for participating liquidation preference in 2025, 3.29% capped the amount distributable to investors.

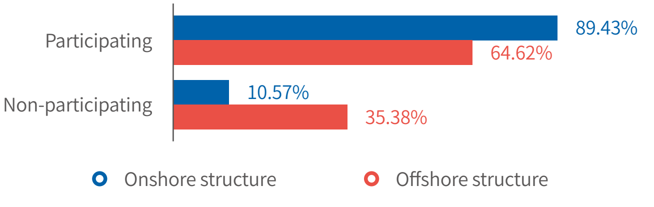
The chart below shows the use of liquidation preference in onshore and offshore transactions in 2025:

Liquidation Preference



The following chart shows the use of participating and non-participating approaches in the 2025 transactions that provided liquidation preference. Our data show that the participating liquidation preference was more popular in both onshore and offshore transactions.

Liquidation Preference — Participating vs. Non-participating



The liquidation preference amounts are typically calculated pursuant to one of the following formulas:

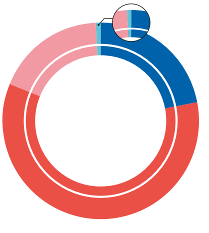
(a) multiples of the investment principal amount;

(b) investment principal amount (or certain multiples thereof) + simple or compound interest accrued thereon; or

(c) the higher of (i) the amount calculated as per (a) or (b) and (ii) certain other benchmarks such as the fair market value or the audited net asset value.

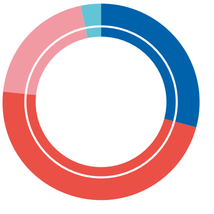
According to our data, formula (b) has become more popular in recent years. Among the 2025 VC/PE transactions that provided for liquidation preference, the use of formula (b) accounted for 55.32%, while the use of formula (a) accounted for 24.47%. Moreover, formula (c) gained popularity in 2025, making up 18.62%. The chart below shows the use of the three formulas in 2025 transactions that provided for liquidation preference:

Formulas for Calculation of Liquidation Preference Amounts



Onshore Structure

- Multiples of investment principal 21.95%
- Investment principal (including multiples thereof) + simple/compound interest 59.35%
- Higher of two or three models 17.89%
- Others 0.81%

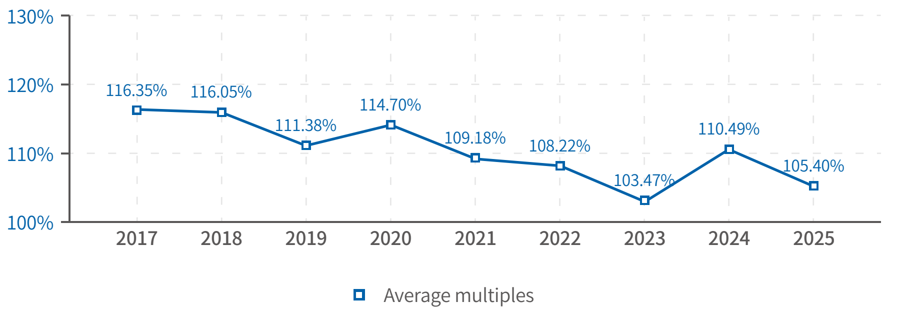


Offshore Structure

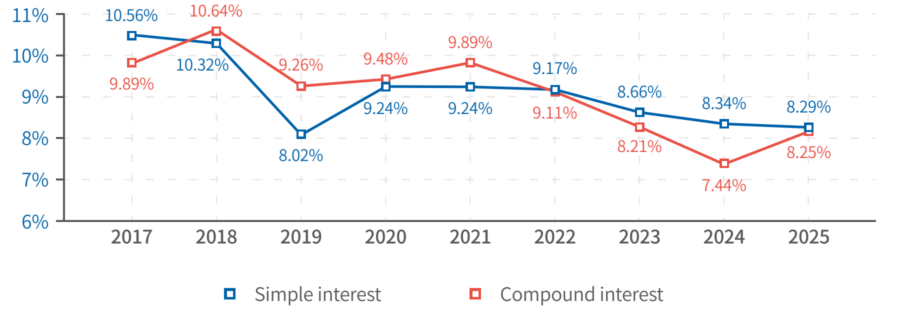
- Multiples of investment principal 29.23%
- Investment principal (including multiples thereof) + simple/compound interest 47.69%
- Higher of two or three models 20.00%
- Others 3.08%

According to our 2025 data, where formula (a) was used to calculate the liquidation preference amounts, the multiples ranged from 100% to 150%, with 105.40% being the average. Where formula (b) was used, the average interest rate was 8.29% annualized simple interest or 8.25% annualized compound interest.

