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# Private Equity 2025

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## **China: Trends & Developments**

Steven Yu, Jeffrey Zhu, Jia Guo and Stella Jiang  
Global Law Office



# CHINA

## Trends and Developments

### Contributed by:

Steven Yu, Jeffrey Zhu, Jia Guo and Stella Jiang  
Global Law Office

**Global Law Office (GLO)** dates back to 1979, when it became the first law firm in the PRC to have an international perspective, fully embracing the outside world. With more than 600 lawyers practising in its Beijing, Shanghai, Shenzhen and Chengdu offices, GLO is today known as a leading Chinese law firm and continues to set the pace as one of the PRC's most innovative and progressive legal practitioners, including in the private equity and venture capital sector. Not only does GLO have vast experience in

representing investors, but it has also extensively represented financing enterprises and founders. With a deep understanding of the best legal practices and development trends of investment terms, the team at GLO knows how to find the most effective balance of interests in terms of negotiation so as to realise all-win results. Vast practical experience and industrial background knowledge enable GLO to enhance value in every step of the client investment cycle.

## Authors



**Steven Yu** is a partner of Global Law Office based in Shanghai. With more than 20 years of experience at leading international and Chinese firms, Steven has focused his practice on private equity/venture capital, M&A,

fund formation and capital market transactions across a wide spectrum of industries, including the manufacturing, auto, chemical, clean energy, logistics, TMT, fintech, consumer staple, pharmaceutical/healthcare, commercial property, entertainment and sports, and education sectors. Steven has long been recognised as a leading or highly ranked/recommended lawyer in the private equity/venture capital areas by Chambers, among several other legal directories.



**Jeffrey Zhu** is a partner of Global Law Office based in Shanghai and specialises in PE/VC, corporate and M&A, regulatory and compliance, banking and finance. Mr Zhu works with prominent multinational

corporations and PRC enterprises in the fields of internet, financial services, hotels, education, advertising, automobiles, consumer products, pharmaceuticals and petrochemicals. He has

advised companies on their incorporation to IPO, sale or merger, as well as their daily operation. Mr Zhu's recent experience in PE/VC and M&A includes representing a major semiconductor investment fund in its exit from a portfolio company through a merger with a listed company, and advising a pre-IPO company on the restructuring of its cross-border business.



**Jia Guo** is a partner of Global Law Office based in Beijing. Jia specialises in the private equity and venture capital, M&A, capital markets, asset management and general corporate practice areas. Industries with which

he has been involved include energy and resources, real estate, infrastructure, education, advertising and media, telecoms, hi-tech, internet, financial services, big data, entertainment, and pharmaceutical and medical services. In the M&A, private equity and venture capital areas, Jia has advised on more than 80 cases, representing both financial and industrial investors and fundraising companies. In capital markets, his practice experience also includes Hong Kong listings, US listings, A-share listings, NEEQ listings and debt offerings.



Contributed by: Steven Yu, Jeffrey Zhu, Jia Guo and Stella Jiang, **Global Law Office**



**Stella Jiang** is a partner of Global Law Office based in Shanghai and specialises in PE/VC, M&A, foreign direct investment and general corporate areas. Notably, Ms Jiang has extensive experience in internet data centre practice and offers one-stop services for internet data centre clients, including financing, offshore listing, assets and equity acquisition, and general corporate and compliance matters. Ms Jiang is also experienced in PE/VC investment and has represented various leading PE/VC funds in their onshore and offshore investments.

