

Private Equity 2026

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China: Trends and Developments

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CHINA

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Overview on Trends of China's PE/VC Market

Evolution of capital structure: RMB funds become the primary source in fundraising, with increasing participation from state-owned and industrial investors

The capital supply structure of China's private equity (PE) and venture capital (VC) market has been undergoing fundamental changes. Influenced by factors including the macroeconomic environment, changes in the cross-border investment landscape, and heightened compliance requirements, both the fundraising scale and the number of newly established foreign currency-denominated funds have declined, resulting in reduced investment activities by foreign currency funds in the Chinese domestic market.

Based on public data compiled by multiple research institutions and industry reports, the current market capital structure exhibits the following characteristics.

- RMB funds constitute the primary source of market fundraising. According to statistical data released by Zero2IPO Research, RMB-denominated funds completed 5,006 new fundraising rounds, raising CNY1,612.496 billion (up 27.0% and 16.1% year-on-year, respectively), representing 99.3% of total fund count and 97.8% of total volume. Affected by the cross-border investment climate, foreign currency funds raised only 33 new funds with a total scale of CNY35.808 billion (down 36.0% year-on-year).
- State-owned capital maintains a high proportion in RMB fund contributions. Within the limited partner (LP) structure of RMB-denominated funds, state-owned capital (including government guidance funds, local state-owned investment platforms, and investment entities affiliated with central and state-owned enterprises) has become one of the important sources of capital for RMB funds. According to statistics from CV Source, contributions from state-backed LPs have accounted for more than 30% of total RMB fund fundraising, ranking second only to corporate investors.

Evolution of the regulatory environment: higher standardisation and ongoing market exit of private fund managers

In recent years, the number of registered private fund managers has increasingly declined (from 22,400 at the end of 2017 to approximately 19,000 as of April 2026), while regulatory requirements for the industry have continued to increase. Regulatory authorities have further strengthened supervision over non-compliant activities. On 3 June 2026, the General Office of the State Council officially issued the Guiding Opinions on Strengthening Supervision, Preventing Risks, and Promoting High-Quality Development of Private Investment Funds (Guoban Han [2026] No 54 (the "No 54 Guideline")). The key measures under the No 54 Guideline focus on strengthening risk prevention at the source, enhancing full-process supervision, regulating the establishment of funds by local governments and state-owned enterprises, prohibiting disguised debt arrangements and non-compliant borrowing activities, and facilitating the withdrawal of non-compliant and inactive institutions from the market.

As of April 2026, the number of registered private fund managers was approximately 19,000.

Key Content and Impact of New Cross-Border Investment Regulations

Overview of the new regulations

On 1 July 2026, the Regulations of the State Council on Outbound Investment (State Council Order No 837, (the "No 837 Order") officially came into effect as China's first administrative regulation focused on outbound investment, elevating the legal hierarchy of outbound investment governance.

The key aspects of No 837 Order include, among others, the following.

- Expanding the scope of regulated entities and investment activities: Explicitly incorporating outbound investment activities conducted by domestic resident individuals into the regulatory framework; bringing activities such as establishing overseas subsidiaries, multi-tier offshore re-investments, cross-border financing and guarantees, overseas financial market investments, and over-

seas asset disposals under comprehensive administration.

- Strengthening pre-investment and in-investment-change approval and filing administration: Removing the minimum threshold for reporting offshore re-investments and requiring prior information reporting 20 working days in advance for offshore re-investments and round-trip investments; introducing a requirement to submit a report ten working days prior to starting substantive preliminary work for major projects involving USD100 million or more or sensitive foreign relations.
- Extending supervision to post-investment management and exit disposals: Expanding national security reviews and information reporting boundaries from initial investments to transactions involving the transfer, disposal, change of control, and restructuring of existing overseas assets and equity interests.
- Setting compliance boundaries for cross-border technology and data transfers: Expressly prohibiting the unauthorised transfer of restricted technologies, services and data overseas through intangible means such as personnel assignments, remote technical guidance, overseas training, or cross-border data transmission; establishing that entities providing domestic data in connection with overseas litigation, arbitration or regulatory investigations must strictly fulfill data security, confidentiality and export control approval procedures.