Liquidation Preference Amounts — Multiples of Investment Principal Average Multiples Trend over the Past Nine Years



Liquidation Preference Amounts — Investment Principal (or certain multiples thereof) + Simple/Compound Interest Average Interest Trend over the Past Nine Years



Restrictions on Founders

It is critical for both investors and the company to maintain stability of the founding team. Hence, in addition to the right of first refusal and co-sale right discussed above, investors often require additional restrictions in VC/PE documents to deter founders from transferring their shares. These restrictions typically include:

- *Share transfer restriction*. In most cases, prohibiting founders from selling or otherwise disposing of their shares within a specific period of time.
- *Restricted shares*. Classifying shares held by founders as restricted shares, such that if a founder is no longer employed by the company or a certain pre-defined event occurs, the company and/or investors will have the right to acquire all or part of such restricted shares.

In addition to share transfer restrictions, investors often require founders to (a) devote all their work time to the group and (b) assume non-compete and non-solicitation obligations in favor of the company for as long as they remain employed by, or hold shares in, the company plus a defined period of time post their departure from the company or cessation of their shareholding in the company.

Share Transfer Restrictions

In each of the past nine years, about 88% to 93% of the VC/PE transactions contained share transfer restrictions applicable to founders. In 2025, this percentage was 88.68%, with 92.91% in onshore transactions and 80.28% in offshore transactions. Among these transactions, 98.92% prohibited founders from selling or otherwise disposing of their shares within a specific time frame (typically before closing of an IPO or a trade sale of the company, or until the divestment of a specific investor) unless otherwise consented to by the investors.

Founders, on the other hand, often seek to retain flexibility to transfer their shares by requesting exceptions to the transfer restrictions. The exceptions typically include the following:

(a) transfer of shares up to a capped percentage;

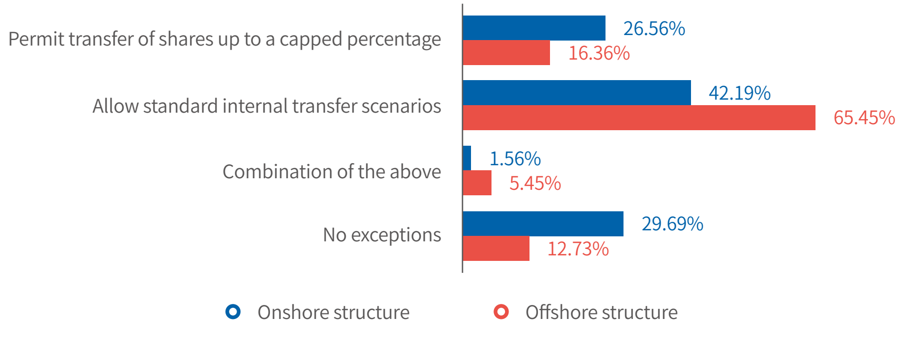
(b) standard internal share transfer scenarios, such as transfers to founders' wholly-owned subsidiaries or other founders or, for financial planning purposes, to their immediate family members or to a trust in which they or their immediate family members are beneficiaries;

(c) combination of the above exceptions.

According to our 2025 data, among VC/PE transactions that provided for restrictions on founders' share transfers: (i) 23.50% allowed founders to transfer shares up to a capped percentage, with the average cap being approximately 4%; (ii) 49.18% permitted standard internal share transfer scenarios, a noticeable increase compared to past years; (iii) 2.73% adopted both exceptions; and (iv) 24.59% imposed absolute share transfer restrictions with no exceptions.

