China's Private Equity Market

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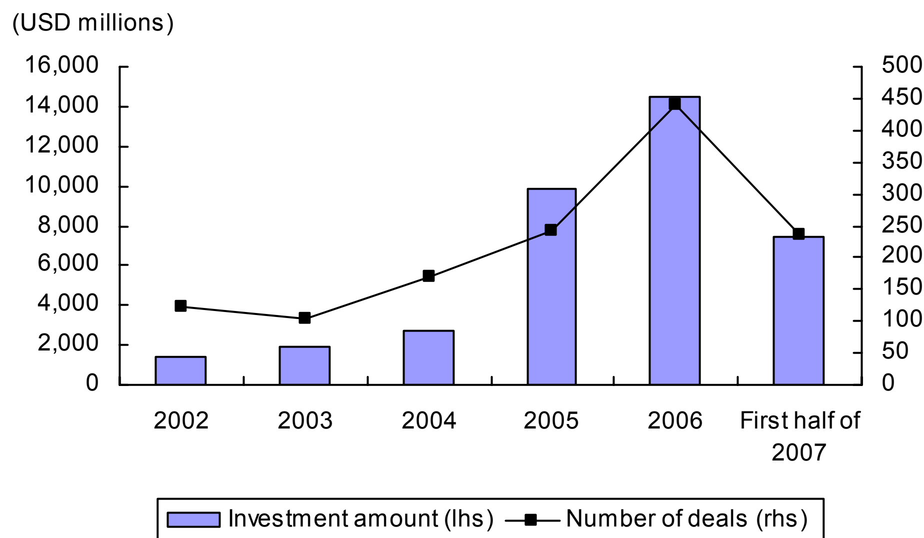
I. Growth in China's private equity market

China's private equity market is growing. The *Asian Venture Capital Journal*, a magazine specializing in private equity in Asia, estimates that investment in China's private equity market (including Taiwan) totaled $14.46 billion (roughly Rmb100 billion) in 2006, which represents growth by a factor of more than 10x over little more than four years. Investment appears to be running at about the same pace in 2007, with a total for the first six months of $7.42 billion (Figure 1).

Figure 1: Investment in China's private equity market



Note: Includes Taiwan
Source: Nomura Institute of Capital Markets Research, based on the *Asian Venture Capital Journal*

In this report, we look at changes in the private equity regulatory environment in China and at the status of private equity investment activity, primarily that of foreign private equity firms. We focus on the foreign firms because of the key role they play in China's private equity market, and also because the biggest risk in that market, especially for the foreign firms, comes from changes in government policy.

II. The development of China's private equity market

Probably the biggest risk in China's private equity market comes from changes in government policy. We examine below the extent to which changes in China's private equity-related laws and regulations have affected the development of private equity in China. Because China's capital markets have yet to fully develop, private equity has been primarily an offshore activity. China's capital markets have come a long way over the past several years, however, including by resolving problems related to non-tradable shares, introducing private equity-related laws and regulations, and developing domestic private equity funds.

1. Developments offshore (from the 1980s until the IT bubble collapse)

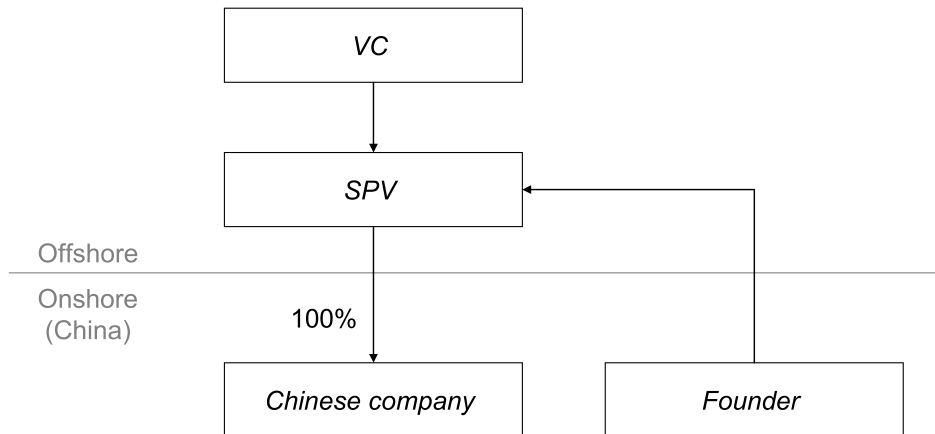
Private equity funds in China have developed in principal under government guidance. From the late 1980s until the mid-1990s, the funds were aimed more at supporting the development of science and technology, rather than at the development of capital markets.[1] China's first venture capital (VC) fund was established in 1985, and its first VC fund with a mix of domestic and foreign capital was established in 1989. VC funds had not yet established much of foothold at that time,

VC funds gradually began raising their presence in 1997. When China's IT firms started attracting attention, overseas VC funds started getting into the act. The "red-chip" listing (explained below) was created in 1999, wherein Chinese IT firms with VC funding were listed on the NASDAQ. One reason for this was that the criteria for listing on China's domestic exchanges were difficult to meet.