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## Global Law Office

35 & 36/F Shanghai One ICC  
No. 999 Middle Huai Hai Road  
Xuhui District Shanghai  
200031  
China

Tel: +86 21 2310 8288  
Fax: +86 21 2310 8299  
Email: [global@glo.com.cn](mailto:global@glo.com.cn)  
Web: [www.glo.com.cn](http://www.glo.com.cn)



环球律师事务所  
GLOBAL LAW OFFICE

## Requirements on Capital Contribution Under China's New Company Law

### *Time limit for capital contribution*

The revised Company Law of the People's Republic of China which came into effect on 1 July 2024 ("New Company Law") requires shareholders of a limited liability company (LLC) established thereafter to make capital contributions in full within five years from the establishment date of the company, and also requires an LLC established before 1 July 2024 ("Existing LLC") to adjust its capital contribution schedule in the articles of association (AoA) to meet the new timeline requirement. For capital subscribed in an LLC before 1 July 2024, supplementary rules of the New Company Law generally require that, if the capital contribution deadline for an LLC is later than 30 June 2032, such deadline shall be adjusted to a date no later than 30 June 2032 and the adjustment shall be made before 30 June 2027.

Based on our practice experience, for an Existing LLC whose capital contribution deadline in its AoA is due before 1 July 2024, local market supervision authorities (MSAs) would generally allow the extension of capital contribution timelines, while the new deadline shall also be within five years from the registration date of such amendment for capital contribution deadline in the AoA. For other Existing LLCs whose capital contribution deadlines are not due yet, although supplementary rules allow a deadline as late as 30 June 2032, some MSAs (eg, in Shanghai, Hangzhou) still require such LLCs to adjust the deadline to be within five years from the registration date of such amendment in the AoA. It is suggested for investors to require their portfolio companies to confirm requirements with local MSAs and revise the contribution deadlines according to the new rules respectively.

### *Potential liabilities for capital contribution in equity transfer*

Paragraph 1 of Article 88 of the New Company Law provides that if a shareholder of an LLC transfers its equity with unpaid capital contribution not due yet, the transferee shall assume the capital contribution obligation, but the transferor shall bear supplemental liability if the transferee defaults. The Supreme People's Court of the People's Republic of China (SPC) initially provided that Paragraph 1 of Article 88 shall apply to

equity transfer before the New Company Law came into effect, which caused lots of disputes in practice. The SPC published an official reply later and clarified that Paragraph 1 of Article 88 shall not be applied to equity transfer disputes before the effective date of the New Company Law and such disputes shall be resolved according to the unrevised Company Law's principles before 1 July 2024.

For investors planning to transfer equity interest with unpaid capital contribution in an LLC, as the transferor cannot control the act of the transferee, the transferor may elect to complete the capital contribution in advance and the amount for the capital contribution may be added to the transaction price.

### *Directors' capital-call duties and potential liabilities*

The New Company Law expands directors' capital-call obligations. It stipulates that the board of directors shall check the shareholders' capital contributions and issue written payment demands to defaulting shareholders. Directors may be held liable for company losses if they fail to fulfil such obligations.

Directors of companies shall pay special attention to such obligations under the New Company Law. Meanwhile, the investors may require portfolio companies to provide directors' and officers' liability insurance for directors appointed by investors, which was not quite normal in the PRC market before.

### *The Execution Period of the Redemption Rights for Investors*

There are divergent views on the nature of redemption rights in the Chinese judicial practice. The "right of formation" theory subjects redemption rights to an exercise period, after which the rights are extinguished, while the "right of claim" theory imposes no such time restraint and holds that the redemption rights are only bound by statutory limitation of action.

On 29 August 2024, an article in the Q&A form addressing the nature and exercise period of redemption rights was published in the People's Court Daily, which was originally circulated on the SPC's internal website. The published Q&A held the opinion that the redemption rights are rights of formation subject to a

“reasonable period”, and when the “reasonable period” expires, the redemption rights are extinguished. As to the exercise period, the Q&A merely recommends a six-month period and does not prohibit any longer reasonable periods based on specific circumstances. However, as stated in a recent judgment in 2025 by a local court in Beijing, the Q&A is neither legislation nor formal judicial interpretation and the opinion in the Q&A shall not be applied. It is also worth noting that no judgments after the publication of the Q&A are found to treat redemption rights purely as the right of claim (though some of them recognise redemption rights as hybrid rights combining right of formation and the right of claim).

