

Circular on Commercial Registration Issues for Equity Investment Firms in Shanghai Municipality

(Promulgated by Office for Financial Services of Shanghai Municipality, Shanghai Administration for Industry and Commerce, State Taxation Bureau of Shanghai Municipality and Local Taxation Bureau of Shanghai Municipality on August 11, 2008)

To: All district/county branches of the Office for Financial Services, the Administration for Industry and Commerce and the Taxation Bureau in Shanghai and other relevant entities

As China's economy is developing rapidly and the capital market keeps on growing, private equity funds and other equity investment firms have achieved substantial development in this municipality. Through the allocation of resources by market means and by improving the governance and operation of the invested companies and thus creating value, equity investment firms benefit the nurturing of high quality resources ready for being listed and help in promoting the adjustment of industrial structures, development of the private economic sector and provision of fund and asset management services. To better create a regulated and favorable environment for the development of equity investment firms in Shanghai, this Circular is promulgated to address commercial registration and other relevant issues relating to equity investment firms in Shanghai.

I. Define the Principles and Objectives of Developing Equity Investment Firms in Shanghai

(1) Essential Principles

The principles of marketization, internationalization and regulation shall be adhered in developing equity investment firms in Shanghai. Equity investment firms and their related parties shall be taken as the subjects of the development of equity investment in this municipality. The leading role of the market shall be fully made use of and eligible parties, whether domestic or foreign, shall be encouraged to participate in the development of equity investment firms in Shanghai. Government authorities that exercise the relevant functions shall enhance a favorable market environment for the healthy development of equity investment firms in Shanghai in accordance with the laws and regulations of the State.

(2) Objectives of Development

Promote the healthy development of equity investment firms in Shanghai by arousing the enthusiasm of equity investment firms and their related parties. Introduce the various types of long term investment funds and form a number of equity investment firms and equity investment management firms characterized by regulated operation, satisfactory governance, outstanding performance and high influence, to push forward Shanghai as a capital and asset management centre and to promote the development of this municipality into an international financial centre.

II. Enhance an Environment for the Healthy Development of Equity Investment Firms

The financial services, commercial administration, taxation and other relevant authorities of Shanghai shall join efforts to enhance a market environment to benefit the concentration and development of equity investment firms in a healthy and orderly manner. Fully arouse the enthusiasm of the various market subjects in equity investment to help to speed up the development of equity investment firms and equity investment management firms in this municipality and at the same time, exercise one's own function to regulate the acts of those firms to guide them to operate in a legal and responsible manner.

III. Qualifications Required of Equity Investment Firms and Equity Investment Management Firms

The term "equity investment firm" means a legally established firm that principally engages in the making of equity investments. The term "equity investment management firm" means a firm that principally engages in the management of equity investments as entrusted by equity investment firms.

The registered capital of (or capital contribution made to) an equity investment firm shall be no less than RMB100 million and the form of capital contribution shall be limited to cash. A shareholder or partner shall make capital contribution in its own name. Each shareholder (or partner) that is an individual shall make capital contribution in an amount no less than RMB5.00 million. For an equity investment firm that is established in form of a limited company or a partnership, there shall be no more than 50 shareholders or partners. An equity investment firm that is established in form of a non-listed joint stock limited company shall have no more than 200 shareholders.

An equity investment management firm that is established in form of a joint stock limited company shall have registered capital no less than RMB5.00 million and one established in form of a limited liability company shall have paid-up capital of no less than RMB1.00 million.

IV. Proper Registration of Equity Investment Firms in Shanghai

Firms that are to engage in equity investment or equity investment management in Shanghai shall be established in form of a company or partnership. The commercial administration authorities of all levels in this municipality shall make registrations of firms that engage in equity investment or equity investment management in this municipality, according to relevant legal stipulations. Where the relevant firms that have been registered in Shanghai before this Circular is promulgated have a need to engage in equity investment, they may apply to the commercial administration authority for effecting the corresponding changes in their registered details provided that the requirements set forth in this Circular are satisfied.

(1) Investors to Firms

Individuals, legal persons and other entities in China and those from outside Mainland China or from a foreign country as permitted by laws and

regulations of the State may be investors to equity investment firms and equity investment management firms.

