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First Chinese Hedge Fund Park Launched in Shanghai's Hongkou District

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Riding on the wave of the establishment of China (Shanghai) Pilot Free Trade Zone and the development of an international financial center under the State Council's and Shanghai's strategy, the first hedge fund park – Shanghai Hedge Fund Park, was launched on October 18, 2013 in the north Bund in Shanghai's Hongkou District. The first 12 hedge funds have already settled in. Firms and institutions settled in Shanghai Hedge Fund Park will enjoy a series of preferential supporting policies provided by the municipal and district governments in respect of guidance of funds, an incentive mechanism for talents, financial support, rent, health care, transportation, etc. By analyzing the *Supporting Measures of Hongkou District for Promoting the Development of Shanghai Hedge Fund Park*¹, which came into effect on November 18, 2013 ("Supporting Measures"), this commentary gives a brief summary of the supporting policies.

Supporting Policies' Scope of Application

The Supporting Measures came into effect on November 18, 2013 and will be valid through December 31, 2016. In the hedge fund industry, firms or projects satisfying the conditions under the Supporting Measures and wishing to receive the benefits shall make an application to or negotiate with the relevant district authorities. Only with the approvals from relevant local authorities may the firms or projects become eligible for the benefits of the supporting policies.

The Supporting Measures are only applicable to hedge fund firms, functional institutions and supporting service providers registered at Shanghai Hongkou Administration of Industry & Commerce and Shanghai Hongkou Taxation Bureau (the so-called "dual registration") and

¹ Relevant detailed rules specifying the supporting policies are expected to be released toward the end of 2013.

satisfying the Park's access conditions² with approvals from relevant authorities, and such firms are required to continuously provide services in Hongkou District for at least five years from the grant of supporting benefits. The Supporting Measures adopted a broad definition for 'hedge funds', which covers all types of private investment funds investing in the secondary market, including those placed through trusts and mutual fund management company special accounts or brokerage firm's collective wealth management schemes, i.e., including the current hedge funds, sunshine private investment funds and other new financial investment models. If a private equity fund already dually registered in the Hongkou District pursues hedge fund business, it may enjoy supporting policies with reference to the Supporting Measures after approved by the relevant authorities based on the ratio of the revenue from the hedge fund business to the company's total revenues.

In respect of projects, the Supporting Measures provide certain amount of subsidies for significant industrial service projects, exhibitions, research subjects, fairs, exchange meetings, etc.

On the one hand, the Supporting Measures offer a large amount of subsidies to the subject companies. On the other hand, the Supporting Measures impose restrictions on the award of subsidies. For instance, the amount of supports is limited to the subject company's economic contribution to the district (i.e., the part of local tax revenue retained in the Hongkou District) during the support period; subsidies for investment, management fees, housing purchase and rental shall be equally deducted according to the subject company's economic contribution to the district during the support period. The subject company shall not enjoy the advantage of supporting policies granted by governments at different levels duplicatively. In the case of a subject company to which both national and Shanghai's regulations apply, they shall first be awarded the benefits provided by national and Shanghai local regulations. The Supporting Measures shall then apply with respect to any deficiency (if any).

Subsidies for Enterprises and Institutions

The Supporting Measures provide various supports for various enterprises and institutions.

For newly introduced hedge funds, private equity funds and other new financial business, the Hongkou District will provide lump-sum investment rewards of up to 10% of the enterprise's paid-in capital or a lump-sum management subsidy of up to 5% of the management fees for

² According to officials at the Hedge Fund Park, any hedge fund dually registered in Hongkou District and investing in the secondary market is eligible to enjoy the supporting policies in accordance with the Supporting Measures; national and Shanghai local regulations shall govern the qualifications and establishment of relevant enterprises and the Park has no other specific "access conditions".

fund raising. The amount of such subsidy shall not exceed RMB 5,000,000 and will be paid in installments.³

Functional institutions newly established in Hongkou and verified by Hongkou District Financial Service Office, e.g., various types of associations and organizations, research institutions, trading service agencies, qualification certification agencies, will receive lump-sum rewards according to the levels of the institutions, and the rewards shall not exceed RMB 500,000, RMB 400,000 and RMB 300,000, respectively for institutions classified as international level, national level and provincial level and below.

The Supporting Measures give certain rewards to service entities such as operating enterprises, owners of business buildings or building management companies that introduce hedge funds, sunshine private equity funds and other funds and make contribution to the aggregation of the industry. If the newly attracted enterprise's annual economic contribution to the district is not less than RMB 100,000 since the approval and verification of such enterprise, the service entity will receive a reward equal to 10% of such enterprise's economic contribution to the district. The amount of the abovementioned rewards to an individual service entity shall not exceed RMB 500,000 per year and shall only be available for no more than three years.