Impact analysis on private equity and venture capital industry

Increased compliance requirements for USD funds and cross-border investment structures

Following the inclusion of resident individuals and indirect investment activities under regulatory supervision, outbound investment practices conducted via offshore Special Purpose Vehicles (SPVs) for round-trip investments or direct offshore investments face increased standardisation. Structuring practices such as Red-chip restructuring, Red-chip offshore set-ups, and cross-border parallel funds will involve additional procedural requirements.

Rigorously enhanced scrutiny for ODI

Regulatory review requirements for private equity institutions utilising Outbound Direct Investment (ODI)

channels to deploy capital overseas have become more detailed. Regulatory scrutiny has expanded beyond foreign exchange movement compliance to encompass target industry compliance, cross-border data compliance, and export control reviews, requiring more rigorous legal due diligence and transaction documentation drafting.

Heightened post-investment compliance standards for offshore investments

The implementation of periodic information reporting requirements and offshore re-investment reporting obligations sets higher standards for private fund managers in managing cross-border portfolios. Investment managers shall not only perform compliance reviews at the initial investment stage, but also maintain ongoing oversight and reporting regarding subsequent re-investments, major equity adjustments, and liquidations or exits of overseas portfolio companies.

No 54 Guideline Optimises the Regulatory Framework for the Private Equity Market, Aiming to Remove Obstacles for the Industry's Standardisation and High-quality Development *Overview of No 54 Guideline*

Issued by the General Office of the State Council in June 2026, the No 54 Guideline marks the first top-tier framework guideline governing China's private fund industry, which boasts a total asset scale exceeding CNY23 trillion. Targeting prevalent irregularities including disguised debt under equity investments, unregulated fundraising, illicit capital circulation and corruption risks via fund vehicles, the policy establishes a full-cycle regulatory mechanism featuring stricter market access, differentiated supervision, rigorous risk crackdowns and targeted industrial incentives. It balances risk containment and real economy empowerment, reshaping long-term development logic for PE/VC fundraising and investment markets nationwide.

Core regulatory development and source control

The No 54 Guideline tightens market entry thresholds fundamentally to eradicate "fake private funds". Pre-registration inter-departmental review is mandated for entities intending to use "private equity fund" or "venture capital fund"-related wording in corporate names or business scopes, banning unauthorised use of private equity fund or venture capital fund labels to

conduct illegal financing. Classified “one policy per category” supervision is rolled out for private equity funds, venture capital funds and government-guided funds respectively. County-level governments are generally prohibited from launching new state-owned private funds, with exceptional cases requiring higher-level administrative approval to curb redundant government fund establishment and blurred fiduciary duties of state-owned investors. A unified national digital risk monitoring platform is launched to facilitate transparent, penetrating supervision over fund capital flows, related-party transactions and cross-border fund movements. Explicit prohibitions are imposed on illegal lending under the guise of fundraising, guaranteed investment returns and typical “equity-for-debt” structures and so on.

Risk rectification and law enforcement mechanisms

A market cleanup campaign will phase out non-compliant participants permanently: seriously violating fund managers face compulsory deregistration, while dormant, long-uncontacted and shell institutions are removed from official registries. A formal whistleblower system is institutionalised with informant privacy protection to activate social oversight. Cross-department joint law enforcement unites securities regulators, public security organs and local authorities to severely penalise fund embezzlement, self-financing, interest transfer, illegal cross-border capital flows and illegal fundraising activities, with heavier administrative and criminal penalties for severe cross-regional or cross-field cases. Grid-based social inspections enable early detection and disposal of unlicensed private fund management and other related businesses across jurisdictions.

Incentive framework for high-quality industrial development

Adhering to the “support high-quality players, eliminate inferior ones” principle, the No 54 Guideline prioritises fostering long-term venture capital focusing on early-stage start-ups, small enterprises, hard technology and industrial mergers and acquisitions – key drivers for “new productive forces”. Nearly 90% of STAR Market listed companies received pre-IPO investments from domestic PE/VC institutions, and the policy optimises exit channels including IPOs, transfer

markets and secondary fund trading to boost capital circulation efficiency. Performance evaluation systems for state-owned fund managers shift from short-term yield indicators to long-term industrial contribution metrics, reducing short-term investment pressure on institutional investors. Meanwhile, co-ordinated cross-central-local regulatory frameworks are refined to eliminate supervision gaps and overlapping jurisdiction, forming a consistent governance ecosystem covering registration, operation, exit and post-event rectification for fund management and fund formation.