Ownership of a red-chip listing is transferred to a holding company, which is a special purpose vehicle (SPV) established in a tax haven such as the Cayman Islands by the founders of the domestic venture. At this point the domestic venture becomes a wholly foreign-owned enterprise in what is termed an "overseas restructuring." Next, the overseas VC fund invests in the SPV (increasing the SPV's capital), and then the SPV is listed on an overseas market (Figure 2). From the overseas VC fund's perspective, this is an offshore investment from offshore. When an overseas VC firm invests in an SPV, its stake usually includes some preferential rights.

1 Li and Li (2008)

Figure 2: Structure of the offshore investment



Note: SPV stands for special purpose vehicle. The founders of the Chinese firm create an SPV offshore, and that SPV invests back into the Chinese firm (see main text).
Source: Nomura Institute of Capital Markets Research, based on materials from DLA Piper.

Because the domestic venture becomes a foreign-invested enterprise using this method, in those industry sectors where foreign investment is restricted or prohibited (including telecommunications and the Internet), the SPV creates a separate holding company in China, and the holding company and domestic venture firm sign a commercial agreement (to provide services, for example), thereby providing a vehicle to capture the domestic venture's profits.

Red-chip listings reached a peak during the global IT boom of 1999-2000, and many of them were quite successful. A number of high-tech firms were on the verge of being created during this time, but the whole process was set back by the bursting of the dot.com bubble in the US.

China's private equity sector shrank in 2001-3 following the IT boom's collapse. A number of problems then came to the surface, and in January 2003 the Chinese government announced its *Rules Governing Foreign-invested Venture Capital Enterprises* (implemented on 1 March 2003; explained below). These rules are still used today.

Then in January 2004, capital market reforms were given a major boost when *Some Opinions of the State Council on Promoting the Reform, Opening and Steady Growth of Capital Markets* (*Nine Opinions*) was announced. The *Nine Opinions* included a proposal to build multi-level capital markets, and wound up promoting both VC investments and the establishment of the Growth Enterprise Market.

In response the National Development and Reform Commission, together with 10 other government entities, jointly announced the *Provisional Rules Governing Administration of Venture Capital Enterprises* (implemented on 1 March 2006; explained later).

Meanwhile, the government's policies on overseas listings were in a constant state of flux. When the IT bubble collapsed in 2000, the China Securities Regulatory Commission (CSRC) began requiring a no-action letter for red-chip listings, but later rescinded this requirement. In 2005, amid complaints that high-quality assets were being drained off overseas, the State Administration of Foreign Exchange (SAFE) issued notices aimed primarily at controlling illegal funds flows, both inbound and outbound (*Order No. 11* and *Order No. 29*). Although this had an adverse impact on overseas listings, that same year SAFE issued Order No. 75, enabling China residents to procure funding through overseas SPVs, and red-chip listings resumed.

2. Capital market reforms and the encouragement of domestic listings

China's capital market reforms, including reforms to non-tradable shares began in 2005. These reforms were aimed at addressing the problem that holders of non-tradable shares (including shares in corporations) were unable to benefit from the increase in share prices on the tradable market. In 2006, the fairly restrictive *Securities Law* and *Company Law* were revised and made more accommodative. These capital market reforms created a platform upon which China's private equity market could develop.

The Law on Partnership Enterprises was revised in August 2006 (and made effective in June 2007; see details below). The change formally recognized venture capital firms formed under the general limited partnership format commonly used overseas, and also addressed the issue of double taxation. A draft version of the *Administrative Measures for Initial Public Offerings and Listing on the Second Board* was published in March 2008 (see details below). The establishment of a Growth Enterprise Market would make it relatively easier to list a venture firm in China. As the government increased its efforts to foster the development of private equity funds within China, it also began reinstituting stricter treatment of overseas listings.