Housing Purchase and Rental Subsidies

In order to develop an internationally renowned professional financial industry center, Hongkou District provides enterprises and institutions with housing purchase and rental subsidies according to their specific situations. Subsidized properties shall not be re-rented or sold within five years.

Newly-introduced hedge funds, private equity funds and other new financial business and functional institutions which purchase office premises for self-use in Hongkou District will receive a lump-sum subsidy paid in installments and not exceeding 1.6% of the actual purchase price or RMB 1,000,000 according to the Supporting Measures.

Enterprises and institutions renting offices for self-use in Hongkou District will receive subsidies in accordance with the actual rental area for no more than 3 years. For new financial enterprises, subsidies are equal to 80% of the annual rent if the leased area is smaller than 100 m²; 60% of the annual rent if the leased area is between 100 m² and 200 m² (including 200 m²); 50% of the annual rent if the leased area is between 200 m² and 500 m² (including 500 m²); and 30% of the annual rent if the leased area is larger than 500 m². Meanwhile, new financial enterprises have the option to use the office space in the Park provided by the Hongkou

³ At present, the specific amount of subsidy and installment plan shall be decided through negotiation with relevant authorities according to the actual situation of the project and enterprise.

government. If an enterprise leases an area no more than 200 m² in the office space provided, it need not pay any rent, and it may receive rental subsidies if the leased area is larger than 200 m². For functional institutions, the Hongkou government will provide subsidies up to 30% of the annual rent. Except where enterprises or institutions use the office space provided by the government in the Park, the rental subsidies shall not exceed RMB 1,000,000 per year.

Supports for Exhibitions and Research Projects

Hongkou encourages the organization of events or development of projects such as exhibitions, research subjects, industry exchange and talent exchange related to the hedge fund industry. With the approvals of relevant authorities, these projects will obtain subsidies at various levels.

- a. For a new or rebuilt significant industrial service project, Hongkou government will provide a lump-sum subsidy of up to 20% of the project investment and the maximum amount is RMB 3,000,000.
- b. An influential meeting or exhibition held in Hongkou related to hedge fund industry will get a lump-sum subsidy according to the level of the meeting or exhibition, i.e., an international project, a national project or a provincial project and below. The maximum subsidy for each level is RMB 1,000,000, RMB 500,000 and RMB 300,000, respectively, and will be paid in installments.
- c. A research project closely related to the development of software environment in Shanghai Hedge Fund Park will receive a lump-sum subsidy according to the level of the project, i.e., an international project, a national project or a provincial project and below. The subsidies for each level are limited to 30%, 25% and 20% of the research fees, respectively, will be paid in installments and shall not exceed RMB 500,000 in any case.
- d. If hedge funds, private funds and other new financial business participate in and exhibit at any fairs, talent exchanges or relevant activities held by the State or Shanghai with the recommendation of Hongkou District Financial Service Office, the Hongkou government will provide them with lump-sum subsidies of up to 50% of stand fees actually incurred and the maximum amount of subsidy is RMB100,000.

Incentive Mechanism for Talents

In order to attract more fund professionals, the Hongkou government will provide senior executives and management personnel (not lower than deputy department head within an enterprise) and core personnel (those who possess a working experience of 3 years in financial industry, other than the senior executives and management personnel) with certain amount of housing allowance and rewards.

A senior executive working in a hedge fund, private equity fund or other new financial enterprise newly attracted to Hongkou will receive a lump-sum housing allowance of RMB 200,000, provided that the enterprise' economic contribution to the district is no less than RMB 2,000,000. Meanwhile, the Hongkou government encourages new financial enterprises to carry out training programs and postgraduate courses. Based on the scale of such financial institution, the Hongkou government will, upon verification and certification, provide the deputy general manager and senior executives holding certain positions in such institution with some rewards in accordance with the economic contribution they made.

Management personnel and more personnel working in financial enterprises and functional institutions newly attracted to Hongkou will be granted talent rewards after a comprehensive assessment. If they reside in the talent apartments designated by the Hongkou District, they will acquire rental subsidies for no more than three years.

With the rapid development of Shanghai as an international financial center, Hongkou District seized the opportunity to establish the first hedge fund park in China, offers various supporting policies to new financial enterprises and institutions in an effort to distinguish itself from other districts in Shanghai, and endeavors to create a favorable ecosystem for hedge funds. The Hongkou government also indicated that the Park will provide as much convenience as Shanghai Free Trade Zone does in respect of company registration and that if all required documents are complete, it will only take two days to complete the registration process. The preferential supporting policies provided by the Supporting Measures are expected to attract more hedge funds, private equity funds and other enterprises to settle in the Park to take advantage of the favourable environment.

Important Announcement

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