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

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

Venture Capital Enterprises

Forms of Private Fund. Foreign fund companies may form FIVCIEs and FIVCIMEs pursuant to the *Administrative Regulations on Foreign-Invested Venture Capital Investment Enterprises* as promulgated in 2003. Domestic entity may form domestic VCIE and domestic VCIME pursuant to the *Interim Measures on Administration of Venture Capital Investment Enterprises* as promulgated in 2005. VCIEs refer only to enterprises that make equity investments in unlisted high or new technology enterprises (hereinafter “**investee enterprise**”) and provide corresponding venture capital management services for the

purpose of achieving capital gains. VCIEs and VCIMEs may be established either in corporate form or non-legal-person form. The non-legal-person form mainly refers to sino-foreign contractual joint venture and limited partnership. It was not until 2006 when the *Partnership Law of People's Republic of China* was revamped that limited partnership enterprises came into being, and the regulations on the formation of foreign-invested partnerships (FIPs) did not come out until March 1, 2010.

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

Filing Requirements. A VCIE may apply to file with the National Development and Reform Commission (“NDRC”) and thereby become eligible for certain tax incentives and for investment by the Social Security Fund if its paid-in capital is no less than RMB30 million, or the first installment of its paid-in capital is no less than RMB10 million and all of its investors undertake to pay the unpaid registered capital within five (5) years after the registration so that the aggregate paid-in capital reaches RMB30 million. Since January 31, 2011, any EIFE that is registered with the AIC located in pilot areas for the filing management of EIFEs (updated from time to time, currently including Beijing, Tianjin, Shanghai, Jiangsu province, Zhejiang province, Hubei province and Chongqing) with a total amount of investment exceeding RMB 500 million or equivalent foreign currency, should apply with NDRC for record-filing and be subject to the filing management of NDRC, unless such EIFE satisfies certain conditions for exemption from such record-filing requirements.

Formation of EIFEs and EIMEs

Permissible Entity Forms. The State Council explicitly expressed its encouragement to actively grow China's equity investment fund industry in its Several Opinions of the State

Council on Promoting the Development of Small and Medium Sized Enterprises in 2009.¹ Although so far there is no national regulation on equity investment funds, many municipalities or regions, such as Beijing, Shanghai, Tianjin, Shenzhen, Chongqing, Suzhou, Changsha and Xinjiang autonomous region, etc. have already promulgated local rules to regulate and promote the formation of equity investment funds. In the aforesaid eight cities or regions, EIFEs and EIMEs may be established either in partnership or in corporate form, however EIFEs shall not be established in general partnership in Tianjin. Since March 2010, foreign fund sponsors may also set up RMB funds as FIPs pursuant to the FIP Registration Rules issued by the State Administration of Industry and Commerce (the "FIP Rules"). Carlyle and the Shanghai-based Fosun Group were the first to take advantage of the new FIP Rules to jointly establish a US\$100 million equivalent RMB fund in Shanghai in the form of a foreign-invested general partnership. Since January 24, 2011, Shanghai has launched a pilot program with respect to foreign-invested EIFEs, in which a foreign-invested EIMEs approved as a pilot enterprise is allowed to contribute to the foreign-invested EIFE set up by it in foreign currency (the amount of such capital contribution shall not exceed 5% of the total size of the foreign-invested EIFE). Furthermore, such foreign exchange capital contribution would not affect the nature of the foreign-invested EIME. As of February 28, 2011, Beijing has also issued a circular² providing that a EIMEs approved as a pilot enterprise is allowed to contribute to the EIFE (foreign commitment of which shall not exceed 50%) set up by it in foreign currency (the amount of such capital contribution shall not exceed 5% of the actual paid-in capital of the EIFE).

Capital Requirements. The five cities or regions, excluding Suzhou and Xinjiang autonomous region, set different minimum capital requirements for EIFEs and EIMEs. Shanghai, Shenzhen, Tianjin and Changsha require RMB100 million for EIFEs and Shanghai and Shenzhen further require at least RMB 5 million for each shareholder/partner while Tianjin requires at least RMB 10 million for each institutional investor and RMB 2 million for each natural person investor. In addition, Changsha, Shenzhen and Chongqing require the first installment of paid-in capital to be at least RMB50 million while Tianjin requires the first installment of paid-in capital to be at least RMB 10 million. While the Beijing municipal rules are silent on the minimum capital requirement, EIFEs formed in Haidian District are required to have a registered capital of at least RMB100 million or equivalent amount in foreign currency, if such EIFEs intend to apply for supports according to the *Provisions for Supporting the Development of the FIVCIEs in Haidian*. The capital requirements for EIMEs are the highest in Haidian District of Beijing (at least RMB10 million or equivalent amount in foreign currency for an EIME of any type, if such EIMEs intend to apply for supports according to the *Provisions for Supporting the Development of the*

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

² *Circular on carrying out interim measures in relation to foreign investment utilization work for equity investment fund and relevant management company*

FIVCIEs in Haidian), the second highest in Shenzhen (RMB10 million for companies limited by shares, or CLBSs, and RMB5 million for limited liability companies, or LLCs), the third in Tianjin (first installment of actual payment of RMB 2 million), and the fourth in Shanghai (RMB5 million for CLBSs and RMB1 million for LLCs)ⁱ , The capital requirements are lowest in Chongqing and Changsha, which is set at RMB1 million for EIMEs in either corporate or partnership form.

Name Requirements. The name requirements in the eight cities or regions are also somewhat different. In Beijing and Shenzhen, the fund names are allowed to contain “fund” (“基金”) or “investment fund” (“投资基金”). In Chongqing, Suzhou Industrial Park, Changsha and Xinjiang autonomous region, the fund names are allowed to contain “equity investment” (“股权投资”) without reference to “fund.” In Tianjin and Shanghai, the fund names are allowed to contain “equity investment funds” (“股权投资基金”) and “equity investment fund management” (“股权投资基金管理”). In addition, in Shanghai the fund names are allowed to be suffixed with notes such as “Phase 1” and “Phase 2”.