The judicial views on the nature of redemption rights require further observations. For an investor, if the redemption right is triggered in its transaction documents with the investment targets, it is recommended to exercise such right promptly and keep written evidence of the investor’s execution of the right. For portfolio companies or other shareholders, it is suggested to specify a clear exercise period of the redemption right in transaction documents, with an automatic expiration mechanism if it is not exercised.

## China’s New Regulations for Overseas Listing Filing – the Second Anniversary Review and Outlook

It has been over two years since 31 March 2023, when the China Securities Regulatory Commission (CSRC) promulgated the Trial Measures for the Administration of Overseas Securities Offering and Listing by Domestic Enterprises (the “Trial Measures”), and five supporting rules for regulatory guidance (collectively, the “New Filing Regulations”) came into effect. As the regulatory environment for going public in China’s domestic stock market was tightened in 2024, a large number of Chinese enterprises are seeking opportunities for overseas listing. Against this setting, market players are paying close attention to the practice in implementing the New Filing Regulations, aiming at making the outcome of their relevant decision-making and activities more predictable towards their ultimate goal, that is, successfully obtaining the green light from CSRC for overseas listing. This section reviews the implementation effects of the New Filing Regula-

tions for the past one-and-a-half years since 2024 and hopes to provide some key takeaways.

### Overview of implementation practice

According to information published by the CSRC, during the period from 1 January 2024 to 30 June 2025 (“Observation Period”), 195 applicants (excluding those that applied separately for the filing of the “full circulation” of H shares) obtained the filing notice from the CSRC, with 125 for 2024 and 70 for the first half of 2025, respectively.

According to our rough calculation based on publicly available information from the CSRC during the Observation Period, among the 195 applicants that have obtained the filing notice from the CSRC:

- 121 applicants chose the Hong Kong Stock Exchange as the listing exchange, and 68 applicants chose to list on US capital markets (consisting of 67 applications for Nasdaq and only one application for the New York Stock Exchange), four applicants chose the Taiwan Stock Exchange Corporation and two applicants chose Singapore Exchange;
- 74 applicants chose overseas direct listing as the listing model, and 121 applicants chose overseas indirect listing as the listing model; and
- among the 121 applicants that chose indirect listing, 93 applicants are issuers operating without the variable interest entity (VIE) structure, and the remaining 28 applicants are issuers operating with the VIE structure.

Based on our rough estimate, among applicants that have received a filing notice from the CSRC since the implementation of the New Filing Regulations during the Observation Period, the average time from receipt of the filing application by the CSRC to the issuance of the filing notice is nearly seven months, with the minimum and maximum review periods being less than one month and more than 23 months, respectively. During the Observation Period, applications for overseas direct listing appear to have a prominent advantage over applications for overseas indirect listing in terms of the average length of time required (ie, approximately 5.6 months and 7.8 months, respectively); among applications for overseas indirect list-

ing, compared with the filing time of applicants without the VIE structure, which is 7.1 months on average, it would take a longer period for those applicants with the VIE structure (10.7 months on average).

Given the above observations, the reviewing process of CSRC under the New Filing Regulations has slowed down, causing a longer filing period compared with the year 2023 and the first half of 2024 (see our observation in China T&D for Chambers Private Equity 2024), especially for the applicants with the VIE structure. This is primarily because of a rising trend of overseas listings and the continuous increase in the number of filing applications in the markets, leading to a significant increase in the workload of the regulatory authorities, including CSRC. Still, key elements that may influence the speed of the CSRC's review process include, among others, whether an applicant has adopted or used the VIE structure for overseas listing, and in the case of applicants with the VIE structure, substantial scrutiny from various competent industry-specific authorities could be triggered or involved.

