

China Update

March 10, 2010



Foreign Investments in Private Equity Fund Management Now Permitted in Beijing

Beijing finally decided to follow Shanghai's footsteps and permit foreign investors to establish private equity fund management company ("PE Mgmt Firms") on a trial basis in Zhongguancun, Beijing. The Interim Measures on the Establishment of Foreign Invested Equity Investment Fund Management Enterprises in Beijing (the "Beijing Measures") issued on a trial basis became effective as of January 1, 2010 for a period of three years.

The Beijing Measures are very similar to those issued by the Shanghai Pudong New Area Government on June 10, 2009 (the "Shanghai Measures") and Beijing is now the second region in China that welcomes international private equity funds.

Similar to the Shanghai Measures, the Beijing Measures require that a PE Mgmt Firm should have a registered capital of at least US\$2 million and its business scope be limited to the engagement and provision of non-securities equity investment management and consulting services that have been entrusted by other equity funds. As with the Shanghai Measures, local authorities have also been delegated the authority to review, approve, register and supervise PE Mgmt Firms established in Beijing, shortening the time period to establish such a PE Mgmt Firm. The Beijing Measures also provide that a PE Mgmt Firm shall have at least two senior management officers who have more than two years of experience in equity fund management or experience in related business. In addition, these officers must not have any record of regulatory non-compliance, or been involved in economic disputes which have not been settled or resolved in the previous five years.

However, the Beijing Measures seem to allow greater flexibility on the corporate form of the PE Mgmt Firms and permit these firms to be established as corporations, partnerships or other type of non-corporate forms if such forms are legally permitted by State policies. Another important breakthrough is that funding support by the Beijing Equity Investment Development Fund (the "Fund") is permitted if such PE Mgmt Firm satisfies the following prerequisites: a reputable management team, strategies are aligned with the investment direction of the Fund and compliance with the industrial policies of both the State and Beijing. These improvements to the Shanghai Measures indicate a clear

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intention of the Beijing authorities to attract foreign private equity investors and to compete with Shanghai, and should be warmly welcomed.

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