Foreign-invested Fund Management Enterprises

It is important to note that the local rules in all eight cities or regions, including the minimum capital requirements set forth above, generally apply to both purely domestic and foreign-invested EIFEs and EIMEs. However, Beijing and Shanghai have also issued a different set of trial rules for the formation of foreign-invested EIMEs in Zhongguancun District and Pudong District, respectively, both of which require a significantly higher minimum registered capital of US\$2 million for foreign-invested EIMEs. One significant distinction between the two sets of trial rules on foreign-invested EIMEs is that, under the Pudong trial rules, at least one shareholder of the foreign-invested EIME (or an affiliate thereof) is required to be engaged in equity investment or equity investment management business, whereas such a requirement does not exist in the Zhongguancun trial rules. Another distinction between the Pudong and Zhongguancun trial rules is that the cooperation joint venture form is available in Pudong but not in Beijing. While technically the Pudong trial rules on foreign-invested EIME were set to expire on June 30, 2010, based on our telephone inquiry on a no name basis, such rules shall remain in effect until other alternative provisions are published and come into effect. Based on our informal discussion with relevant regulators in Tianjin, while there is not an express separate capital requirement for foreign-invested EIMEs, there is a soft requirement in practice that they have a minimum registered capital of US\$1 million, although Tianjin appears to be willing to be quite flexible and may approve the formation of foreign-invested EIMEs with a registered capital as low as US\$100,000 - US\$150,000.

Tax Treatment of Partners in Partnership Funds

National Tax Provisions on the Partners of Partnership Funds. In China, partnerships are tax pass-through entities and the partners pay taxes on income allocated to them on an annual basis. According to Circular 159 of the State Taxation Administration issued in December 2008 and older tax regulations on sole proprietorships and partnership enterprises referenced therein, partners (limited partners and general partners) who are natural persons shall pay progressive income tax ranging from 5% to 35%, subject to certain deductions. The relevant tax rules in six of the eight cities or regions excluding Beijing and Shanghai, however, provide differentiated tax treatment of partners depending on their status as limited partner (“LP”) or general partner (“GP”), which represents a deviation from Circular 159.

Local Tax Provisions on Individual LPs. In Beijing, Tianjin, Suzhou Industrial Park, Shenzhen, Changsha, Xinjiang autonomous region and Chongqing, it is provided that individual LPs who do not execute the partnership affairs shall pay tax at a flat rate of 20% for the interests, dividend, and bonus distributed from the partnership enterprises. In Shanghai, ever since June 3, 2011 the partners of partnership funds (i.e. individual GPs and individual LPs) shall pay income tax for their operational income and other income in accordance with applicable tax regulations at the national level³ (i.e., individual income tax should be paid with a progressive rate ranging from 5% to 35%, after certain applicable deductions). Additionally, Suzhou Industrial Park, Tianjin, Xinjiang autonomous region and Beijing have specifically clarified that, income generated from transferring LP equity interests should be subject to flat tax rate of 20%.

Local Tax Provisions on Individual GPs. Relevant tax local provisions in the eight cities or regions are significantly different. In Shanghai, Changsha and Shenzhen, individual GPs, who are executive partners, shall pay progressive income tax ranging from 5% to 35% on income from the fund; in Suzhou Industrial Park, individual GPs, which not only execute the partnership affairs but also contribute to the EIFE, shall pay tax at a flat rate of 20% for their investment income or income generated from share transfer, and shall pay tax at a rate ranging from 5% to 35% for the income generated from business operation of the EIFE (if such income is distinguishable). In Beijing, Tianjin and Xinjiang autonomous region, individual GPs who execute the partnership affairs shall pay tax at a flat rate of 20% for their interest, dividend, bonus or income obtained from the transfer of their fund equities. In Chongqing, while the tax requirements on the individual GPs remain uncertain, it is provided that the operational income and other income obtained by EIFEs (in the form of a limited liability company or a joint stock company) is subject to a relatively lower tax enterprise income rate of 15% in accordance with the relevant regulations, if in line with the policy of Western China Development project.

³ Amended Version of Notice on AIC Registration for Equity Investment Enterprises in Shanghai issued by Shanghai Financial Service Office, etc., Article 5.

Overview on Local Tax Provisions. In the eight cities or regions, only the tax rules in Beijing and Shanghai do not provide differentiated tax treatment for individual LPs or GPs. But different tax rates are applied in Beijing and Shanghai. In Beijing, both individual LPs and individual GPs, whether executive partners or not, pay tax at a flat 20% rate on all fund-related income (presumably including interest or dividend income or income from the disposition of equities in the fund). While in Shanghai, Circular 159 and other relevant national documents are directly applied to both individual LPs and GPs, who should pay tax for their operational income with a progressive rate ranging from 5% to 35%. Relevant regulations for Shanghai are the most consistent to Circular 159. It is worth noting that while it can be argued that since individual income tax revenues belong to local governments as opposed to the central government, local governments have the authority to lower such tax in order to promote local private equity investment management business, the legality of such local rules is questionable because it involves the change of the type of the applicable tax rate (i.e., from a progressive rate of 5% to 25% to a flat 20% rate) rather than just lowering the tax rate.

Formation Rewards and Incentives for VCIEs

Preferential Policies for VCIEs

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

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

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

Chart I Comparison on Local Incentive Policies for FIVCIEs

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
Government FOF for Venture Capital	<p>1. Eligibility Requirements:</p> <p>(1) The paid-in capital is no less than RMB50 million, and all investors contribute in the form of currency;</p> <p>(2) Having at least 3 successful exits of investments in small or medium-sized enterprises, i.e., the average annual rate of return for the equity interest is no less than 20%, or the gain from the equity transfer is at least 20% over the original investment.⁴</p>	<p>1. Eligibility Requirements⁶</p> <p>(1) The asset under management (“AUM”) of VCIE shall be no less than RMB200 million in principle (the AUM of any newly formed investee VICE focused on seed-stage investments shall be no less than RMB100 million in principle), and all contributions must be paid up within 3 years, the first installment of which shall be no less than 30% of its</p>	<p>Shenzhen provides governmental subsidies to VCIEs:</p> <p>1. Eligibility Requirements⁸:</p> <p>(1) The investee VCIE shall be formed in Shenzhen and have passed the filing inspection by the VCIE filing authority.</p> <p>(2) The investee VCIE shall invest in early stage enterprises with indigenous innovation.</p> <p>(3) The enterprise has</p>	<p>1. Eligibility Requirements</p> <p>(1) The VCIE shall be formed in Binhai New District and mainly invest in Binhai New District.¹⁰</p> <p>(2) The investee VCIE shall mainly invest in new technological areas, such as information technology, biological technology and modern pharmacy, new material, modern manufacturing, alternative energy, and environmental protection.¹¹</p> <p>2. Scale of Government FOF and Contribution Limits</p> <p>(1) Government FOF in Tianjian is established in corporate form, with a</p>	<p>1. Eligibility Requirements¹⁵</p> <p>(1) The VCIE shall be formed within China and have completed all the filing procedures.</p> <p>(2) The paid-in capital is above RMB 50 million and contributed with currency.</p> <p>(3) The VCIE shall have specific investment areas of focus.</p>	<p>1. Eligibility Requirements¹⁶</p> <p>Requirements for Application of Government FOF</p> <p>(1) Applicants are required to be companies or partnerships mainly engaged in venture capital investment business and should, in principle, be filed with national or provincial NDRC or with the relevant authority of the industrial park in accordance with <i>Some Comments concerning Promotion and</i></p>