The chart provides a breakdown of how such exceptions were adopted in onshore and offshore share transfer restrictions in 2025:

Exceptions to Founders' Share Transfer Restrictions



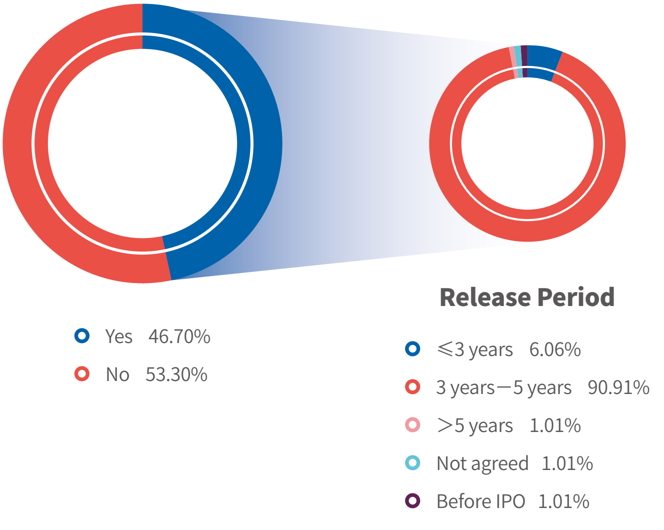
Restricted Shares

In some VC/PE transactions, investors require that founders' shares be classified as restricted shares. Once so classified, the founders' shares are generally subject to a restriction period (known as the release period), during which (i) a founder may not sell or otherwise dispose of the shares, and (ii) upon termination of the founder's employment with the company or the occurrence of a pre-defined event, such shares will be subject to mandatory repurchase by the company and/or purchase by the investors. According to our 2025 data, in 46.70% of the VC/PE transactions, investors required founders' shares to be classified as restricted shares. In terms of financing stage, these restricted share arrangements usually appear in early rounds of financing. Based on our 2025 data, 52.53% of the restricted share arrangements occurred in angel, seed and Pre-A rounds, while 23.23% occurred in Series A rounds. Moreover, among the transactions that provided for founders' restricted shares, around 80% to 90% of the release periods ranged from three to five years.

Shares subject to mandatory repurchase or purchase may include those still locked in the release period or all the shares held by the founder. The repurchase or purchase price may be the fair market value, the cost price or the lowest price permitted by law. The scope and price of shares affected are usually determined by considering the reason for termination of the founder's employment (e.g., voluntary resignation, dismissal for cause or no-fault departure) or the nature of any other trigger event. It should be noted that the restricted shares held by a founder, regardless of whether released or not, are officially registered shares of the company. Generally, the restrictions and release mechanisms on the restricted shares only affect the disposal of such shares, as well as the scope and pricing related to the mandatory repurchase or purchase of the shares. They do not affect the ownership and voting power of the shares for as long as the founder remains employed by the company and no other trigger event has occurred.

The chart below illustrates the prevalence of founders' restricted share arrangements in 2025, along with the release periods:

Classification of Founders' Shares as Restricted Shares and the Release Period



Share Transfer by Founders

According to our 2025 data, 11.32% of the VC/PE transactions involved founders selling their original shares during the company's capital raising, and these instances mostly occurred in onshore transactions. Founders are usually driven by business objectives to sell their original shares during capital raising, such as (i) founders wishing to cash out, (ii) optimizing the company's ownership structure, and (iii) investors wishing to acquire such original shares at a lower price than the new shares to be issued by the company in a capital raising. Where the original shares change hands, the most common method is either for a founder to directly transfer such shares to the new investor(s) or for the company to repurchase the founder's shares and then issue new shares to the investor(s).

Share transfers raise taxation issues. According to our 2025 data, among the VC/PE transactions that involved founders selling their original shares, 66.67% provided that the tax arising from the sale should be borne by the selling founders, 8.33% provided that the tax should be borne by both the seller and purchaser, 12.50% provided that the tax should be borne by the company, while 12.50% did not address the tax issue at all.

The PRC Company Law contains specific provisions governing the transfer of shares of a limited liability company, including that (i) if the shares proposed to be transferred have not reached the capital contribution due date, the transferee shall be responsible for paying the outstanding capital contribution according to the original schedule, but if the transferee fails to do so, the transferor shall bear the supplementary liability; (ii) if the capital contribution corresponding to the shares being transferred has not yet been duly paid in accordance with the schedule set forth in the company's articles of association, the transferor and transferee shall be jointly liable for any shortfall in capital contribution (unless the transferee was unaware and should not have been aware of such undercapitalization). According to our 2025 data, in VC/PE transactions involving founders selling their shares during the company's capital raising where the company was a domestic limited liability company, the registered capital corresponding to the shares being transferred was fully paid up in 100% of the cases.