On 8 September 2006, the Ministry of Commerce and other government entities announced *Rules Governing Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (*Directive No. 10*), which required that domestic companies obtain approval from the Ministry of Commerce to establish an SPV overseas. In addition, an SPV using its equity to merge with or acquire a domestic firm must obtain approval from first the Ministry of Commerce and then the CSRC, and if it does not list within a year, it must restore the domestic firm to its original equity composition. These rules have effectively once again closed off the route to red-chip listings. The government's motivation in doing so was likely to prevent China's best companies/assets from listing overseas, which would put them out of the reach of the CSRC and also reduce tax revenues, and to encourage them to instead list domestically, and thereby strengthen China's own capital market.

3. Recent trends

Order No. 10 of 2006 made red-chip listings more difficult, but such listings were still easy for those companies that had begun the process prior to *Order No. 10* going into effect. There is also speculation that if the A share markets continue to weaken, or the establishment of the Growth Enterprises Market (GEM) winds up being delayed, it will make it more difficult to raise venture capital domestically, which in turn may encourage the government to deregulate the market again.[2] Consequently, we expect overseas listing to remain an option for raising funds, although over the longer term, startups will probably increasingly seek funding from domestic sources and list their shares on domestic markets.

Foreign private equity firms have accounted for the majority of domestic private equity investments thus far, but domestically-capitalized private equity funds should also start making news. These include the "industrial investment funds" initiated by local governments, one example of which is the Bo Hai Industrial Investment Fund promoted by the City of Tianjin. The fund, established at the end of 2006 with assets of Rmb6.08 billion, actually began investing in 2007, and now has assets of Rmb20 billion. Second are the private equity funds established by China's private sector. Although previously on a small scale, a large number of new ventures have been formed as limited liability partnerships in response to the 2007 revision of the *Law on Partnership Enterprises*.

Third, because of the increased difficulty in obtaining overseas listing for the companies they invest in, a number of the foreign private equity firms are starting to consider domestic listings. One way to achieve this would be to convert the subject domestic venture into a limited liability foreign invested company, and then list it on a domestic exchange. Another approach would be to establish a domestic Rmb fund using foreign private equity. Dozens of Rmb funds have already been established as joint ventures between foreign investors and local governments.[3]

In March 2008, the Ministry of Commerce announced its *Guiding Opinions on the Work of Absorbing Foreign Investment Nationwide* in 2008, where it proposed more innovative and greater use of foreign capital. Specific proposals included (1) promoting the establishment of VC firms by foreign companies and strengthening exit mechanisms for recovering venture capital investments and (2) encouraging the domestic listing of foreign-invested companies that meet the requirements to do so. In step with plans to introduce a GEM, moves are underway to foster development of a domestic private equity market.

[2] This paragraph is based on interviews with private equity funds.
[3] 2 January 2008 edition of *First Financial Daily*

III. Private equity-related laws and regulations

1. *Rules Governing Foreign-invested Venture Capital Enterprises* (2003)

The *Rules Governing Foreign-invested Venture Capital Enterprises* regulate the establishment of VC firms within China using foreign capital. Chapter 6, Article 7 of said regulations includes the requirements for such establishment (see Figure 3).[4] These regulations effectively laid the groundwork for limited liability partnerships back in 2003, prior to revision of the *Law on Partnership Enterprises*.

Foreign-invested VC firms can be either unincorporated or incorporated (Article 4). All investors in unincorporated VCs have joint and several liability with respect to the venture's obligations. However, they are able to enter into an investment agreement that states that if the unincorporated VC does not have sufficient assets to pay back its debt, its "requisite investors"(or general partners (GPs)) have joint and several liability, but other investors' liability is limited to the amount of their investment. The liability of each investor in an incorporated VC is already limited to the amount of their investment (Article 4). In fact, nearly all of the foreign-invested VC funds established thus far are based on joint venture (cooperative) agreements.[5]

A foreign-invested VC firm can outsource day-to-day management to either a venture capital management firm or to another VC firm (Article 21). The venture capital management firm hired can be a domestic, foreign-invested, or overseas firm (Article 21).

Investors can recover the funds they have invested through various means, including by selling their stake in the venture. Specifically, they can (1) transfer their ownership to another investor; (2) have the venture agree to buy back their shares; (3) sell their shares on a domestic stock exchange after the venture is listed on that exchange; or (4) use some other legally approved method (Article 34).

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4 In this case, the fund is treated as a domestic entity.
5 From DLA Piper (2008).