⁴ *Interim Measures of Beijing on Implementation of Fund of Venture Capital Funds for Small and Medium Sized Enterprise*, Article 8

⁶ *Interim Measures of Shanghai for Administrations of Fund of Venture Capital Funds*, Chapter IV

⁸ *Shenzhen Guidelines for Venture Capital Enterprises Support Scheme*, Article 4

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
	<p>2. Limitations on Government FOF's Investment</p> <p>(1) The investment by Government FOF to the VCIE shall not exceed 30% of the total paid-in capital to the VCIE, and Government FOF cannot be the largest shareholder.</p> <p>(2) The duration of the investee VCIE shall not exceed 10 years.⁵</p>	<p>subscribed contribution, and all investors shall make their contributions in the form of currency.</p> <p>(2) The investee VCIE shall have filed with and subjected itself to the supervision by VCIE filing authority.</p> <p>(3) The investee VCIE shall focus on investing in seed-stage enterprises or early to mid stage enterprises in industries supported or encouraged</p>	<p>completed the modification registration with administrations for industry and commerce, and its contribution has been fully paid in. The duration of all contributions shall be no less than 2 years.</p> <p>2. Governmental Subsidy⁹:</p> <p>(1). Governmental subsidy from the municipal technology and research fund equal to 15% of the actual</p>	<p>registered capital of RMB200 million contributed by Binhai New District Administrative Committee and National Development Bank. The duration of the Government FOF is 15 years.¹²</p> <p>(2) The investment principle of FOF is that it shall not be the controlling shareholder in order to ensure the independence of the decisionmaking and operation of the investee VCIE and its commercial operation through a properly designed shareholding structure.¹³</p> <p>(3) Generally, the duration of the</p>	<p>(4) The VCIE should have at least 3 full-time senior managers with no less than 5 years experience of or relating to venture capital investment and in which the managers have gained outstanding achievements.</p> <p>(5) The VCIE should have at least 3 successful exists of</p>	<p><i>Development of Equity Investment Industry in Suzhou Industrial Park.</i></p> <p>(2) Applicants should be registered in the industrial park.</p> <p>(3) Applicants should focusing on specific investment fields with investments mainly made in the industrial park.</p> <p>(4) Applicants should undertaking that the total amount of investment should be no less than 2 times the amount</p>

¹⁰ Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 8

¹¹ Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 9

¹⁵ Notice on Measures of Hunan for Administration of Fund of Venture Capital Funds, Article 15

¹⁶ Interim Measures of Suzhou Industrial Park for Administration of Fund of Venture Capital Funds, Article 4

⁵ Interim Measures of Beijing on Implementation of Fund of Venture Capital Funds for Small and Medium Sized Enterprise, Article 10 and 11

⁹ Shenzhen Guidelines for Venture Capital Enterprises Support Scheme, Article 5

¹² Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 4

¹³ Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 6

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
		<p>by government, and have a specific investment area of focus.</p> <p>(4) The investee VCIE shall make investment in Shanghai on a preferred basis.</p> <p>2. Limitations on Government FOF's Investment⁷</p> <p>(1) Government FOF may not be the largest shareholder in the investee VCIE.</p>	<p>investment by the VCIE.</p> <p>(2). In case it is the first time for the investee VCIE to receive investment, the percentage of subsidy may be increased to 20%. The amount of subsidy shall not exceed RMB500,000 each time, and the annual cumulative amount of subsidy granted to any VCIE shall not exceed RMB2 million.</p>	<p>investee VCIE shall be no more than 10 years. ¹⁴</p>	<p>investments in small and medium-sized enterprises (i.e., the average annual rate of return for the equity interest is no less than 15%, or the gain from the equity transfer is at least 20 times the original investment.)</p> <p>(6) The VCIE should have standardized management and operation, adopt strict and reasonable procedures for determining investment and have risk control mechanism.</p>	<p>contributed by Government FOF. The total amount invested in the venture enterprises located in the industrial park should be no less than 60% of the total amount of investment in the industrial park.</p> <p>Additionally, the amount invested in any single enterprise shall not exceed 20% of the total amount of the current VCIE.</p> <p>Requirements for Application for Co-investments</p> <p>(1) Applications should be companies or partnerships mainly engaged in venture capital</p>

⁷ Interim Measures of Shanghai for Administrations of Fund of Venture Capital Funds, Article 7

¹⁴ Interim Measures of Tianjin Binhai New Area for Administration of Fund of Venture Capital Funds, Article 10

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
					<p>(7) Founders should covenant that the VCIE will focus on investing in science and technology and innovation enterprises in small and medium size in their beginning or growing period compliant with the applicable industrial policies and industrial investment orientations.</p> <p>(8) The fund that invests in the VCIE shall be no less than RMB 150 million.</p> <p>2. Scale of Government FOF and Contribution Limits</p>	<p>investment business and should, in principle, be filed with national or provincial NDRC or with the relevant authority of the industrial park in accordance with <i>Some Comments concerning Promotion and Development of Equity Investment Industry in Suzhou Industrial Park</i>.</p> <p>(2) Applicant should apply for co-investments when investing in the venture enterprises located in the industrial park.</p> <p>2. Scale of Government FOF and Contribution Limits</p> <p>Investments by the</p>

