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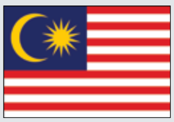

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CHINA

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Amended Partnership Law Provides Flexible Investment Structure

The Amended Partnership Enterprise Law (the "New Law") finally became effective on June 1, 2007, nearly ten months after its promulgation in August last year. In addition to the existing form of general partnership enterprises ("GP"), the New Law allows the formation of limited partnership enterprises ("LP"), and special general partnership enterprises that provide professional services to clients.

While the old law only permitted natural persons to be partners, the New Law allows natural persons, legal persons and any other organizations (with a few specific exceptions) to form partnerships in China. Foreign invested partnerships are contemplated and a draft of the administrative regulations for foreign invested partnership enterprises (the "Draft Regulations") was issued by the Ministry of Commerce in January this year to invite comments from various government departments.

A GP is formed by at least two general partners, who bear unlimited joint and several liabilities for the debts of the GP. A LP is formed by at least one general partner and one limited partner. General partners of the LP bear unlimited joint and several liabilities for the debts of the LP while limited partners of the LP are liable up to the amount of their capital contributions only. This allows a flexible investment structure where a party with managerial experience and research and development capabilities could be combined with other parties that wish only to contribute capital.

Partners to a GP may make contribution in cash, in kind, by intellectual property rights, land use rights or other proprietary rights, or by services. Limited partners of a LP may not make contribution by services.

Profit-sharing arrangement among the partners is governed by the partnership agreement. The New Law provides that unless otherwise agreed in the partnership agreement, a partner may not transfer or pledge their interests to third parties except with the unanimous consent from the other partners. Moreover, the partners enjoy right of first refusal if a partner proposes to sell its partnership interests.

Partnership enterprises are "pass-through" entities and are exempted from corporate income tax. The partners will only be liable for individual income tax on their income derived from the partnership interests. According to the Draft Regulations, the foreign-invested partnership enterprise will be responsible for withholding the partners' income for income tax purposes.

The LP structure is expected to be welcomed by venture capital and private equity funds as it permits investment with limited liability and flexible profit-sharing arrangement and affords the partners with corporate income tax exemption.

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