### *Observation of market trends*

During the Observation Period, there were 157 issuers that successfully completed their overseas IPO and listing process (including those that obtained the filing notice from the CSRC in 2023 but completed the overseas IPO and listing process in 2024 and those that obtained the filing notice from the CSRC in 2024 but completed the overseas IPO and listing process in 2025), among which 101 issuers chose to conduct IPOs in the Hong Kong market (39) or de-SPACs (1), while 56 issuers chose to conduct IPOs in the US market (50) or de-SPACs (6). Specifically, among the 101 issuers that have issued shares and been listed in the Hong Kong market, the largest fundraising amount reached approximately HKD35.657 billion, while the smallest was about HKD85 million, and among the 101 issuers that have issued shares and been listed in the US market, the largest fundraising amount reached approximately USD750 million, while the smallest was about USD4.2 million. The scale of the fundraising amounts for most of the said issuers in the Hong Kong market is concentrated in the range of USD20 million to USD100 million, while for most of the said issuers in the US market, their fundraising scale is concentrated in the range of USD5 million to

USD10 million. During the first half of 2025, among 70 applicants that obtained the filing notice from the CSRC (excluding 21 applicants that applied separately for the filing of the "full circulation" of H shares), 52 applicants chose the Hong Kong Stock Exchange as the listing exchange, and among 131 applicants whose submission of the filing applications have been accepted by the CSRC (excluding ten applicants that applied separately for the filing of the "full circulation" of H shares), 121 applicants chose the Hong Kong Stock Exchange as the listing exchange. Apparently, at time of writing, the Hong Kong capital market is more attractive to both Chinese enterprises that are seeking overseas listings and international investors that are interested in investing in China-based enterprises than the US capital market or other capital markets around the world.

During the first half of 2025, 35 A-share listed companies announced their intentions to prepare for H-share issuance and listing (far exceeding the number of announcements in 2024 for the entire year); in addition, 11 A-share listed companies received the filing notice from the CSRC for overseas H-share issuance. Based on the response speed of the CSRC regarding the filing for overseas listings, the average filing time for A-to-H projects in Hong Kong was 112 days, which is almost half of the overall average filing time during the same period (ie, 221 days). This demonstrates the supportive attitude of the CSRC towards A-share listed companies issuing shares in Hong Kong, and reflects the positive and effective results achieved through the collaboration between Mainland China and Hong Kong in capital markets.

### *Issuers with VIE structure: status quo*

During the Observation Period, a total of 28 issuers using the VIE structure have successfully obtained filing notices from the CSRC; 20 of these were obtained in 2024 and eight of those were obtained in the first half of 2025, accounting for no more than 25% of the total issuers that chose indirect listing and completed the CSRC filing and no more than 14.5% of the total issuers that completed the CSRC filing, respectively.

The scrutiny on applications with elements of the VIE structure by CSRC and other competent industry-specific authorities is being increasingly tightened,

especially for applicants whose operating entities in Mainland China controlled by the VIE structure are engaged in business prohibited for foreign investment by applicable laws and regulations. The above can be seen from a lengthy filing period in 2025: in the first half of 2025, the average filing period for applicants with the VIE structure that completed the CSRC filing was 390 days, which is significantly longer than the average filing time for direct listings or indirect listings without the VIE structure during the same period and is also longer than the filing time for applicants with the VIE structure in history, which is 283 days for 2024.

Based on our observation, issuers with the VIE structure that have completed the CSRC filing are mainly concentrated in the software and information services, internet, data infrastructure, insurance brokerage, travel, logistics and medical industries, among others. The main business areas that may involve foreign capital prohibition or restriction include value-added telecommunications, network culture, network publishing, radio and television programme production and operation, surveying and mapping, medical institutions and domestic mail delivery.