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
					<p>(1) The amount of capital contributed to the Investee Enterprise by the Government FOF should be no more than 30% of the paid-in capital of the such enterprise. The Government FOF may not be the largest shareholder in the Investee Enterprise.</p> <p>(2) The Government FOF should exit from the Investee Enterprises upon the expiration of the agreed investment period which should be no more than 10 years.</p>	<p>Government FOF</p> <p>(1) The investment amount contributed by the Government FOF shall not exceed 25% of the registered capital or the subscription capital of the VCIE. The said maximum amount on investment may be raised within a reasonable range. However, in no condition shall the investment amount made by the Government FOF in any single investee fund exceed RMB 50 million. Further, the Government FOF may not be the largest shareholder of the Investee Enterprise.</p> <p>(2) The shareholders applying for Government</p>

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
					<p>(3) The founders applying for Government FOF in Investee Enterprises shall not exit from the Investee Enterprises before the Government FOF.</p>	<p>FOF in the Investee Enterprises shall not exit from the investment before the Government FOF.</p> <p>Co-investments</p> <p>(1) In principle, a VCIE can only apply for co-investment fund once and the amount of the co-investment shall not exceed RMB 5 million.</p> <p>(2) The amount for co-investment provided by Government FOF should be no more than 30% of the investment amount of the VCIE in this series with an exception that in case of a seed fund, the maximum proportion of the co-investment can be raised to 100%. The</p>

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
						<p>investment is required to be contributed with currency. The investment price should be the same as the one with which the applicant makes its own investment.</p> <p>(3) Any VCIE that applies for co-investment from Government FOF should not exit from the investment in an enterprise before the Government FOF does.</p> <p>3. Exit by Government FOF</p> <p>(1) For any profits generated from the equity held by Government FOF in VCIEs, the Government FOF may give away 50%</p>

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
						<p>of such profits to the other shareholders of the VCIE existing at the time of the Government FOF's investment. Those who became the shareholders of the VCIE after the Government FOF's investment are not entitled to share the said profits.</p> <p>(2) For any equity arising out of the Government FOF's co-investment, if the one that applies for the co-investment from the Government FOF purchases such equity within 3 years after the co-investment, the purchase price should be equal to the investment made by the Government FOF plus the interest</p>

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
						<p>calculated based on the standard bank loan interest rate in the same period of time; if such equity is purchased within 3 to 5 years after the co-investment, the purchase price should be determined based on market price, with 50% of the benefits received by the Government FOF transferred to the VCIE that applies for co-investment when the Government FOF exits; if such equity is purchased 5 years after the co-investment, the purchase price should be determined based on the market price.</p> <p>(3) For any equity arising</p>

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
						<p>out of the Government FOF's co-investment, if the VCIE that applies for the co-investment from the Government FOF is deemed a seed fund, then if the VCIE purchases the said equity within 4 years after the co-investment, the purchase price should be equal to the investment made by the Government FOF plus the interest calculated based on the standard bank loan interest rate in the same period of time; if such equity is purchased 4 years after the co-investment, the purchase price should be determined based on market price, with 50% of the benefits received by</p>

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
						the Government FOF transferred to the seed fund when the Government FOF exits.
Risk Subsidies	<p>Following are the measures for administration of venture capital risk subsidies in Zhongguancun National Indigeneous Innovation Exmplary Zone</p> <p>1. Requirements¹⁷</p> <p>(1) The enterprise must be recognized as Venture Capital Partner of Zhongguancun (requiring the VCIE or VCME to have a registered capital of no less than RMB100 million</p>	<p>Shanghai has established Special Fund for Venture Capital Risk Subsidy, to which VCIEs pay risk reserve funds voluntarily annually. In case of failure in investment, such VCIEs will receive certain compensation. The arrangement is described as follows:</p> <p>(1) VCIEs filed with the competent authority that have passed the annual inspection of the competent authority may</p>	N/A	<p>TEDA has established a Development Fund for Venture Capital (DCVC) of RMB50 million for co-investments and risk subsidies.²³</p> <p>1. Requirements²⁴</p> <p>(1) Having a registered capital of no less than RMB30 million or AUM of no less than RMB100 million.</p> <p>(2) Having successful investment exits or investee enterprises are performing well.</p> <p>(3) Having filed with the competent authority.</p>		<p>1. Conditions:</p> <p>(1) The target enterprise that the VCIE invests in is located in the Suzhou Industrial Park and satisfies the conditions²⁶;</p> <p>(2) The application for risk subsidies is raised within 3 months after the liquidation ends²⁷.</p> <p>2. Subsidies Amount</p> <p>For those VCIEs which have invested in the venture enterprises located in the Suzhou Industrial Park, the Government FOF will</p>

¹⁷ Measures of Zhongguancun National Innovation Zone for Administration of Risk Subsidy for Venture Capitals, Chapter II

²³ Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 4

²⁴ Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 7

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
	<p>or AUM of no less than RMB300 million) .</p> <p>(2) If the VCIE invests through a management enterprise, the subsidies will be granted only to the management enterprise.</p> <p>(3) The VCIE shall invest only in unlisted hi-tech enterprises in Zhongguancun, and it should be no more than 5 years from the incorporation of the enterprise to the execution of the investment agreement entered into by the investee enterprise</p>	<p>pay an amount of no more than 10% of its annual after-tax profits as risk reserve funds voluntarily; or pay an amount of no more than 5% of its registered capital as risk reserve funds.¹⁹</p> <p>(2) The municipal government will pay an amount equal to the risk reserve funds paid by VCIEs, which will come out of the technology budget of the municipal.²⁰</p> <p>(3) VCIEs that satisfy certain conditions may receive compensation</p>		<p>2. Amount of Subsidy²⁵</p> <p>(1) With respect to the actual amount VCIEs invest in small or medium-sized technology enterprises, the cumulative amount of subsidy a VCIE may apply for with respect to its investment in any investee enterprise shall not exceed RMB1 million.</p>		<p>subsidize the VCIEs with an amount equal to 10% of the actual investment losses suffered by the VCIEs after the unsuccessful projects are liquidated, with the maximum amount of subsidies for one project being RMB 1 million²⁸.</p>

²⁶ *Several Opinions on the Further Modification to the Scientific and Financial System of Suzhou Industrial Park*, Section III

²⁷ *Interim Measures for the Management of Venture Capital Investment Government FOF in Suzhou Industrial Park*, Article 20

¹⁹ *Measures of Shanghai for Administration of Special Funds for Risk Subsidy for Venture Capital*, Section II(1).