Information Right and Inspection Right

The information right allows investors to obtain operational and financial information of the company. Our data over the past nine years show that each year around 90% of the VC/PE transactions set out the information right. In 2025, among the VC/PE transactions that included the information right, 28% of the offshore transactions established a threshold to restrict this right, such that investors were required to hold a minimum percentage of the company shares as a condition to have the information right, while only 4.88% of the onshore transactions set out such a threshold to restrict the information right. In 2025, the threshold for information right was 4.59% on average.

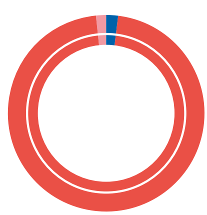
The inspection right allows investors to inspect the finance and operation of the company, including examining the books and records and inquiring of directors and officers about the business operations of the company. In 2025, 66.82% of the VC/PE transactions included the inspection right, among which 36.73% of the offshore transactions established a threshold to restrict the right, while only 9.78% of the onshore transactions did the same. In 2025, the threshold for inspection right was 4.26% on average.

The information right and inspection right together give the non-controlling investors a degree of visibility into the operational and financial conditions of the company. As a general matter, investors will generally need to balance the type, frequency and timing of financial information to be provided by the company against their post-investment management requirements. The company, on the other hand, will assess the extent to which the investors enjoy the information right and inspection right against its ability to prepare the information and its confidentiality obligations.

Survival Period of Representations and Warranties

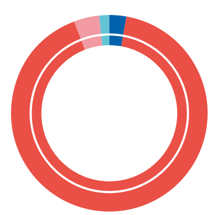
In VC/PE transactions, investors often require corporate warrantors (typically, the company, its corporate group and the founders) to make representations and warranties regarding such matters as the ownership structure, business operation, tax, assets, labor and litigation of the corporate group, as of the signing or closing date. Our data over the past nine years show that most transaction documents did not specify the survival period of the representations and warranties. This means that if any of the representations and warranties are found to have been untrue as of the signing or closing date, the investors would be able to claim for breach of contract against the corporate warrantors at any time within the applicable statute of limitations. In 2025, 94.81% of the VC/PE transactions did not include a specific survival period for corporate warrantors' representations and warranties. There were a few exceptions where the transaction documents specified a time limit for investors to raise claims for breach of the representations and warranties (or only selected representations and warranties). Under this scenario, investors' right to raise such claims would be forfeited if the claims were not made within the set survival period. The length of the survival period may be uniform for all representations and warranties or may vary according to their significance. The chart below shows the use of the survival period for representations and warranties in 2025 VC/PE transactions:

Survival Period of Representations and Warranties



Onshore Structure

- Survival period for selected reps and warranties 2.13%
- No survival period 96.45%
- Uniform survival period for all reps and warranties 1.42%



Offshore Structure

- Survival period for selected reps and warranties 2.82%
- No survival period 91.55%
- Uniform survival period for all reps and warranties 4.23%
- Different survival periods for all reps and warranties 1.41%

Based on our 2025 data, among the VC/PE transactions that set out the survival period for corporate warrantors' representations and warranties, 63.64% of the survival periods were between one and three years.

Indemnification and Founders' Personal Liability

In VC/PE transaction documents, investors often require corporate warrantors to provide indemnification if one or more of the following breaches occurs: (i) any representation and warranty made by the corporate warrantors is found to be untrue, inaccurate, incomplete or misleading as of the signing date or the closing date, (ii) any corporate warrantor fails to comply with its obligations or covenants, or (iii) any non-compliance event specified by the investors occurs. Corporate warrantors, on the other hand, often seek to limit their indemnification liabilities by establishing (a) a cap which would limit the maximum amount of damages that investors are entitled to claim, and/or (b) a threshold which requires that investors can only claim damages if the losses resulting from the breach exceed a certain amount.

According to our data, 77.83% of the VC/PE transactions in 2025 expressly imposed indemnification obligations upon the corporate warrantors. Among these transactions, (i) 18.18% established a cap and (ii) 18.18% set a threshold to limit the indemnification obligations of the corporate warrantors. In contrast, 63.64% of the corporate warrantors in 2025 requested neither a cap nor a threshold, specifically 70.91% in onshore transactions and 49.09% in offshore transactions.

In many instances, the company and founders are required to provide joint indemnification to investors so that investors can recover the maximum possible compensation. When required to assume indemnification obligations, founders usually seek to limit their personal exposure to liabilities by (i) not agreeing to accept joint liability with the company, (ii) agreeing to assume joint liability only under limited circumstances, such as when the breach is caused by the founders themselves, or (iii) requiring claims to be made against the company first, with the founders' obligations being triggered only if the company is unable to fully satisfy the indemnification due to legal obstacles or insufficient funds.