### *Issuers with VIE structure: CSRC perspective and key takeaways*

According to the supplementary material requirements for certain issuers published by the CSRC during the Observation Period, the CSRC's concerns about the VIE structure mainly focus on:

- the overall compliance of the VIE structure (including but not limited to foreign exchange management, overseas investment, foreign investment and tax payment);
- whether the applicant is engaged in any business currently prohibited for foreign investment or participation, and if so, whether the use of the VIE structure is for the purpose of circumventing such prohibition; and
- how the transaction arrangements between entities under the VIE structure are implemented in reality, including fund transfer between domestic and foreign entities, profit transfer and other aspects of capital flow arrangements.

Given the tightened view of the CSRC as well as other regulatory authorities towards applicants with the VIE structure, here are some takeaways:

- be very cautious over using the VIE structure unless it is necessary and to the extent that it is not expressly prohibited by applicable laws and regulations, eg, for the purpose of keeping an ICP licence by a domestic operating entity, as there is still a lack of uniform guidelines regarding whether the VIE structure is permitted for a particular industry/business area in which foreign investment is restricted or even prohibited;
- if the existing VIE structure is not acceptable by the CSRC or other regulatory authorities, try to unwind or dismantle it along with ceasing the restricted or prohibited business, or doing a spin-off of such business or restructuring the same to a third party; and
- historical compliance issues that remain unresolved in connection with or arising out of the VIE structure should be given full attention and be solved in a timely manner (ideally before the submission of a filing application to the CSRC).

### **Observations on PE/VC Exit Routes**

#### *IPO: tightened review standards and changes in China's IPO landscape*

An initial public offering (IPO) used to be the primary exit route for most private equity and venture capital firms ("PE/VCs") in China. However, the CSRC introduced stricter measures in January 2021 by issuing the Provisions on the On-site Inspection of IPO Applicants, which established detailed procedures, methods and requirements for on-site inspection of IPO candidates, marking the start of a more stringent A-share IPO review regime. In April 2024, the State Council issued the Several Opinions of the State Council on Strengthening Regulation to Prevent Risk and Promoting the High-quality Development of the Capital Market, further tightening IPO oversight to enhance risk prevention and overall market quality.

Statistics show that the combined withdrawal-and-rejection rate for A-share IPOs exceeded 50% in both 2021 and 2022. Meanwhile, capital raised through A-share IPOs (domestically listed shares) declined sharply, from CNY586.89 billion in 2022 to CNY356.54



billion in 2023, and further to just CNY67.35 billion in 2024. By 2025, more than 70 companies had withdrawn their IPO applications, while over 300 remained in the CSRC's review queue. These delays impose higher capital costs and create significant uncertainty regarding fund-level returns for PE/VCs.

However, as A-share IPOs tightened, the Hong Kong IPO market began to recover in the second half of 2024 and rebounded strongly in the first half of 2025. The Hang Seng Index rose by approximately 20% during the first half of 2025. A total of 42 IPOs were completed on the Main Board, raising as much as HKD106.7 billion, reaffirming Hong Kong's position as a global IPO hub.

### *Share buyback: quantity is on the rise, but cash recovery rates remain low*

Besides an IPO, share buyback is also a potential exit route for PE/VCs in China. Statistics from the Asset Management Association of China indicate that over 90% of PE/VC investment includes share buyback provisions. The main triggering events for investors to exercise their buyback right are the failure to complete a "qualified IPO" and material breach by founders and the target company.

Before 2019, investors rarely requested direct share buyback. However, as IPO review standards have tightened, the number of share buyback cases has increased. But statistics show that in court cases involving share buyback, among cases that enter judicial proceedings, the average recovery rate is only about 6%, and in cases reaching enforcement proceedings, only about 4.62% are fully recovered.

### *M&A: policy tailwinds, flexible deal structures and shorter timelines may make M&A top in PE/VCs' new "exit playbook"*

Facing challenges with other exit routes, PE/VCs have actively explored alternative strategies. M&A used to be considered as a "second-best option" for PE/VC exits because they often yield lower prices than IPOs and require significant due diligence and negotiations. However, in the current environment, investors are reassessing the value of M&A and increasingly considering them a preferred exit strategy.