²⁰ *Measures of Shanghai for Administration of Special Funds for Risk Subsidy for Venture Capital*, Section II(2).

²⁵ *Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital*, Article 23

²⁸ *Interim Measures for the Management of Venture Capital Investment Government FOF in Suzhou Industrial Park*, Article 18

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
	<p>and the VCIE.;</p> <p>(4) The investment has been completed, i.e., the investment capital has been paid to the investee enterprise in the Zone and the AIC modification registration has been completed.</p> <p>2. Amount of Subsidy¹⁸</p> <p>(1) The subsidy is granted in the form of currency for VCIE's actual investment in investee enterprises. The amount of subsidy is 10% of the actual investment in an investee enterprise, and any single subsidy may not</p>	<p>from the Special Capital for Risk Subsidy for its losses arising out of liquidation due to investment failures or exits of venture capital projects for a loss.²¹</p> <p>(4) VCIEs that become ineligible for filing due to cancellation of filing by the competent filing authority, business closure, liquidation or cessation of venture capital business for other reasons or decide not to pay risk reserve funds to the Special Capital for Risk Subsidy, may withdraw the capital already paid but not used, and automatically lose its</p>				

¹⁸ Measures of Zhongguancun National Innovation Zone for Administration of Risk Subsidy for Venture Capitals, Chapter III

²¹ Measures of Shanghai for Administration of Special Funds for Risk Subsidy for Venture Capital · Section III

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
	<p>exceed RMB1 million.</p> <p>(2) The cumulative amount of subsidy a VCIE may apply with respect to its investment in any investee enterprise shall not exceed RMB1 million.</p> <p>(3) The subsidy granted to one VCIE shall not exceed RMB 3 million every year.</p>	<p>eligibility for receiving subsidies from the Special Capital for Risk Subsidy.²²</p>				

²² Measures of Shanghai for Administration of Special Funds for Risk Subsidy for Venture Capital, Section VIII

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
Rewards	N/A	N/A	N/A	<p>Applicable in TEDA only:</p> <p>(1) If the cumulative amount of the tax paid by the invested small or medium-sized technology enterprises reaches RMB2 million in 3 years after filing, the VCIE will be rewarded RMB 200,000.²⁹</p> <p>(2) If the invested small or medium-sized technology enterprises in the development zone successfully completes an initial public offering, the VCIE will be rewarded RMB1 million for each listed investee enterprise.³⁰</p>	N/A	N/A
Tax Incentives	Where a VCIE invests in an unlisted small or medium-sized high & new tech enterprise by means of equity investment and holds the investment for a period of at least 2 years (24 months), and satisfies the following conditions, the income tax payable by such enterprise may be offset by 70% of the amount of investment in the small or medium-sized high & new tech enterprise in the current year when its ownership of the equity has reached 2 years; where the amount of investment is insufficient to offset its income tax in the current year, it may be carried forward to the following tax years:					

²⁹ Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 32

³⁰ Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital, Article 33

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
	<p>(1). The business scope of the enterprise conforms to the provisions of the Interim Measures for Administration of Venture Capital Investment Enterprises (“Interim Measures”) and its registration in administrations for industry and commerce is professional VCIE with legal person status such as a venture capital investment company limited or a venture capital investment company limited by shares;</p> <p>(2). The enterprise has submitted a record-filing in accordance with the requirements and procedures as set forth in the Interim Measures; and the investment of the enterprise is consistent with relevant provisions of the Interim Measures as verified by annual inspection of the competent record-filing authority;</p> <p>(3). The small and medium-sized high & new tech enterprises in which the VCIEs invest shall have no more than 500 employees, annual sales of no more than RMB200 million and total assets of no more than RMB200 million in addition to being recognized as a high & new tech enterprise in accordance with the provisions of the Circular on Printing and Distributing the Administrative Measures on Determining High & New Tech Enterprises (Guo Ke Fa Huo [2008] No. 172) promulgated by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation and the Circular on Printing and Circulating the Guideline of the Management Work Over Determining High & New Tech Enterprises (Guo Ke Fa Huo [2008] No. 362).</p>					
	N/A	N/A	N/A	<p>Special Tax Incentives</p> <p>(1) Within 5 years from the year the VCIE is certified, TEDA will refund 50% of the portion of business tax and enterprise income tax payable by VCIEs to TEDA.³¹</p> <p>(2) Within 5 years from the VCIE</p>	N/A	N/A

³¹ *Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital*, Article 30

	Beijing (Zhongguancun)	Shanghai (Pudong New District)	Shenzhen	Tianjin Economic-Technological Development Area (TEDA)	Changsha	Suzhou Industrial Park
				is certified, with respect to the portion of income tax on individual partners' gains from production and operation of the VCIE partnership in excess of 20%, TEDA will waive 100% of the portion retained by TEDA. ³²		

Rewards and Incentives for EIFEs and EIMEs

Beijing, Shanghai, Shenzhen, Tianjin, Chongqing, Suzhou Industrial Park, Changsha and Xinjiang Autonomous Region have promulgated various incentive policies and reward systems for locally formed EIFEs and EIMEs as set forth in the chart below (in order to enjoy the incentive treatment below, enterprises have to meet set-up standards and be filed with in accordance with local policies, except for enterprises in Shenzhen). Please note that the adoption of further implementing rules may be required for some of these policies to be fully implemented. Below is a comparative analysis on the incentive policies of eight cities.