Figure 3: *Rules Governing Foreign-invested Venture Capital Enterprises* (excerpts)

Article 6 (excerpt)	The following are prerequisites for establishing a new venture capital (VC) firm.
	The number of investors must be at least two and no more than 50, at least one of which must be a "requisite investor (GP)" as described in Article 7. Investors must commit to a minimum equity investment of USD10 million for a non-incorporated VC firm and USD5 million for an incorporated VC firm. Investors who are not requisite investors must invest a minimum of USD1 million. Foreign investors must invest with freely convertible currency, and Chinese investors must invest with Renminbi. Except when management of business activity is outsourced to a venture capital management firm, the VC firm must have at least three employees with specialized experience in venture investments.
Article 7 (excerpt)	Requisite investors shall meet the following conditions.
	Their primary business must be venture investing. Their total cumulative capital under management for the three years preceding application must be at least USD100 million, of which at least USD50 million must have already been used for venture investing. For requisite investors who are Chinese, total cumulative capital under management for the three years preceding application must be at least Rmb100 million, of which at least Rmb50 million must have already been used for venture investing. At least three of the managers must have at least three years experience in VC firms.

Source: Nomura Institute of Capital Markets Research, based on *Rules Governing Foreign-invested Venture Capital Enterprises*

In a non-incorporated VC firm, either each investor individually pays corporate income tax (at a rate of 25%) as stipulated under national tax laws, or the unincorporated VC firm pays the combined tax for all investors (Article 35). An incorporated VC firm pays a corporate income tax of 25%. This creates the problem in an incorporated VC firm of double taxation, because investors are paying tax at both the corporate and individual income tax levels. That said, 70% of the amount invested in an incorporated, high-tech smaller business (unlisted, with investments lasting at least two years) can be deducted from taxable income in the case of an incorporated VC firm.

2. *Provisional Rules Governing Administration of Venture Capital Enterprises* (2006)

The *Provisional Rules Governing Administration of Venture Capital Enterprises* establishes rules for VC firms. Under that law, the companies that VC firms invest in must be domestic growth companies that are not listed publicly (Articles 2 and 14; this excludes unsold shares after the target company is listed). The conditions for establishing a VC firm according to that law are shown in Figure 4.

Figure 4: Conditions for establishing a VC firm (excerpts)

- Actual paid-in capital must not be less than Rmb30 million, or alternatively, paid-in capital must not be less than Rmb10 million initially, and all investors shall agree that within five years after registration, paid-in capital must be enhanced so as to not be less than Rmb30 million.
- The number of investors shall not exceed 200, and the number of investors in VC firms established as limited liability companies shall not exceed 50. The VC firm investment from each investor shall not be less than Rmb1 million. All investors must contribute capital in the form of legal tender.
- At least three high-level managers with two or more years experience in venture investments or related areas shall take responsibility for investment management. When outsourcing investment management services to another VC firm or a venture capital management advisory firm serving as a management advisory entity, that entity must have at least three high-level managers with two or more years experience in venture investments or related areas, and shall take responsibility for investment management.

Source: Nomura Institute of Capital Markets Research, based on Article 9 of *Provisional Rules Governing Administration of Venture Capital Enterprises*

3. *Law on Partnership Enterprises* (2007)

The Law on Partnership Enterprises provides a legal basis for limited partnership corporations. Partnership enterprises include both general partnerships and limited partnerships established within China by a natural person, juridical person, or other organization. Limited partnership enterprises are formed by general partners and limited partners, with the general partner bearing unlimited liability for the debts of the partnership enterprise, and the limited partners bearing liability for said debts up to the amount of their investment (Article 2). Each partner pays their own income taxes (Article 6), thereby avoiding the problem of double (corporate and personal) taxation.

4. *Administrative Measures for Initial Public Offerings and Listing on the Second Board* (Draft, 2008)

A draft version of the *Administrative Measures for Initial Public Offerings and Listing on the Second Board* was published in March 2008. Establishing a GEM would fill a gap in China's capital markets by providing a market that newer growth companies can use to access capital. According to the draft measures, listing requirements for the GEM would be more lenient than those for the main board (Figure 5).

Trading rules and other details for the GEM are currently being worked out. To ensure market stability, consideration is apparently being given to restricting the participation of small investors, introducing mechanisms to limit price moves and trading, strengthening the oversight of listed companies by the sponsoring securities companies, and establishing lockup periods for controlling shareholders following listings.