(2) Firm Names

The part of the name of an equity investment firm or an equity investment management firm that indicates the industry may be “Equity Investment” or “Equity Investment Management” respectively so that the whole name would be “So and So Equity Investment Company Limited”.

(3) Business Scope of a Firm

The business scope of an equity investment firm or an equity investment management firm may be specified as “equity investment” or “equity investment management” respectively.

(4) Business Premises of a Firm

The business premises of an equity investment firm may be the same as that of the equity investment management firm that undertakes the investment management responsibility for it.

V. Clearly Define the Taxation Policies Regarding Equity Investment Firms in Shanghai

(1) Equity Investment Firms and Equity Investment Management Firms Shall Pay Taxes As Required by Law

Equity investment firms and equity investment management firms and their related parties shall take the initiative to perform their obligations to pay taxes according to the *Enterprise Income Tax Law of the People’s Republic of China*, the *Individual Income Tax Law of the People’s Republic of China* and other relevant laws and regulations.

(2) Clearly Define Taxation Regulations Applicable to Individual Members of Equity Investment Firms and Equity Investment Management Firms Set Up in Form of Limited Partnerships

For the operating profits and other profits earned by an equity investment firm or an equity investment management firm that is set up in form of a limited partnership, the partners shall be severally responsible for paying the income taxes.

Among the partners, the general partner that is an individual who is the executive of the limited partnership shall be charged individual income tax by reference to the taxable item “production and operating income of a sole proprietorship” on an excess progressive tax rate scale consisting of 5 grades from 5% to 35% according to the *Individual Income Tax Law of the People’s Republic of China* and the Implementing Regulations thereof.

For a limited partner that is an individual who is not an executive of the limited partnership, individual income tax shall be charged on the equity investment gains received by him from the limited partnership at the tax rate

of 24% by reference to the taxable item “interest, dividends and bonuses” according to the *Individual Income Tax Law of the People’s Republic of China* and the Implementing Regulations thereof.

VI. Protect the Interests of Investors to Equity Investment Firms

After the end of each accounting year, an equity investment firm shall promptly disclose its annual report to its investors, whether shareholders or partners, to fully inform them of the governance, operating, financial and other status of the firm. The financial accounting report contained in such an annual report shall be audited by an accounting firm.

To ensure the security of assets of partners, assets of an equity investment firm established in form of a limited partnership shall be placed on custody of a bank that operates custodian business.

VII. Encourage Equity Investment Firms to Achieve Regulated Development by Practicing Industry Self-Discipline

Equity investment firms in Shanghai are encouraged to form an industrial association to reinforce self-discipline of equity investment firms, achieve communication with government authorities, organize professional training on equity investment management expertise and conduct cooperation and exchange on different aspects of equity investment. The Office for Financial Services of Shanghai Municipality is the industry supervising authority for the industrial association of equity investment firms in Shanghai.

VIII. Make Good Use of the Market and Project Advantages in Shanghai to Provide Equity Investment Firms with a Trading Platform and Investment Opportunities

Equity interests in (or capital contributions made to) equity investment firms may be transferred at the ownership or other factors market of Shanghai by following specific measures to be separately formulated. The relevant government authorities will timely issue information on investment projects in Shanghai to provide equity investment firms with investment opportunities.

IX. Strengthen Propaganda and Guidance

The financial services, commercial administration, taxation and other relevant authorities of this municipality and also those on the district/county level shall, in light of their own respective duties, well carry out propaganda work for the development of equity investment firms in Shanghai and, in view of their actual needs, provide equity investment firms and equity investment management firms with guidance on commercial administration, taxation and other aspects to support healthy development of equity investment firms in this municipality.

In order to properly conduct the work of developing equity investment firms, the financial services, commercial administration, taxation and other relevant authorities of this municipality and also those on the district/county level will take the lead in offering support for the setting up of equity investment management firms in Shanghai and sponsoring the establishment of equity investment firms by equity

investment management entities that has a good market reputation inside or outside China.

The relevant authorities in Pudong New Area may formulate the measures for enhancing the development of equity investment firms and equity investment management firms in Pudong by reference to the provisions of this Circular, taking into account the overall supporting reform pilot scheme for Pudong.