Consultation on appropriate HKVCA response to the guidance issued by the Inland Revenue Department on Profits Tax Exemption for Offshore Private Equity Funds (i.e. DIPN 51)

Responses to Questionnaire

HKVCA called meetings twice to obtain feedback on DIPN 51 from full members (firms that manage capital). 77 attendees from PE/VC firms participated in the discussion of whom 67 completed this questionnaire. We conducted a survey on site with responses from 36% of the association's GP members.

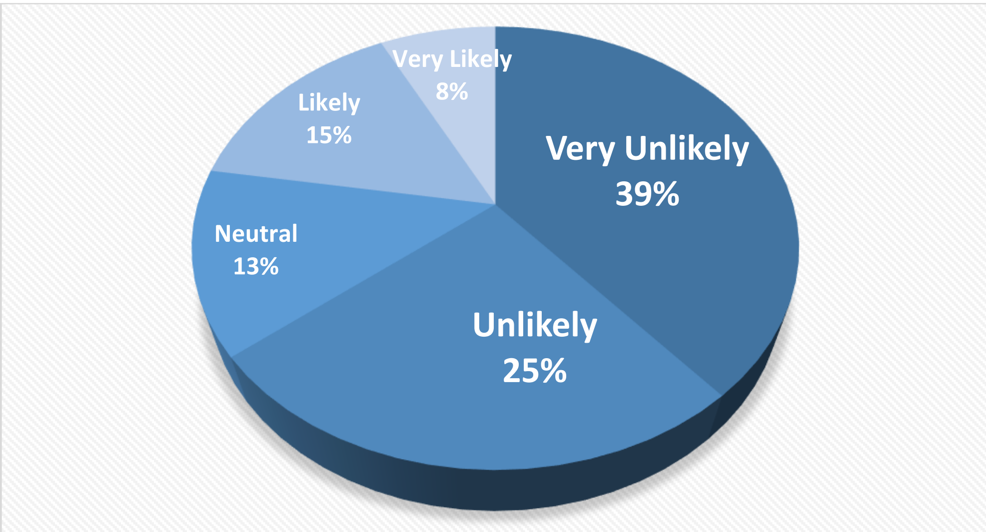
According to the responses, HKVCA summarised that the IRD's practice note leaves areas with uncertainty and could be unworkable for most PE firms. 64% of private equity fund managers will not adopt the "Extended Offshore Funds Exemption Regime" under IRD's interpretation. 55% of participants are likely to apply it if the rules provided greater certainty.

89% of members expressed concern regarding the IRD's proposed treatment of tax on Carried Interest, putting Hong Kong into a very small group of jurisdictions which treated Carried Interest as an income for tax purposes.

31% of members are unconfident that their current treatment of tax on carried interest is correct in relation to the DIPN, compared to less than only one-fourth expressing confidence.

64% of participants believe that the DIPN 51 increases the merits of using Singapore as a domicile for fund management in Asia. In addition, 67% of them are pessimistic about the government's commitment to assisting the PE sector.