Chart II Comparison on the Incentive Policies for EIFEs and EIMEs

Type	Beijing ⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
Formation Rewards for	Applicable to enterprises that are	Corporate form fund incorporated in	Corporate form fund only, and the fund	N/A	N/A	N/A	N/A	N/A

³² *Interim Measures of Tianjin Economic-Technology Development Area on Encouraging Venture Capital*, Article 31

Type	Beijing ⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
Fund	<p>formed in or moved to Haidian District after January 1st, 2007 only:</p> <p>1. RMB 500,000 if the registered capital more than RMB 100 million but less than RMB 500 million and make the first investment in enterprises registered with Haidian administrations for industry and commerce and tax authority.</p> <p>2. RMB 800,000 if the registered capital</p>	<p>Pudong District only (effective through December 31, 2011):</p> <p>1. RMB 5 million if the registered capital reaches RMB 500 million;</p> <p>2. RMB 10 million if the registered capital reaches RMB 1.5 billion;</p> <p>3. RMB 15 million if the registered capital reaches 3 billion.³⁴</p>	<p>shall not move away from Shenzhen within 5 years (effective through December 31, 2011):</p> <p>1. RMB 5 million if the registered capital reaches RMB 500 million;</p> <p>2. RMB 10 million if the registered capital reaches RMB 1.5 billion;</p> <p>3. RMB 15 million if the registered capital reaches 3 billion.³⁵</p>					

³⁴ Shanghai: *Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District*, Article 3

³⁵ Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(1)

Type	Beijing ⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
	<p>reaches RMB 500 million and the first investment is made in an enterprise registered with Haidian administrations for industry and commerce and tax authority.</p> <p>3. In case the first investment is made in a district other than Haidian, an subsidy amounting to 70% of the aforesaid reward amount shall be granted. In case the EIFE subsequently invests in an enterprise in Haidian, it may apply</p>							

Type	Beijing ⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
	for the remaining 30% of the aforesaid rewards amount. ³³							
Formation Rewards for Management Enterprises	1. For management enterprises filed with Beijing Municipal Bureau of Financial Work with a registered capital no less than RMB 30 million; RMB 8 million if the cumulative paid-in capital under management reaches RMB 500 million; RMB 10 million if the cumulative paid-in capital under management	For Partnership fund in Pudong District, the cash reward will be granted to its management enterprise only: RMB 5 million if the fund's annual actual raised capital reaches RMB 1 billion; RMB 10 million if the fund's raised capital reaches 3 billion; RMB 15 million if the fund's annual actual raised capital reaches 5 billion. The reward	For Partnership fund, the cash reward will be granted to its management enterprise only, and the fund shall not move away from Shenzhen within 5 years (effective through December 31, 2011): RMB 5 million if the annual actual raised capital reaches RMB 1 billion; RMB 10 million if the	N/A	N/A	N/A	N/A	N/A

³³ Measures on Supporting the Development of Equity Investment Enterprises in Haidian District, Article 9

Type	Beijing ⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
	reaches or exceeds RMB 1 billion. ³⁶ 2. EIMEs registered or moved into Haidian District after January 1, 2007 can also be rewarded as described above. ³⁷	can be further raised if the fund significantly contributes to Pudong finance industry. ³⁸	annual raised capital reaches RMB 3 billion; RMB 15 million if the annual actual raised capital reaches RMB 5 billion. ³⁹					
Tax Incentives for Fund	N/A	Applicable only to Fusheng Economic Development Zone of Chongming, Shanghai: For business tax, the amount of tax refund is equal to 40% of the	Full refund of the local retained part of the paid enterprise income tax in the first 2 years and half refund in following 3 years. ⁴⁰	N/A	1. Full refund of the business tax for the first and second year by the financial department, and 50% refund from the 3rd year to the	N/A	(1) The portion of the business tax to be paid to regional tax authorities in the first 3 years following the commencement of	Enterprises will enjoy the following incentives after being filed with the financial office of the

³⁶ Beijing: *Opinions on Promoting the Development of Equity Investment Funds*, Article 9&10; *Implementation Rules on Promoting the Development of Financial Industry in the Capital*, VII

³⁷ *Measures on Supporting the Development of Equity Investment Enterprises in Haidian District*, Article 9 & 12

³⁸ Shanghai: *Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District*, Article 3

³⁹ Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(1)

⁴⁰ Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(3)

Type	Beijing ⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
		<p>tax paid. For enterprise income tax, the amount of tax refund is equal to 16% of the tax paid.</p> <p>Applicable only to Harbor Industrial Zone (Pudong): For individual income tax, the amount of tax refund is usually equal to 10% to 15% of the tax paid (20% at the most). For business tax, the amount of tax refund is equal to 30% to 40% of the tax paid.</p> <p>Applicable only to Wanxiang County</p>			<p>5th year</p> <p>2. Full refund of the local retained part of the paid enterprise income tax, and half refund in the following 3 years.</p> <p>3. For EIFEs that have difficulties paying taxes for newly bought or built offices, waiver of deed tax and property tax for 3 years.⁴¹</p>		<p>business is fully refunded as award by financial authorities in accordance with tax sharing policy of the city and the county (city). Half of such tax to be paid in the subsequent two years will be refunded.</p> <p>(2) From the year when the fund generates profits and during the existence of the fund, 70% of the enterprise income tax that is paid to</p>	<p>autonomous region⁴². EIFEs in form of companies can enjoy the incentives based on the Western China Development project, tax paid to the autonomous region is allowed a 50% reduction. For those enterprises which do not enjoy the incentives</p>

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

⁴² *Interim Measures on the Promotion of Development of Equity Investment Enterprises of Xinjiang Autonomous Region*, Article 21

Type	Beijing ⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
		<p>(Pudong): For business tax, the amount of tax refund is equal to 45% of the tax paid. For enterprise income tax, the amount of tax refund is equal to 18% of the tax paid. For individual income tax, the amount of tax refund is equal to 18% of the tax paid. In case the incentives offered by Pudong New District on the district level overlap with those offered by Harbor Industrial Zone and Wanxiang County, then enterprises registered in Harbor Industrial Zone and Wanxiang</p>					<p>regional tax authorities will be funded as award by the financial department of the city in accordance with the tax sharing policy of the city, district and county (city).</p>	<p>based on the Western China Development project, 70% of the enterprise income tax paid to the autonomous region is waived.</p> <p>(2) For equity investment profits and equity transfer profits obtained by EIFEs, and for share transfer by the partner of</p>

Type	Beijing ⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
		County are entitled to the nonoverlapping incentives and may also choose to apply either, but not both of the overlapping incentives.						an EIFE, business tax is waived.

