

NEW CHINESE RULES TO PERMIT TRUE FOREIGN INVESTOR PARTICIPATION IN DOMESTIC PRIVATE EQUITY MARKET

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To Our Clients and Friends:

New Chinese investment rules greatly expand investment opportunities in China for foreign investors, and also allow for additional sources of capital for RMB-denominated funds. Until now, sponsors raising RMB-denominated funds have practically been required to raise capital solely from Chinese investors. New proposed rules will change this.

We have confirmed with a source in Shanghai that the Shanghai Municipal Government has received approval in principle from China's finance authorities to launch a pilot program (the "Program") for Qualified Foreign Limited Partners ("QFLPs") to invest in China's private equity and venture capital markets. According to news reports, the Beijing and Tianjin governments have also applied to participate in the Program but have not yet received approval. Detailed rules implementing the Program (the "Implementing Rules") are being drafted and are expected to be promulgated by early November.

We understand that under the proposed terms of the Program, foreign institutional investors meeting certain criteria may, after undergoing an approval process and obtaining a currency conversion quota, convert foreign currency into RMB and make equity investments in Chinese domestic RMB-denominated funds. According to the guidelines for the Program and subject to the Implementing Rules, the Program would allow domestic RMB-denominated funds with no more than 50% (a percentage subject to final approval) of capital from QFLPs to be treated as domestic funds not subject generally to foreign investment restrictions or investment approval processes.

Please contact us if you have any questions.

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