Figure 5: Comparison of listing standards

Main board (Measures for the Administration of Initial Public Offering and Listing of Stocks)	Administrative Measures for Initial Public Offerings and Listing on the Second Board (Draft)
* A limited liability company with at least three years doing business since establishment (Article 9)	* A limited liability company with at least three years doing business since establishment (Article 8)
* No substantial change in the primary business content, the directors, or senior management, and no change in the effective controlling shareholder, within the past three years (Article 12)	* No substantial change in the primary business content, the directors, or senior management, and no change in the effective controlling shareholder, within the past two years (Article 11)
* Positive net profit for each of the past three years and cumulative net profit of at least Rmb30 million over the past three years, using the lower of net profit before extraordinary items and net profit after extraordinary items (Article 33)	* Positive net profit for each of the past two years, cumulative net profit over the past two years of no less than Rmb10 million, and continued profit growth
* Cumulative cash flow over the past three years of no less than Rmb50 million, or cumulative operating revenue over the past three years of no less than Rmb300 million (Article 33)	Alternatively, net profit (the lower of net profit before extraordinary items and net profit after extraordinary items) over the past year of no less than Rmb5 million, operating revenue over the past year of no less than Rmb50 million, and a growth rate in operating revenue over the past two years of no less than 30% (Article 12)
* Intangible assets (excluding concessions for land use, cultivation, and mining/drilling) at the end of the immediately prior period of no more than 20% of net assets (Article 33)	* Net assets prior to issuance shall be no less than Rmb20 million (Article 12)
* Total capital prior to issuance shall be no less than Rmb30 million (Article 33).	

Source: Nomura Institute of Capital Markets Research, based on *Measures for the Administration of Initial Public Offering and Listing of Stocks* and on *Administrative Measures for Initial Public Offerings and Listing on the Second Board* (Draft)

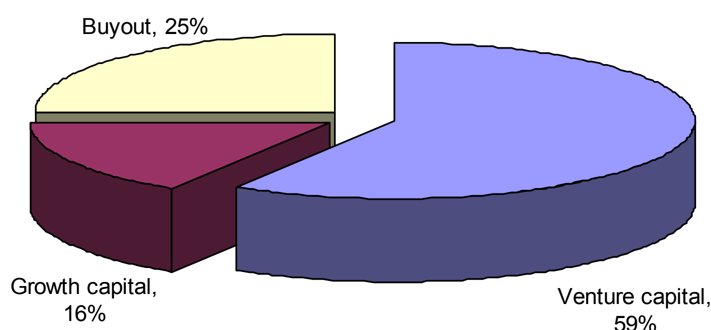
IV. Private equity investment in China today

1. Methods of investing

The traditional approach to earning profit from a private equity investment in China is to make a venture capital investment of around $5-$15 million in a company that provides goods or services to the growing domestic market, and then take the company public with an IPO (Exhibit 6).

One reason for venture capital being one of the primary means of investing in China's private equity market is the Chinese government's policy fostering smaller tech-sector companies, since promoting venture capital investment is one way to achieve that. Another probable reason for the large presence of venture capital is China's embrace of the entrepreneurial spirit.

Figure 6: Methods of investing in private equity in China (based on investment amount)



Note: Private equity investments in 2006
Source: Nomura Institute of Capital Markets Research, based on the Asian Venture Capital Journal

2. Uncovering investment opportunities

Zhongguancun, in the Beijing suburbs, is a hotbed of private equity investment opportunities in China. Known as China's Silicon Valley, Zhongguancun has a large concentration of high-tech ventures. With universities like Tsinghua University and Peking University, as well as government research facilities, nearby, its integration of industry with academia and government is conducive to the development of new ventures. Consequently, Zhongguancun also has a heavy concentration of VC firms that invest in the growth companies based there.

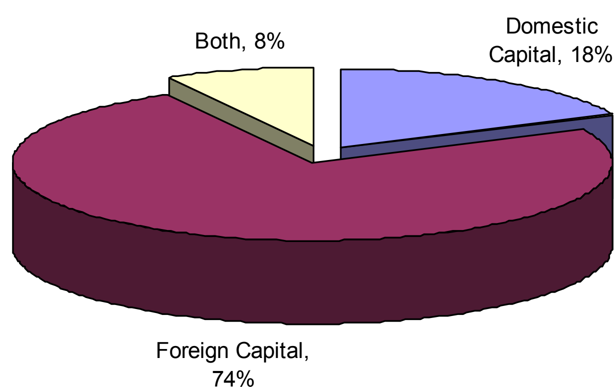
There are numerous examples of private equity opportunities outside of Zhongguancun based on various types of personal connections, including joint investments with other private equity firms, investments with entrepreneurs that have attracted attention for a while, and informal introductions from government officials. Nearly all of the professionals working at the private equity firms visited by the author of this report studied at US universities, and it seems that they have also found investment opportunities through connections they made while a student. Fewer opportunities are introduced by investment banks in China than in the US and Europe, and fewer projects are competed over by more than one private equity firm.