The following summarizes the common arrangements regarding which parties bear indemnification liabilities:

(1) the company alone is liable for the indemnification;

(2) the company and founders are jointly liable under all circumstances;

(3) the company and founders are jointly liable under limited circumstances;

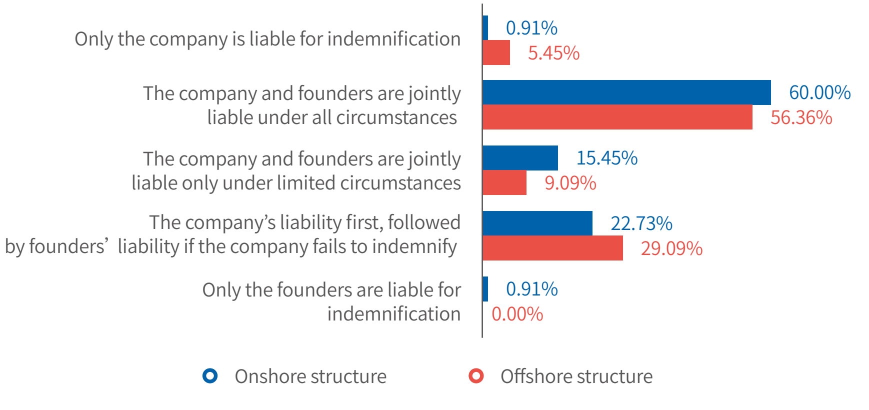
(4) the company is liable first with the founders' obligations being triggered if the company fails to satisfy the indemnification; or

(5) the founders alone are liable for indemnification.

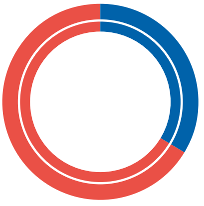
Among the 2025 VC/PE transactions that included corporate warrantors' indemnification obligations, 96.97% required the company and founders to be jointly responsible for the indemnification (instances (2)—(4) above). Among these transactions, "the company and founders are jointly liable under all circumstances" was the most prevalent.

Where an indemnification obligation is imposed on the founders, they often seek to cap their exposure to protect their personal and family assets. Typically, the caps are structured such that under all or limited circumstances, the founders' indemnification liabilities would be limited to their shares in the company or the value of such shares. In 2025 VC/PE transactions where founders were required to assume indemnification liabilities (instances (2)—(5) above), 72.67% capped the founders' personal liabilities to the extent of their shares in the company or the value of such shares, with the value of shares being the more commonly used cap.

Parties Liable for Indemnification

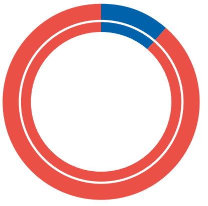


Caps to Founders' Indemnification Liabilities



Onshore Structure

- Not capped at founders' shares in the company or value of such shares 33.64%
- Capped at founders' shares in the company or value of such shares 66.36%



Offshore Structure

- Not capped at founders' shares in the company or value of such shares 11.54%
- Capped at founders' shares in the company or value of such shares 88.46%

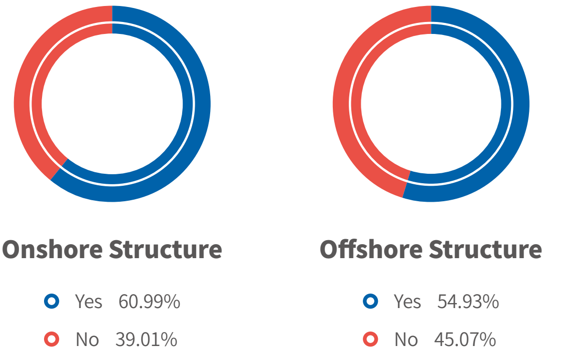
Restrictions on Investors

In VC/PE transactions, restrictions imposed on investors typically include (i) restrictions on share transfer to specific entities and (ii) restrictions on investment in or cooperation with specific entities.