Chart III Tax Incentives for Management Enterprises and General Partners

Type	Beijing ⁱⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
Tax Incentives for Management Enterprises/ GP	1. For corporate PE management company managing a fund with more than RMB 500 million paid-in capital, full refund of the district/county local retained part of	N/A	1. Full refund of the local retained part of the paid enterprise income tax in the first 2 years and half refund in the next 3 years; ⁴⁵ 2. Full refund of the	For management companies filed with Tianjin NDRC: 1. Full refund of the local retained part of the paid enterprise income tax in the first 2 years and half	1. Full refund of the business tax for the first and second year by the financial department, and 50% refund from the 3rd year to the 5th year	N/A	N/A	N/A

⁴⁵ Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(2)

Type	Beijing ⁱⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
	<p>its paid enterprise income tax in the first 2 years and half refund in the next 3 years;⁴³</p> <p>2. Business tax exemption for the GP in partnership funds if it contributes intangible assets or real properties, participations in the profit allocation and jointly assume investment risks and upon the transfer of its equity in the fund.⁴⁴</p>		<p>local retained part of the paid business tax in the first 2 years and half refund in the next 3 years;⁴⁶</p> <p>3. Business tax exemption for the GP in partnership funds if it contributes intangible assets or real properties, participations in the profit allocation and jointly assume investment risks and upon the transfer of its equity in the fund.⁴⁷</p>	<p>refund in the next 3years;</p> <p>2. Full refund of the local retained part of the paid business tax in the first 2 years and half refund in the next 3 years;</p> <p>3. The office purchase or construction will be exempt from real estate tax for 3 years and from deed tax.⁴⁸</p>	<p>2. Full refund of the local retained part of the paid enterprise income tax, and half refund in the following 3 years.⁴⁹</p>			

⁴³ Beijing: *Opinions on Promoting the Development of Equity Investment Funds*, Article 9&10

⁴⁴ Beijing: *Opinions on Promoting the Development of Equity Investment Funds*, Article 6

⁴⁶ Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(3)

⁴⁷ Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section III(4)

⁴⁸ Tianjin: *Measures on Promoting the Development of Equity Investment Funds*, VIII

⁴⁹ Chongqing: *Opinions of People's Government of Chongqing on Encouraging the Development of Equity Investment Related Enterprises*, Section II

Type	Beijing ⁱⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
Office Subsidy	For corporate PE management company managing a fund with more than RMB 500 million paid-in capital (Jinrong Jie, Xicheng District, Beijing CBD and Chaoyang District only): 1. A lump-sum subsidy of RMB 1,000/m ² with a 5-year transfer lock-up upon an office purchase; 2. A lease subsidy of 50%, 30% and 10% of the fund's	Pudong District only: 1. A subsidy of 1.5% of the purchase price if purchasing an office in Lujiazui or Zhangjiang; 2. A subsidy of RMB 500/m ² /year for office lease in Lujiazui or Zhangjiang. ⁵¹	1. A subsidy of 1.5% of the purchase price up to RMB 5 million with a 10-year transfer lock-up upon office purchase in Shenzhen; 2. A subsidy of 30% of the market rental for 3 years up to RMB 1 million for office lease in Shenzhen. ⁵²	1. A lump-sum subsidy of RMB 1,000/m ² up to RMB 5 million with a 10-year transfer lock-up upon office purchase in Tianjin; 2. A subsidy of 30% of the lower of the actual office rental and the market rental for 3 years up to 1,000m ² and RMB 1 million for office lease in Tianjin. ⁵³	1. A lump sum subsidy of RMB 1000/m ² within a 5 year lease lock-up upon office purchased or established in the central commercial district, core financial district or northern new district. The office can not be leased to any third party if such subsidy is granted, 2. A subsidy of 30% of the market rental for 3 years for office lease in Chongqing. (the	Applicable only in Suzhou Industrial Park: For EIFEs and EIMEs which are filed with the industrial park, in case such enterprises rent offices for their own use within the industrial park, a subsidy equal to 30% of the renting price will be awarded in the first 3 years, with the maximum subsidy being RMB 24/m ² per day. The said enterprises, when	For EIMEs that have completed filing procedures, if such enterprises purchase offices within the city for its own use, a lump sum package of subsidies will be awarded to such enterprises. The amount of the subsidies is RMB 600/m ² with the total amount not exceeding RMB 200,000. Deed tax will be refunded by financial departments, to the extent that the office is within	N/A

Type	Beijing ⁱⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
	<p>office rental in first 3 years, respectively⁵⁰</p> <p>Applicable in Haidian District only:</p> <p>For EIFEs and headquarter EIMEs, a lease subsidy of 50%, 30 and 20% of the fund's office rental in the first 3 years, respectively.</p>				<p>specific subsidy standard shall be calculated based on the average rental in the same area.)</p>	<p>enjoying the subsidies, are not allowed to subrent the office to others.</p>	<p>300/m2. Such enterprises may also apply for reduction or waiver of deed tax in accordance with law. Enterprises enjoying the foregoing subsidies or waiver of tax are not allowed to sell the real property (used as office) or contribute such real property to other enterprises. If the foregoing EIMEs rent office places for their own use, then 50% of the rent to be paid in</p>	

⁵¹ Shanghai: *Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District*, Article 6

⁵² Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV

⁵³ Tianjin: *Measures on Promoting the Development of Equity Investment Funds*, VIII(4)

⁵⁰ *Implementation Rules on Promoting the Development of Financial Industry in the Capital*, Section 8&9

Type	Beijing ⁱⁱⁱ	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou Industrial Park	Changsha	Xinjiang
							the following 3 years will be awarded to such EIMEs as subsidies (the amount of subsidies will be determined based on the average renting price for offices of the same level within the same area.	