3. Investment by overseas private equity firms

Many of the private equity firms investing in China are based overseas. According to Zero2IPO, 74% of venture capital investments (on a value basis) are made with foreign capital, an indication of the strong presence that foreign private equity firms have in China's market (Figure 7). One likely reason for this is that the crowding of European and US private equity markets has created more competition for specific projects, thereby driving European and US private equity firms to step up their private equity investment activity in emerging markets like China and India. Another possible

reason is that local private equity firms lag behind in both access to funding and skilled personnel.

Figure 7: Breakdown of venture capital investments (based on investment amount)



Note: Venture capital investments in 2006
Source: Nomura Institute of Capital Markets Research, based on Zero2IPO

Nevertheless, when foreign private equity firms invest in China, they must deal with the inescapable problems of regulation and government intervention. One recent example of the government intervening to block the acquisition of a Chinese company by a foreign private equity firm was the attempted buyout of Xugong Group Construction Machinery by the Carlyle Group, a leading US private equity firm.

In October 2005, the Carlyle Group agreed to purchase, at a price of USD375 million, an 85% stake in Xugong Group Construction Machinery, a company owned by the city of Xuzhou in Jiangsu province and China's largest manufacturer of construction machinery.

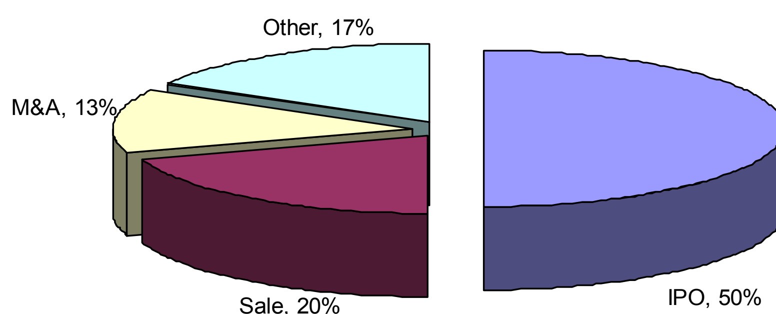
But in June 2006, in response to domestic critics warning about foreigners acquiring core manufacturing companies, the Chinese government established a new rule requiring approval by the relevant organization under the State Council whenever transferring management rights of large-scale manufacturing operations to foreign ownership. Then in September 2006, the government implemented rules governing the acquisition by foreign investors of domestic companies. The new rules, which replaced provisional regulations on the acquisition of domestic companies by overseas investors, require the submission of a report to the Ministry of Commerce when acquiring companies that operate in key industries or own famous brands. Because "key industries" and "famous brands" are not clearly defined terms, the Chinese government has the ability to select from among specific projects those acquisitions by overseas firms that would be beneficial to China. The Carlyle group responded by lowering its stake and making other compromises aimed at getting approval from the Chinese government, but the deal was finally abandoned in July when Xugong Group Construction Machinery decided it was no longer interested.

4. Exit strategy

IPOs are the primary exit strategy for private equity investments in China (Figure 8). We attribute this to (1) the company receiving the investment preferring not to be sold and (2) entrepreneurs, having heard the success stories, wanting to become wealthy from an IPO.