Share Transfer Restrictions

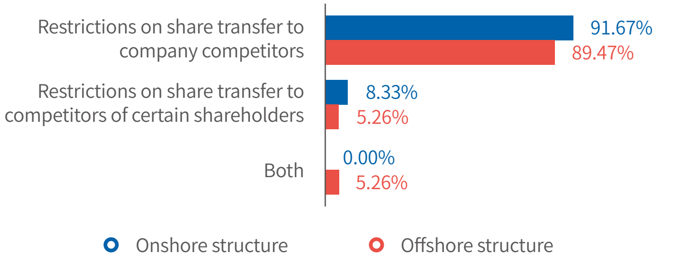
For most financial investors, the sale of their shares in the company is a critical exit channel, and as a corollary they would oppose any restriction on their ability to sell their shares. On the other hand, an increasing number of companies in recent years sought to impose such restrictions on the investors. In 58.96% of the VC/PE transactions in 2025, companies placed restrictions on investors' share transfers. These restrictions typically included (i) prohibition of share transfer to a competitor of the company and/or (ii) prohibition of share transfer to a competitor of certain shareholders of the company (such as industry or strategic investors). The following chart presents an overview of share transfer restrictions on investors in the 2025 VC/PE transactions:

Investor Share Transfer Restrictions



Our data also show that in both onshore and offshore transactions, most share transfer restrictions prohibited investors from transferring shares to the company's competitors.

Investor Share Transfer Restrictions — Type of Restrictions



Such share transfer restrictions are usually implemented through the following mechanisms:

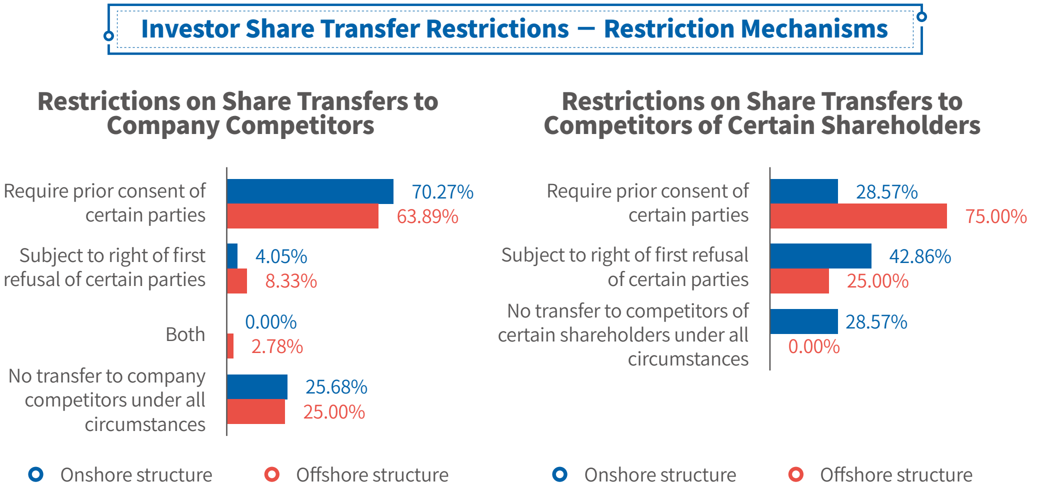
(a) *Share transfer is subject to consent*. If the transfer is to a competitor of the company, the consent of the company and/or the founders is required. If the transfer is to a competitor of another shareholder, the consent from the affected shareholder is required. This restriction practically grants the consenting party veto power to block the share transfer.

(b) *Share transfer is subject to the right of first refusal*. If the transfer is to a competitor of the company, founders usually have the right of first refusal. If the transfer is to a competitor of another shareholder, the affected shareholder will have the right of first refusal. While the party holding the right of first refusal does not have veto power to deny the share transfer, the complex procedures associated with the right of first refusal may effectively impede the investors' share transfer.

(c) *Share transfer is subject to both mechanisms described in (a) and (b) above*.

(d) *Share transfer is prohibited under all circumstances*. Since the sale of shares is a critical exit channel for investors, this is clearly the most draconian restriction on investors. Investors are more willing to accept the two restrictive mechanisms described in (a) and (b) above. However, in 2025, in transactions where restrictions on share transfers to the company's competitors were imposed, 25.45% of cases prohibited investors from transferring shares under all circumstances; in transactions where restrictions on share transfers to certain shareholders' competitors were imposed, 18.18% of cases prohibited investors from transferring shares under all circumstances. Both figures represent a notable increase compared to previous years.

The following chart illustrates the use of various restriction mechanisms in the 2025 transactions containing investors' share transfer restrictions. As shown in the chart, the consent-based mechanism described in (a) above was the most widely adopted approach.