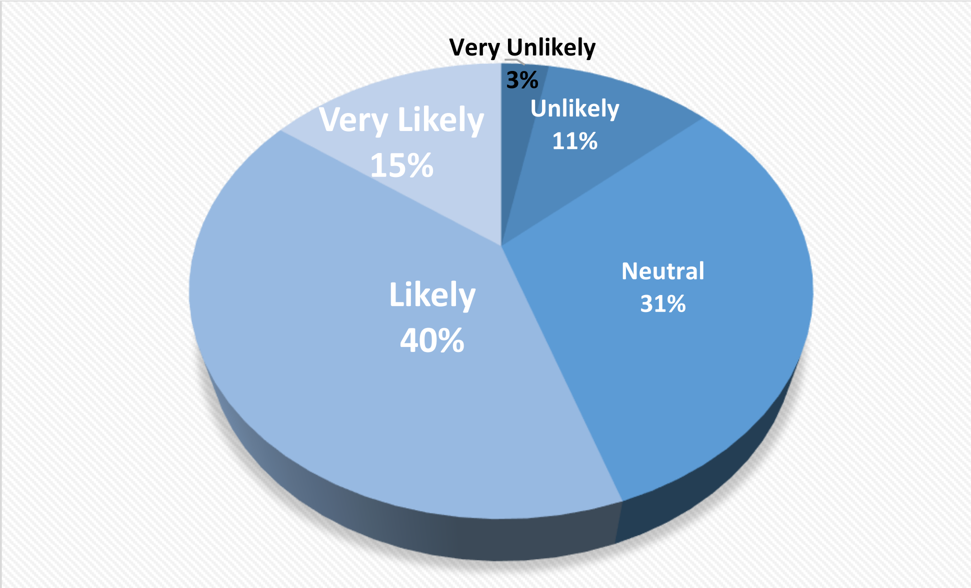
1. Based on the current rule, how likely will your firm seek to adopt the "Extended Offshore Funds Exemption Regime" by moving investment management functions to Hong Kong?



64% of participants are "Very Unlikely / Unlikely" *to adopt the "Extended Offshore Funds Exemption Regime" under the current rule.*

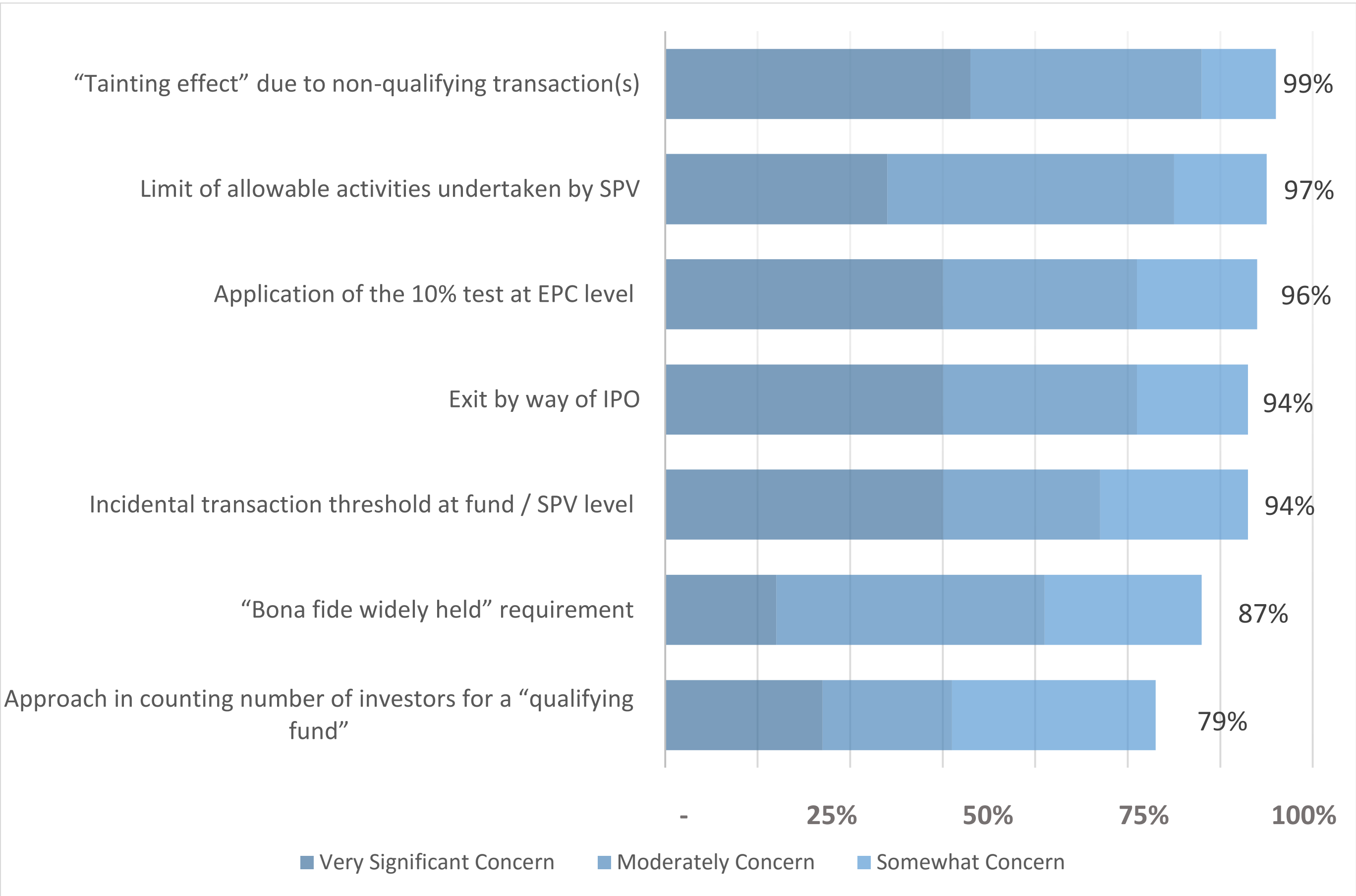
- *The survey is constituted and analysed by the Hong Kong Venture Capital and Private Equity Association ("HKVCA").*