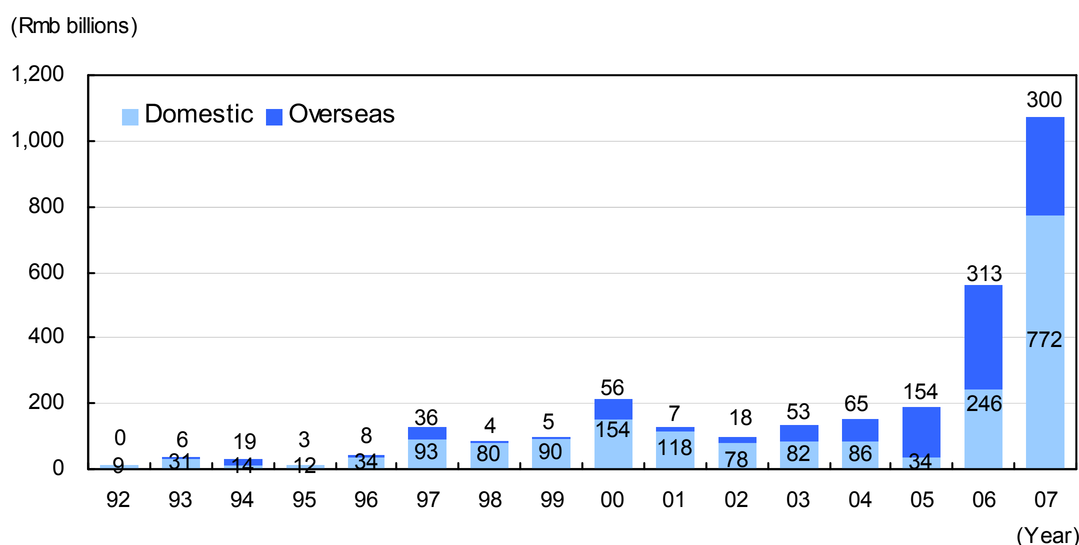
The number of Chinese companies undergoing an IPO has consistently risen since 2002, despite the freeze on domestic IPO activity from April 2005 until May 2006, and the funds raised by Chinese companies on stock markets set a new all-time high in 2006 and again in 2007. It is notable that more than half of the equity financing raised in both 2005 and 2006 came from overseas markets (Figure 9). Some high profile examples include the outdoor advertising firm Focus Media and the Internet portal Baidu, both of which listed their shares on NASDAQ in the US, and the online shopping company Alibaba, which listed on the Hong Kong Stock Exchange (Figure 10). Since H2 2006, however, the Chinese government has strongly discouraged Chinese companies from conducting their IPOs on overseas markets, based on the idea of fostering growth of domestic markets and preventing an overseas exodus of quality assets. Within this context, it will be interesting to watch the development of the GEM, the new market for startups scheduled to be created at the Shenzhen Stock Exchange.

Figure 8: Exit strategies for China's private equity investment (by case)



Note: Based on the 152 exits from private equity in 2006
Source: Nomura Institute of Capital Markets Research, based on Zero2IPO

Figure 9: Funds raised from the stock market by Chinese companies



Source: Nomura Institute of Capital Markets Research, editors, "*Chugoku Shouken Shijou Taizen*" (All about the Chinese securities market), Nihon Keizai Shimbun Sha, 2007

Figure 10: High-profile examples of exits from private equity investment in China

	Listing date	Exchange	Offering price (a)	Initial price (b)	Increase (b/a)
Focus Media	13 July 2005	Nasdaq	US$17	US$20.20	20%
Baidu	5 August 2005	Nasdaq	US$27	US$122.54	350%
Alibaba	6 November 2007	Hong Kong Stock Exchange	HK$13.50	HK$30	120%

Source: Nomura Institute of Capital Markets Research, based on various newspaper articles

V. Sectors receiving private equity investment in China

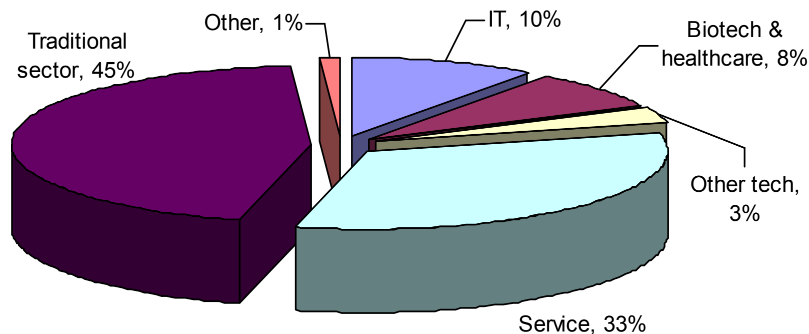
Figure 11 shows a breakdown of private equity investment in China by investment amount. These investments include a mix of approaches, including venture capital, growth capital, and buyout. In general, the smaller the investment, the higher is the percentage of high-tech firms, and the larger the investment, the higher is the percentage of traditional sectors such as real estate, raw materials, household goods, and automobiles. The figures indicate that a large number of ventures in China are Internet related, as was true in the past with such companies as Baidu and Alibaba.

Because the Chinese government has made fostering the development of information technology and other high-tech industries a priority, a large number of private equity investments, especially venture capital investments, have been in IT-related sectors. The IT sector is still a primary recipient of private equity investment in China, but because of the collapse of the IT bubble and the expansion of the domestic consumer market resulting from rapid growth in China's per capita GDP

(Figure 12), private equity investment has been shifting to companies that provide goods and services to domestic consumers (companies that are primarily in the traditional sectors noted in Figure 11).

