VENTURE CAPITAL LAW IN CHINA

China’s venture capital market is not just the world’s largest and fastest developing market, it also has the unique distinction of being engineered through heavy governmental intervention. This book breaks new ground by examining and testing established legal theories regarding the law of venture capital through the lens of the Chinese venture capital market. Using a hand-collected dataset of venture capital agreements, interviews with practitioners, and Chinese court judgments, it provides a comprehensive and insightful analysis of the Chinese venture capital market from the legal perspective. Topics covered include the roles of law and governmental intervention in developing the market, the state of investor protection, unique contractual developments, and exits of venture capital investments. By providing an in-depth comparative analysis against the American venture capital market, it provides critical context and makes the Chinese venture market accessible. It is an invaluable resource for venture capital scholars, policymakers, and practitioners.

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International Corporate Law and Financial Market Regulation

Corporate law and financial market regulation have major implications for how the modern economy is organized and regulated and for how risk is managed and distributed – domestically, regionally and internationally. This Series seeks to inform and lead the vibrant scholarly and policy debate in this highly dynamic area by publishing cutting-edge, timely and critical examinations of the most pressing and important questions in the field.

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VENTURE CAPITAL LAW
IN CHINA

LIN LIN

National University of Singapore
To Xudong, Yuexin, Yide, and my parents
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The inspiration for this book stemmed from designing and teaching three courses at the Faculty of Law of the National University of Singapore (NUS): Alternative Investments; Private Equity and Venture Capital: Law and Practice; and Chinese Commercial Law.

The importance of China’s venture capital market has grown as rapidly as its size. It is now the fastest growing and second largest market in the world. However, there is no academic textbook focussing on the law and practice of venture capital in China. Furthermore, China’s venture capital market has the unique distinction of being one of very few engineered venture capital markets in the world. Despite the immense potential for research, there remains little literature on the role of law and governmental intervention in developing the Chinese venture capital market. This lack of material has been compounded by the difficulty of accessing source materials in Chinese and a general unfamiliarity with Chinese bureaucracy. The fast pace of regulatory change and market development in China adds a further element of complexity for anyone seeking to study and understand the Chinese venture capital market.

This book seeks to fill the gap in the literature by providing sophisticated and systematic case studies of China’s venture capital market, examining how China created the world’s second largest venture capital market within a short period of time, analysing how the growth of a venture capital market may be sustained, and illustrating the lessons which may be extracted from this crucial, but yet to be completely studied, experience from China. It also aims to break new ground by examining and testing established legal and economic theories and assumptions regarding venture capital through the lens of the Chinese venture capital market. Relying on my professional experience in China, the United States, and Singapore, this book provides a critical examination of the extensive hand-collected data set and reveals the special characteristics of the Chinese venture capital market and the peculiar legal problems within the Chinese market. Adopting a comparative...
perspective between China and the United States, this book aims to make
the Chinese venture capital market accessible for all scholars, policy
makers, and practitioners.

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I have endeavoured to state the law as of 1 June 2020.
# ABBREVIATIONS

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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AGM</td>
<td>annual general meeting</td>
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<td>AIC</td>
<td>Administration for Industry and Commerce</td>
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<td>AIGF</td>
<td>Angel Investment Guidance Fund</td>
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<td>AMAC</td>
<td>Asset Management Association of China</td>
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<tr>
<td>CBIRC</td>
<td>China Banking and Insurance Regulatory Commission</td>
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<tr>
<td>CBRC</td>
<td>China Banking Regulatory Commission</td>
</tr>
<tr>
<td>CIETAC</td>
<td>China International Economic and Trade Arbitration Commission</td>
</tr>
<tr>
<td>CIRC</td>
<td>China Insurance Regulatory Commission</td>
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<td>CPC</td>
<td>Communist Party of China</td>
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<td>CSRC</td>
<td>China Securities Regulatory Commission</td>
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<td>DARPA</td>
<td>Defense Advanced Research Projects Agency</td>
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<td>DCS</td>
<td>dual-class share</td>
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<td>DRULPA</td>
<td>Delaware Revised Uniform Limited Partnership Act</td>
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<td>EFG</td>
<td>Shanghai Technology Entrepreneurship Foundation for Graduates</td>
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<td>EJV</td>
<td>equity joint venture</td>
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<td>FOF</td>
<td>fund of funds</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>GEM</td>
<td>Growth Enterprise Market</td>
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<td>GGF</td>
<td>government guidance fund</td>
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<td>GP</td>
<td>general partner</td>
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<td>HKEx</td>
<td>Hong Kong Exchanges and Clearing Market</td>
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<td>ICO</td>
<td>initial coin offering</td>
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<td>ILPA</td>
<td>Institutional Limited Partners Association</td>
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<td>IPO</td>
<td>initial public offering</td>
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<tr>
<td>IRR</td>
<td>internal rate of return</td>
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<tr>
<td>JSC</td>
<td>joint stock company</td>
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<tr>
<td>LBO</td>
<td>leveraged buyout</td>
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<td>LLC</td>
<td>limited liability company</td>
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<td>LP</td>
<td>limited partner</td>
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<tr>
<td>LSE</td>
<td>London Stock Exchange</td>
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<tr>
<td>M&amp;A</td>
<td>merger and acquisition</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
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<td>MOFCOM</td>
<td>Ministry of Commerce</td>
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LIST OF ABBREVIATIONS

NASA National Aeronautics and Space Administration
NASDAQ National Association of Securities Dealers Automated Quotations
NDRC National Development and Reform Commission
NEEQ National Equities Exchange and Quotations
NSSF National Social Security Fund
NVCA National Venture Capital Association
NYSE New York Stock Exchange
NZVIF New Zealand Venture Investment Fund
OTC over-the-counter
PBOC People’s Bank of China
PE private equity
P/E ratio price-to-earnings ratio
PEL Partnership Enterprise Law
PRC People’s Republic of China
QFLP Qualified Foreign Limited Partner
RDA regionally decentralised authoritarianism
RMB renminbi
ROFR right of first refusal
RQFLP RMB Qualified Foreign Limited Partner
SASAC State-owned Assets Supervision and Administration Commission
SAFE State Administration of Foreign Exchange
SBIR Small Business Innovation Research
SCSC Securities Committee of the State Council
SCGC Shenzhen Capital Group Co. Ltd
SGX Singapore Exchange
SME small and medium-sized enterprise
SME Board Small and Medium-sized Enterprise Board
SOE state-owned enterprise
SSE Shanghai Stock Exchange
STA State Taxation Administration
STAQ Securities Trading Automated Quotation
STAR Market Science and Technology Innovation Board
SVCIGF State Venture Capital Investment Guidance Fund
SZSE Shenzhen Stock Exchange
UK United Kingdom
ULPA Uniform Limited Partnership Act
UPA Uniform Partnership Act
US United States
USD US dollar
VAM valuation adjustment mechanism
VC venture capital
VIMA Venture Capital Investment Model Agreements
WFG Wagnisfinanzierungsgesellschaft