Conclusion

The No 54 Guideline transitions China’s private fund sector from expansive growth to standardised, quality-driven development. It constrains speculative and illicit behaviours while reinforcing the industry’s core function of serving technological innovation and industrial upgrading, laying a long-term institutional foundation for sustainable growth of China’s asset management market.

Overseas Listings of Domestic Enterprises in H1 2026: Overview and Outlook

Executive overview

This section outlines the market landscape, structural shifts, regulatory updates and forward-looking trends of mainland enterprises’ offshore IPO activities in the first half of 2026. Guided by China’s standardised overseas filing regime, the offshore listing market witnessed prominent polarisation: Hong Kong consolidated its dominant position as the primary public financing hub for mainland enterprises, while US listings shrank drastically. Direct H-share structure prevailed overwhelmingly over traditional Red-chip framework, accompanied by concentrated IPOs of hard-tech companies and rapid expansion of A+H dual listings, reshaping the long-term layout of Chinese cross-border capital raising.

Market scale and geographic distribution

In H1 2026, a total of 85 domestic companies completed overseas IPOs. Hong Kong absorbed 82 issuers, accounting for over 96% of total offshore offerings, with fundraising hitting a five-year high. By contrast, only one mainland enterprise became listed in the US and another one in Singapore, reflecting sharp contraction of US listings amid geopolitical frictions and

cross-border audit compliance burdens. The CSRC approved 86 offshore listing filings within the period, demonstrating stable and predictable review rhythm under the filing-based supervision system.

Structural transformation of listing vehicles

Direct H-share issuance became an irreversible mainstream choice for domestic listing applicants. Among 82 completed Hong Kong IPOs, 81 adopted direct H-share structure; merely four out of 86 approved CSRC filings opted for an indirect Red-chip framework. The average CSRC filing cycle for H-shares stood at 211 days, far shorter than that of Red-chip listings. Effective as from 1 July 2026, No 837 Order tightened scrutiny over offshore equity architecture compliance, substantially raising legal costs and uncertainties for Red-chip structures (including VIE structure), further driving issuers toward straightforward H-share models with clearer ownership and lower regulatory risks.

Industrial features and dual-listing boom

Hard-tech enterprises dominated Hong Kong's IPO pipeline, covering semiconductors, biomedicine, intelligent manufacturing and AI sectors, aligning closely with national strategies for advanced technology development. A+H dual listings saw explosive growth: 24 A-share listed companies launched secondary Hong Kong offerings in H1 2026, exceeding the full-year volume of 2025 and contributing nearly 60% of total offshore fundraising proceeds. Such dual structure has helped enterprises diversify investor bases and improve stock liquidity across markets.

Regulatory outlook and future trends

China will maintain full-penetration review focusing on related-party transactions, cross-border capital flows, and IP transfers and equity transparency. Hong Kong will retain its core role for domestic offshore financing in the short term. Red-chip structures will only be retained by enterprises with special or even unique operational needs, while standardised H-share frameworks will remain the preferred solution for most mid-sized and large-scale issuers. Long-term policy will continue to channel offshore capital toward technology innovation and the real economy, balancing market opening and financial risk prevention.

Observations on PE/VC Exit Routes

A potential regulation change on redemption rights

The severe bottleneck in A-share listings, alongside an over-crowded H-share market, has triggered a systemic wave of mandatory redemption obligations for start-up companies funded during the PE expansion boom of 2018–2021. These contracts typically carry tight three-to-five or five-to-seven year IPO deadline windows. Furthermore, because corporate-level redemptions face strict procedural and legal deadlocks under current Chinese judicial practice, most PE contracts in China incorporate personal guarantee clauses that bind these redemption liabilities directly to founders and actual controllers.

This dynamic has driven a dramatic surge in redemption litigation in recent years, breeding deep mutual distrust between start-up entrepreneurs and PE fund managers. Consequently, founders, particularly those in asset-heavy and hard-technology sectors, are increasingly turning away from equity financing burdened by strict redemption terms, favouring instead commercial loans with lower interest rates and cleaner liability boundaries.