2. If the rules provided greater certainty, how likely will your firm seek to adopt the "Extended Offshore Funds Exemption Regime" by moving investment management functions to Hong Kong?



55% of audience is "Very Likely / Likely" *to adopt the "Extended Offshore Funds Exemption Regime" if the rules provided greater certainty.*

3. In applying the Extended Offshore Funds Exemption Regime in light of DIPN 51, what is your level of concern in respect of the following issues?

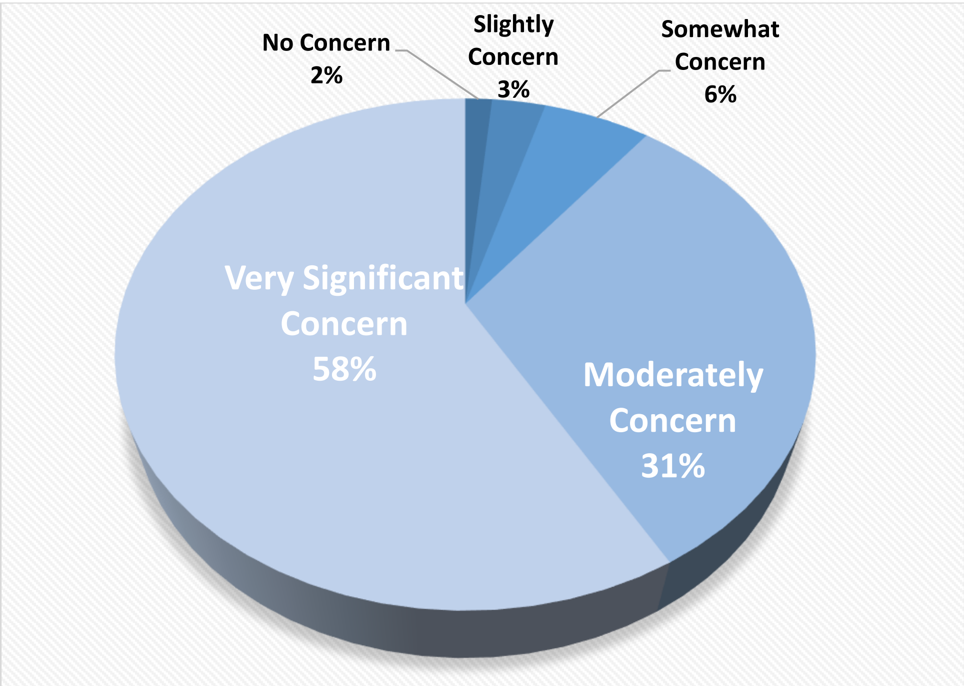


- *The survey is constituted and analysed by the Hong Kong Venture Capital and Private Equity Association ("HKVCA").*