Several factors support this shift:

- Multiple policies have been issued to support China's M&A market. Notably, the CSRC issued (i) the Eight Measures of the CSRC for Deepening Reform of the STAR Market to Serve Scientific and Technological Innovation and New Quality Productive Forces on 19 June 2024, emphasising supporting M&A and reorganisations; (ii) the Opinions of the CSRC on Deepening the Reform of the M&A and Reorganisation Market for Listed Companies on 24 September 2024, relaxing restrictions on cross-border M&A by listed companies and introducing simplified review procedures; and (iii) the revised Administrative Measures for the Material Asset Reorganisation of Listed Companies on 16 May 2025, introducing a "reverse linkage" between the investment term of private equity funds and the lock-up period for shares acquired through restructurings, which significantly removes institutional barriers to private equity funds' participation in listed company M&A.
- Compared with the constraints on secondary-market exits – such as share reduction limits, time restrictions and strict disclosure obligations – M&A transactions generally have shorter timelines and more lenient regulatory oversight. The timeline of M&A transactions is controllable, and they can generally be completed within six to 12 months. Moreover, M&A transactions are more flexible and can be structurally tailored to accommodate both buyers' and sellers' needs, incorporating special arrangements such as earn-out mechanisms, instalment payments and performance-based incentives.
- The emergence of new M&A-focused funds and tailored support mechanisms is increasing the flexibility of M&A transactions. Statistics show that from the beginning of this year up to 21 May, a total of 110 listed companies on the A-share market have announced their participation in the establishment of industrial M&A funds, with the combined anticipated fundraising amount exceeding CNY128 billion. Such participation not only helps companies stay ahead of industry trends and strategically position themselves in high-quality projects, but also injects fresh momentum into



technological innovation and business upgrades – ultimately enhancing their core competitiveness.

According to PwC's China M&A 2024 Review and Outlook, China's M&A deal volume fell to a multi-year low in 2024, down 16% from 2023 to USD277 billion. However, from late 2024 onwards, the market has received continuous policy support, and M&A deal value in the second half of 2024 jumped by one-third compared with the first half, reaching USD158 billion. In the first half of 2025, a total of 171 PE/VCs successfully exited through M&A transactions, with capital returned to funds surging to CNY43.065 billion.

Despite the above advantages of M&A transactions, certain legal issues may need to be considered regarding the design of the deal structure of the M&A transactions. For example:

- when foreign investors acquire equity interests in Chinese enterprises, domestic sellers can only receive payment of the purchase price after the completion of the share transfer registration, and when the sellers are Chinese individuals, they even need to complete the individual income tax payment before registering the share transfer. These procedural requirements may constitute substantial risks for domestic sellers;
- when a listed company is involved in the M&A transaction, special attention should be paid to the possible approval and disclosure requirements.

When an acquirer takes a stake in a listed company, it will trigger disclosure obligations under Chinese securities law; on the other hand, when a listed company undertakes a cash acquisition, regulators require a transaction size review to determine the applicable procedures, which may include board or shareholder approvals, disclosure requirements, and audit or valuation conditions; and

- antitrust filings are a critical and often mandatory step in M&A transactions, particularly for deals that may substantially reduce competition in a relevant market. Timing is a key consideration here: the filing process can take several months, and transactions cannot legally close until regulators complete their review. If a transaction is likely to substantially lessen competition, it may face remedies or even prohibition, which could severely affect the parties' rights and the transaction.

In conclusion, while China's PE/VC exit landscape faces challenges such as stricter IPO reviews and low share buyback recovery rates, the growing policy support and structural advantages of M&A transactions offer a relatively promising alternative. With the entry of patient capital, the transformation of institutional investment strategies and the regularisation of the market environment, we believe that China's M&A market will continue to develop, and M&A transactions will be not just an exit route but, more importantly, a way to re-create and release value.

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