Recognising this systemic dilemma, AMAC became the first regulatory body to intervene. On 1 December 2025, AMAC officially issued a targeted compliance advisory titled Notice on Investment Terms of Private Equity and Venture Capital Funds via its AMBERS reporting platform. This notice represents a landmark regulatory intervention aimed directly at mitigating the market-wide surge in Valuation Adjustment Mechanism (VAM) and share redemption disputes. It provides definitive policy guidance on how fund managers must structure and enforce redemption provisions while fulfilling their fiduciary obligations.

- Prohibition of disguised debt financing – AMAC explicitly cautioned fund managers against utilising share redemption clauses to engage in illegal debt financing, predatory money lending, or “equity-in-name, debt-in-substance” (*Ming Gu Shi Zhai*) schemes. The notice strictly prohibits drafting terms that erode or distort the core risk-sharing nature of PE/VC equity investments.
- Diversification of exit options – AMAC encouraged fund managers to design “scientifically reasonable”

contractual terms that incorporate flexible and diversified exit pathways.

- Balancing fiduciary obligations with ecosystem health – when determining whether to enforce redemption rights, fund managers are required to evaluate broader macroeconomic conditions and industry policy shifts. Crucially, managers are expected to weigh the potential economic fallout on both the entrepreneurs and the broader venture ecosystem.
- Amicable resolution of legacy IPO deadlines – for existing portfolio investments burdened by legacy IPO-linked redemption clauses, AMAC urged fund managers to pursue amicable negotiations with founders and target companies. Recommended remedies include restructuring performance milestones, extending redemption windows, lowering penalty interest rates, or terminating redemption agreements altogether, aligning short-term fund interests with long-term enterprise growth.

In June 2026, regulatory policy on Valuation Adjustment Mechanisms (VAM) further escalated with the issuance of the No 54 Guideline. Article 4 of the No 54 Guideline explicitly mandates administrative regulations for VAM terms and introduces a dual-track supervisory framework for PE funds – positioning direct administrative supervision as the primary mechanism and industry self-discipline as a secondary support. Given the rapid pace of regulatory escalation, we expect the release of a draft regulation for public comment by late 2026 or early 2027. This draft might serve as a definitive calibrating signal to the private equity market, imposing particularly stringent oversight on state-owned and government-backed PE funds.

Challenges of exit through international M&A

For private equity managers, venture capital funds and multinational corporations, executing cross-border exits and acquisitions involving Chinese targets has entered an unprecedented era of regulatory scrutiny. Historically, stakeholders seeking to divest Chinese assets or scale domestic start-ups internationally relied on established structural playbooks, such as re-domiciling headquarters to neutral jurisdictions like Singapore, leveraging offshore holding companies in the Cayman Islands, or executing cross-border intellectual property (IP) licensing agreements. Today,

these traditional mechanisms are facing extraordinary headwinds. The recent regulatory intervention blocking and ordering the unwinding of Meta's acquisition of Manus AI marks a watershed moment in cross-border M&A.

Manus AI is an agentic artificial intelligence start-up originally founded in China. It relocated its corporate headquarters to Singapore and blocked access from mainland Chinese IP addresses to insulate itself from growing US-China geopolitical friction. In late 2025, Meta announced a USD2 billion buyout of the new Singapore entity. However, in January 2026, the Ministry of Commerce (MOFCOM) announced scrutiny of this transaction, citing concerns regarding technology export and outbound direct investment compliance. In April 2026, the NDRC officially blocked the transaction and ordered it unwound according to applicable laws and regulations. Subsequently, on 1 June 2026, the State Council promulgated the No 837 Order, further tightening the outbound flow of capital, technology, engineers and data.

In addition to traditional foreign investment screening and merger control analysis, selling a Chinese business to an international buyer now requires strict compliance with several heightened statutory regimes.

- Technology export control – under the Regulations on Administration of Technology Import and Export (TIER) (as revised in 2020), “technology transfer” is broadly defined to include assigning patent (and patent application) rights, transferring technical secrets, licensing, providing technical services or transferring technology by any other means. Consequently, both pre-closing corporate restructurings by sellers and post-closing integration or operational synergies by buyers fall within the regulatory scope of technology export controls.
- Dual-use items – escalating geopolitical tensions led the promulgation of the relevant regulations on export control of dual-use items in September 2024, which expanded the definition of dual-use items to include relevant technical specifications, software and data, while broadening “deemed exports” to encompass transfers via donation, exhibition, technical co-operation or assistance. Given the complexity of the Dual-Use Items Control

List and political influence on the scope of dual-use items, cross-border acquisitions of high-tech start-ups face significant regulatory exposure.