OTHER ISSUES that HKVCA members raised with <u>**HIGH LEVEL of CONCERN**</u> in DIPN 51

- Look Back on Tainting
- Cost-plus Method
- Exit as PE Funds usually Invest Using SPVs
- Carried Interest
- Vagueness of “Market Value” Tests
- Tax Residency of HK SPVs, How to Enjoy Double Tax Treaty
- Dissuade Investment in HK
- HK Based Investment
- Look Back 3 Years from Exit

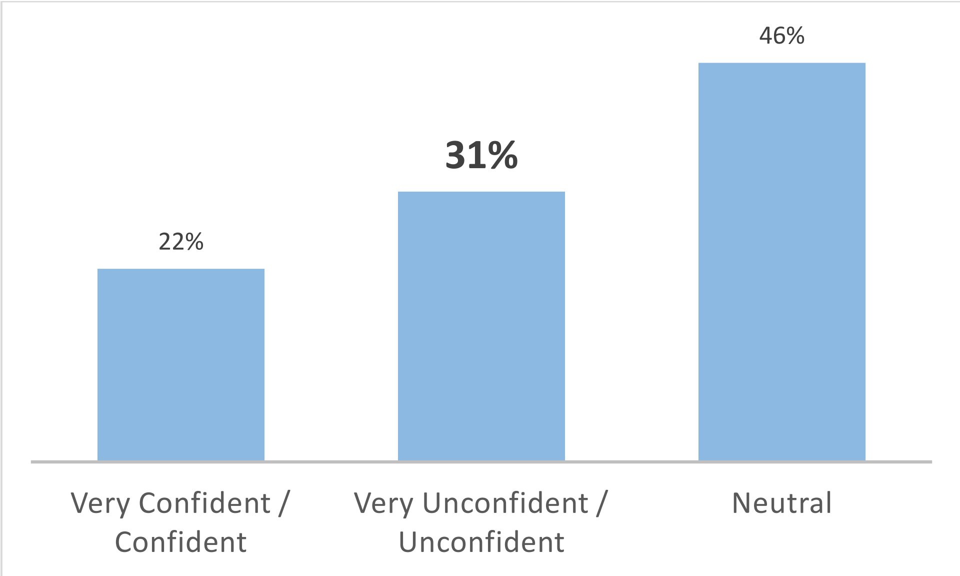
4. How concerned is your firm on the view taken by the IRD in DIPN 51 that carried interest may be subject to tax?



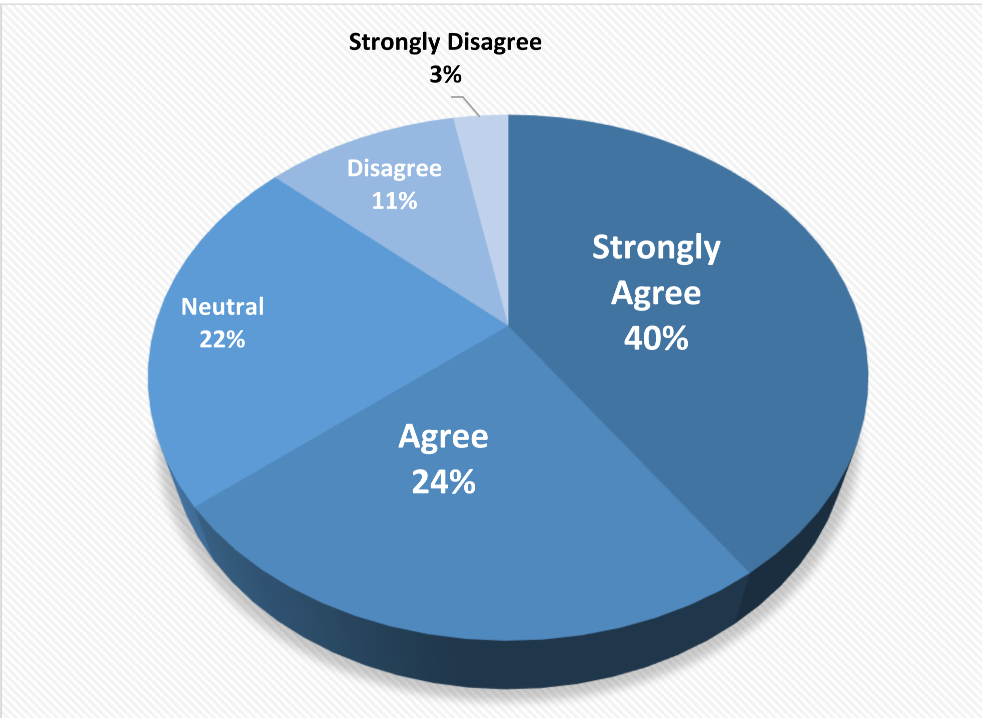
89% of participants are “Very Significant Concern / Moderately Concern” *that carried interest may be subject to tax according to the IRD’s view in DIPN 51.*