Chart IV Comparison on Local Investment Awards

Type	Beijing	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou	Changsha	Xinjiang
Local Investment Rewards	N/A	Pudong District only: Cash reward of 50% of Pudong local retained tax from the fund's investment in	Cash reward of up to RMB 3 million from local tax revenues derived from investments in and disposition of	Cash reward of 60% of local retained tax revenues derived from investments in and disposition of portfolio companies	N/A	Applicable only in Suzhou Industrial Park: (1) The industrial park will give a	If an enterprise that has completed the file procedures invests in the enterprises or projects in the city,	After an enterprise is filed with the financial office of the autonomous

Type	Beijing	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou	Changsha	Xinjiang
		portfolio companies organized in Pudong and engaged in an encouraged industry. ⁵⁴	portfolio companies or projects in Shenzhen. ⁵⁵	or projects in Tianjin. ⁵⁶		50% award to the individual shareholders of VCIEs (in the form of partnership) for 6 years based on the increased local finance. (2) Within 6 years after the commencement of business, a development award will be given to the enterprises equal to 50% of the amount of total increase of local finance as the	the financial department of the city will award such enterprise 60% of the income tax retained by the region after the enterprise exists or receives profits.	region, it will receive the following awards ⁵⁷ : (1) After the individual shareholders of enterprises (in the form of companies) pay off their individual income tax, the autonomous region will award to such shareholders 50% percent of their contribution to

⁵⁴ Shanghai: *Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District*, Article 5

⁵⁵ Shenzhen: *Several Rules on Promoting the Development of Equity Investment Funds*, Section IV(4)

⁵⁶ Tianjin: *Measures on Promoting the Development of Equity Investment Funds*, VIII(6)

⁵⁷ *Interim Measures on the Promotion of Development of Equity Investment Enterprises of Xinjiang Autonomous Region*, Article 21

Type	Beijing	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou	Changsha	Xinjiang
						<p>result of the revenues and profits generated by such enterprises; and within 6 years after commencement of business, a development award will be given to the enterprises equal to 50% of the amount of total increase of local finance as the result of the earnings the employees in such enterprises (not exceeding 30% of the total employees)</p>		<p>the local finance.</p> <p>(3) After the shareholders of VCIEs (in the form of partnership) pay off their income tax in accordance with the principle of “tax after distribution of profits”, the autonomous region will award to such shareholders 50% percent of their contribution to the local finance.</p>

Type	Beijing	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou	Changsha	Xinjiang
								(3) After VCIEs pay off their business tax for revenues generated from their provision of investment and financing management and consultation service, the autonomous region will award to such shareholders 50% percent of their contribution to the local finance.
Rewards to Individuals	For corporate PE management	Pudong District only:	Senior offices, satisfying certain	Cash refund of local retained individual	Full refund of the local retained part	The senior officers of VCIEs	For senior officers who have been	N/A

Type	Beijing	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou	Changsha	Xinjiang
	<p>company managing a fund with more than RMB 500 million paid-in capital:</p> <p>Cash refund up to RMB 300,000 from the local retained individual income tax revenue to senior officers who have been in employ by the finance enterprise for more than 2 years, which may be used for purchasing a residential property, an automobile and professional training in Beijing⁵⁸</p>	<p>1. For corporate fund and management companies, a 40% individual income tax refund to chairperson and vice chairperson of the board, general manager and deputy general manager and a 20% individual income tax refund to investment managers and core members of project management team;</p> <p>2. RMB 200,000 housing subsidy for chairperson and vice chairperson of the</p>	<p>conditions and verified by the human resources and insurance authorities, can benefit from talents introduction policies, get rewards and help with the settlement of their spouse, education of their children and medical insurances.</p>	<p>income tax to senior officers who have been in employ by the finance enterprise for more than 2 years, which may be used for the first-time purchase of a residential property, automobile or professional training in Tianjin for up to 5 years.⁶⁰</p>	<p>of the paid individual income tax to senior offices for the first 3 years, and half refund for the following 2 years, to encourage and support their further education and training, purchase of real estate or so.</p>	<p>and VCIMEs can enjoy preferential treatment such as subsidies for purchase of real properties, salary subsidies, post doctors' subsidies, rent discount, special subsidies, green light in Hukou application, entrance to schools and cross-boarder travel, foreign exchange, logistics service, etc., in accordance with <i>Opinions on</i></p>	<p>working for a VCME (which has completed filed procedures) for more than 2 years, their income tax paid for salaries will be completely refunded by the financial department annually in the amount equal to the portion retained by regional government.. The award period should last for no more than 5 years. International talents are entitled to enjoy the corresponding</p>	

⁵⁸ *Implementation Rules on Promoting the Development of Financial Industry in the Capital*, Section 6

⁶⁰ *Tianjin: Measures on Promoting the Development of Equity Investment Funds*, VIII(5)

Type	Beijing	Shanghai	Shenzhen	Tianjin	Chongqing	Suzhou	Changsha	Xinjiang
		board, general manager and deputy general managers if the registered capital of corporate fund reaches RMB 500 million or if the assets under management of management company reaches RMB 1 billion. ⁵⁹				<i>preferential Policy to Attract High-level talents and scarce talents of Suzhou Industrial Park, and Several Opinions on Implementation of “Golden Chicken Lake Double Hundreds Talents” program of Suzhou Industrial Park.</i> ⁶¹	policy for talents of the city.	

¹ For enterprises to apply for incentives of Haidian District, some conditions should be satisfied in the first place. For EIFEs, following are the conditions on their scope of business and registered capital: invest in unlisted enterprises only and the amount of its investment in each enterprise shall not exceed 20% of the investee enterprise’s total capital; the registered capital of the EIFE shall be no less than RMB 100 million or equivalent foreign currency; the first installment of no less than 20% of its registered capital shall be paid in before registration, and the balance shall be paid up within 5 year from the issuance of its business license; in case of foreign-invested EIFEs invested by foreign investors, the first installment of contribution shall be no less than 15% of their respective subscribed contribution, and must be paid up within 3 months from the issuance of the business license, with the balance paid up within 3 years from the issuance of the business license. For EIMEs, following are the conditions on their scope of business and registered capital: invest in unlisted enterprises only and the amount of its investment in each enterprise shall not exceed 20% of the investee enterprise’s total capital; the registered capital of the EIFE shall be no less than RMB10 million or equivalent foreign currency; the first installment of its contribution must be paid in before registration and its paid-in capital shall be no less than 20% of its registered capital, and the balance shall be paid up within 2 year from the issuance of its business license; in case of foreign-invested EIMEs, the first installment of no less than 15% of their respective subscribed contribution shall be paid up within 3 months from the issuance of the business license, with the balance paid up within 3 years from the issuance of the business license.

⁵⁹ Shanghai: *Opinions and Implementation Measures on Promoting the Development of Equity Investment Enterprises and Equity Investment Management Enterprises in Pudong New District*, Article 4

⁶¹ *Interim Measures for the Management of Venture Capital Investment Government FOF in Suzhou Industrial Park*, Article 17

Important Announcement

This Legal Commentary has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

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