- Expanded ODI controls – the newly promulgated No 837 Order explicitly prohibits circumventing technology export controls through cross-border personnel arrangements, such as seconding engineering talent, sending employees overseas, providing cross-border technical guidance or organising overseas training. This effectively closes the loop on traditional pre-deal offshore redomiciling (often referred to as “Singapore Washing”) designed to insulate sensitive Chinese tech assets prior to an M&A transaction.
- Regulated Chinese Founders – the No 837 Order formally brings outbound investment activities by PRC resident individuals under direct statutory oversight and introduces administrative penalties for non-compliant investments. Consequently, founders holding Chinese nationality face reduced flexibility in receiving transaction consideration or holding equity structures outside mainland China.
- Omnibus compliance metrics – the No 837 Order sets forth comprehensive compliance benchmarks for outbound transactions. Regulators are expected to issue detailed implementation rules to enforce these areas further.

Impacts of New Judicial Interpretation on Bribery and Embezzlement Crimes on China’s Private Fund Industry

Executive overview

On 10 April 2026, China’s Supreme People’s Court and Supreme People’s Procuratorate jointly promulgated the Judicial Interpretation (II) on Criminal Cases Involving Corruption and Bribery (issued by the newly effective Judicial Interpretation (II) on Criminal Cases Involving Corruption and Bribery, effective as from 1 May 2026 (the “New Judicial Rule”). The New Judicial Rule is anticipated to have far-reaching regulatory and operational impacts on the private fund sector in the following aspect: it equalises sentencing benchmarks for staff corruption crimes in private fund institutions with civil servants, tightens identification of hidden corrupt practices, and echoes the State Council’s call made under the No 54 Guideline to crack down on criminal activities in the private fund industry, form-

ing a co-ordinated administrative–criminal supervision framework.

Key highlights of the new judicial rule

First, it cancels preferential sentencing thresholds for non-state-owned entity personnel. Crimes including acceptance of bribes by non-state employees, fund misappropriation, occupational embezzlement and commercial bribery now adopt identical conviction standards as public official corruption, lowering the minimum criminal filing threshold for commercial bribery from CNY60,000 to CNY30,000. Second, it explicitly criminalises covert corrupt behaviours prevalent in private fund businesses: unexercised stock options, dormant shareholdings, and anticipated investment gains are all counted as bribery values by market appraisal prices upon investigation. Third, it clarifies liability attribution for institutional bribery, imposing joint criminal liability on fund managers, decision-making executives and relevant staff collectively.

Comprehensive impacts on the private fund industry

Drastically elevated criminal risks for routine industrial practices

Long-standing grey-area activities face severe crack-downs. Kickbacks paid by fund sales teams to investment managers of institutional limited partners now easily constitute commercial bribery once exceeding CNY30,000. Insider-related party transactions, disguised interest transfers between affiliated funds, and diversion of fund assets for self-financing, previously only subject to administrative penalties, will trigger criminal charges of embezzlement or fund misappropriation.

Stricter compliance obligations for fund management institutions

Fund managers must establish full-process anti-corruption internal control systems covering investment decision-making, fundraising and asset disposal. Internal reporting mechanisms, third-party transaction reviews and annual anti-bribery compliance audits become mandatory requirements to mitigate institutional criminal liability. State-backed PE/VC funds face extra scrutiny over state-owned asset loss risks from improper equity transfers.

Industry reshaping via intensified supervision synergy

Industry regulators will transfer serious irregular fund cases to judicial authorities directly under the cross-department co-ordination mechanism. Small-scale, non-compliant fund institutions with loose internal governance will be phased out gradually, while standardised large fund firms will consolidate market share. Individual practitioners face lifelong industry blacklist records alongside criminal penalties for severe violations.

Conclusion

The New Judicial Rule ends the tolerant regulatory era for various corruption activities in the private fund industry. Industry or market participants must restructure or rebuild transaction frameworks and internal compliance systems to avoid crossing criminal red lines, pushing the industry toward more transparent and standardised long-term development.



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