Investment Restrictions

In addition to the share transfer restrictions, in a small number of VC/PE transactions, the company also restricts investors from (i) investing in the company's competitors, or (ii) cooperating with the company's competitors in specific forms. If an investor violates these restrictions, it will be deprived of certain shareholder rights or preference rights (such as the right to appoint directors, the information right, or voting rights). Based on our data, 5.19% of the VC/PE transactions in 2025 imposed such restrictions on investors.

Most-favored Nation Clause

If the company accords any other shareholder better terms and conditions for their investment than a particular investor (the "subject investor"), the "most-favored nation" ("MFN") clause would automatically grant the same terms and conditions to the subject investor.

The MFN clause can be applied to the existing shareholders, investors of the same round or investors of subsequent rounds. The rationale for the MFN clause is as follows:

- In a capital raising, the subject investor may lack the opportunity to conduct thorough due diligence on the company and therefore may not be aware of all the terms and conditions that the company has already given to the existing shareholders. As the price for the current round of capital raising is often higher than previous rounds, the subject investor wishes to ensure that it is treated no less favorably than the existing shareholders.
- Although the rights and obligations of all investors and shareholders are generally set out in the same transaction documents, there still may exist other documents (such as side agreements) between the company (and/or founders) and certain other investors or shareholders without the knowledge of the subject investor. For this reason, the subject investor may seek to include the MFN clause against the existing shareholders and other investors of the same round.
- When a company raises subsequent rounds of financing, it is widely accepted that the new investors should be entitled to more favorable terms and conditions as they pay a higher price than did the investors in the previous arounds. However, they do not as a matter of course enjoy the benefit of certain non-economic rights (such as the right of first refusal, the preemptive right, the drag-along right and the voting right) on a more favorable basis than the subject investor. Hence, the subject investor may want to seek the protection of the MFN treatment in respect of such non-economic rights while allowing the future investors to have the more favorable economic rights that they would typically enjoy. Moreover, in some cases, parties to a VC/PE transaction may agree to restrict the application of the MFN clause such that it would be invoked only if the valuation of the company in a future financing is less than a certain threshold.

Our record shows that in 2025, 25.59% of the VC/PE transactions included the MFN clause to align the treatment of the existing shareholders and/or investors of the same round, while 17.06% included the MFN clause in respect of investors in the future rounds of capital raising. Both figures represented a significant decline compared to the previous year.

Capital Payment of Domestic Limited Liability Companies

Under the PRC Company Law, a limited liability company's registered capital must be fully paid up within five years from the date of establishment in accordance with its articles of association. If a shareholder fails to make capital contribution by the deadline specified in the articles of association, the company shall issue a written capital call notice demanding payment, which may allow a grace period. Upon expiration of the grace period, if the shareholder remains in default, the company may, by board resolution, issue a forfeiture notice to that shareholder. From the date of issue of such forfeiture notice, the shareholder loses all rights associated with the unpaid portion of its equity. The forfeited equity shall be either transferred or cancelled following a corresponding capital reduction. If the equity is neither transferred nor canceled within six months, the remaining shareholders shall contribute the full amount due in proportion to their respective capital contributions.

According to our 2025 data regarding domestic limited liability companies: (i) in 37.61% of the transactions, founders had fully paid the registered capital prior to closing; (ii) in 62.39% of the transactions, the registered capital of the company had not been fully paid before closing, of which 98.53% involved cases where the statutory or charter-specified deadline for the capital contribution had not yet fallen due. With respect to founders' unpaid registered capital prior to closing: (a) in over half of the transactions, investors required founders to pay in full after closing within the timeframes prescribed by the PRC Company Law (including any legally permitted transition periods); (b) in 14.71% of the transactions, investors required founders to pay within a shorter post-closing timeframe than that mandated by PRC Company Law (including transition periods); (c) in 25% of the transactions, this issue was not expressly addressed in the transaction documents; (d) the vast majority of transaction documents and articles of association contained no explicit provisions on the shareholder equity forfeiture mechanism.

Governing Law and Dispute Resolution

Among the 2025 VC/PE transactions, 99.29% of the onshore transactions were governed by PRC law. In contrast, more than 70% of the offshore transactions chose Hong Kong SAR law as the governing law, while 16.90% selected Delaware state law as the governing law.

According to our data over the past nine years, arbitration was chosen as the means of dispute resolution in over 90% of the VC/PE transactions each year. This percentage was 93.87% in 2025.

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