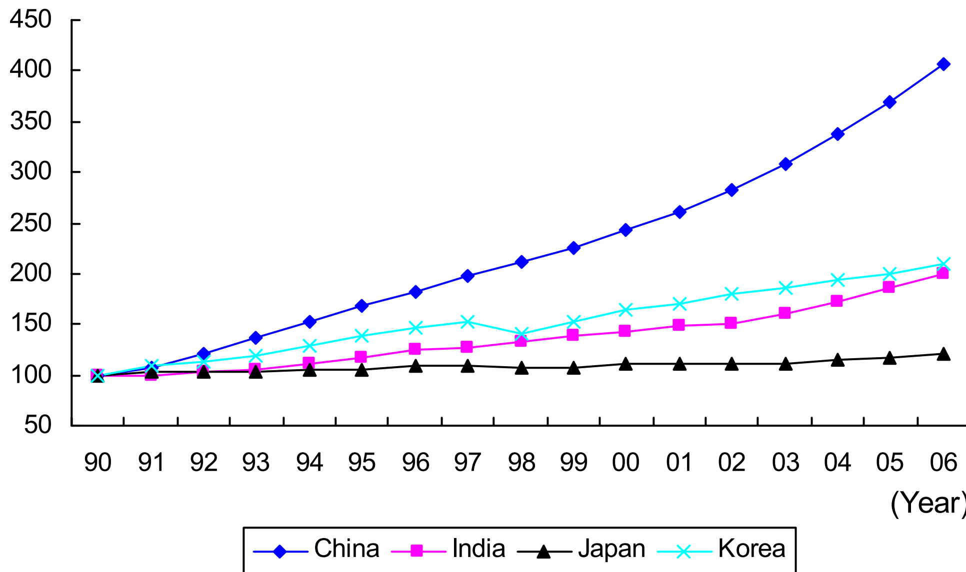
Outside of IT, the sectors that are attracting the most attention are education, clean energy, biotechnology, and healthcare. Because of China's one-child policy, per capita education spending has risen sharply, and this is drawing investments into the education sector, which includes preschool education, cram schools to prepare for school entrance examinations, vocational training schools, and language schools. Most recently, interest seems to be focused on online learning and other educational services that leverage the Internet. In the clean energy segment, there have been some notable investments in solar energy, in part owing to the seriousness of environmental pollution associated with China's industrialization. The rising awareness of health, the aging of China's population, and the national policy of promoting growth in that sector has resulted in an inflow of investments into companies in the biotechnology and healthcare sectors, including medical equipment manufacturers, hospital chains, and companies that provide outsourced R&D for overseas pharmas.

Figure 11: Sectors receiving private equity investment in China (based on investment amount)



Note: Data covers 453 investments totaling $14.78 billion in 2006
Source: Nomura Institute of Capital Markets Research, based on Zero2IPO

Figure 12: Per-capita GDP growth rates in Asia



Note: Growth rate is indexed to each country's nominal GDP in 1990
Source: Nomura Institute of Capital Markets Research, based on World Bank data

One notable aspect of China's private equity investment is the large amount of investment in companies with Chinese versions of business models that have worked in the US. Focus Media, Alibaba, and Baidu are three high-profile examples of private equity deals in China, and nearly all of the 15 private equity firms in China that we visited emphasized their participation in the early stages of investment in one of those three. Alibaba could be viewed as the Chinese version of eBay, and Baidu the Chinese version of Google. As shown by these examples, having innovative technology is less germane for companies receiving private equity investment in China than is having the ability to quickly provide convenient products and services to China's giant domestic market. Whereas, internet related business in the U.S. fits this criteria.

VI. Future outlook

Over the long term, we expect China's economy to continue to grow, and look for a continued succession of new companies with a strong entrepreneurial spirit. As the infrastructure for China's domestic capital markets, including private equity-related laws and regulations, is put in place, conditions will become more favorable for the development of China's private equity market.

On the other hand, we still think that the biggest risk in making private equity investments in China is the possibility of the authorities changing either their rules or the way they are applied. The traditional method for exiting a private equity investment has been an IPO on an overseas market, but with the government having adopted policies promoting listing on domestic markets, and with the pending

establishment of the GEM, we expect China's private equity market to turn more to domestic IPOs. During stock market corrections like the one seen recently, however, we do not rule out the possibility that the authorities may have to revise their policy of favoring listings on domestic markets in order to improve stock market supply-demand.

Because of this, we think it is important to keep a close eye on China's regulatory trends when pursuing private equity investments in China.

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