- *The survey is constituted and analysed by the Hong Kong Venture Capital and Private Equity Association (“HKVCA”).*

5. Are you confident that the HK tax treatment of carried interest you currently adopted is correct?



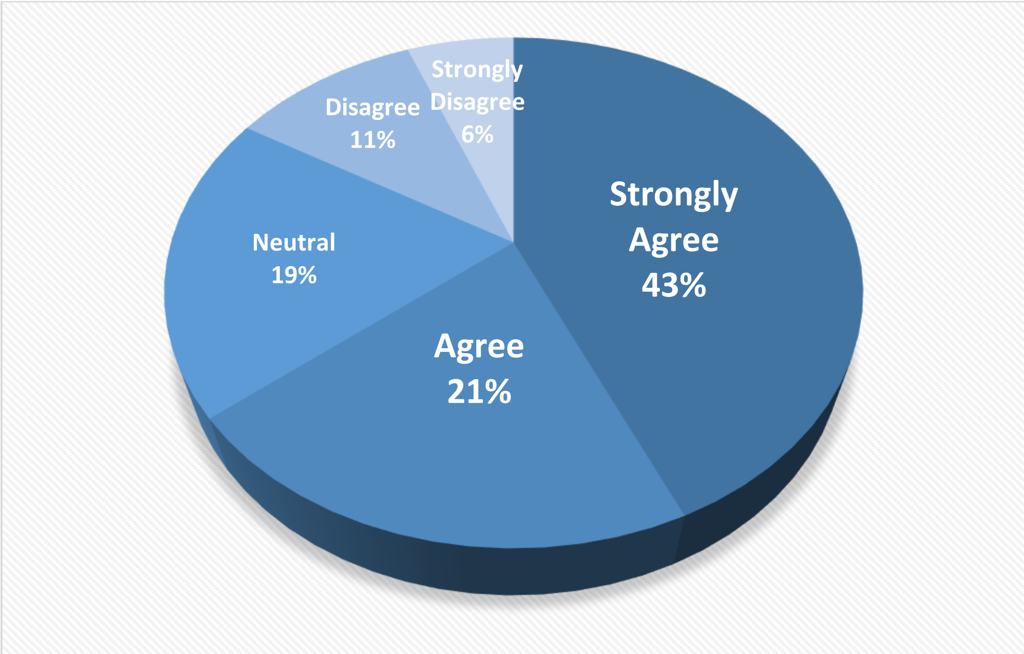
6. Do you agree that DIPN 51 increases the merits of using Singapore as a domicile for fund management in Asia?



64% of audience is "Strongly Agree / Agree" *the DIPN 51 increases the merits of Singapore as ad domicile in Asia.*

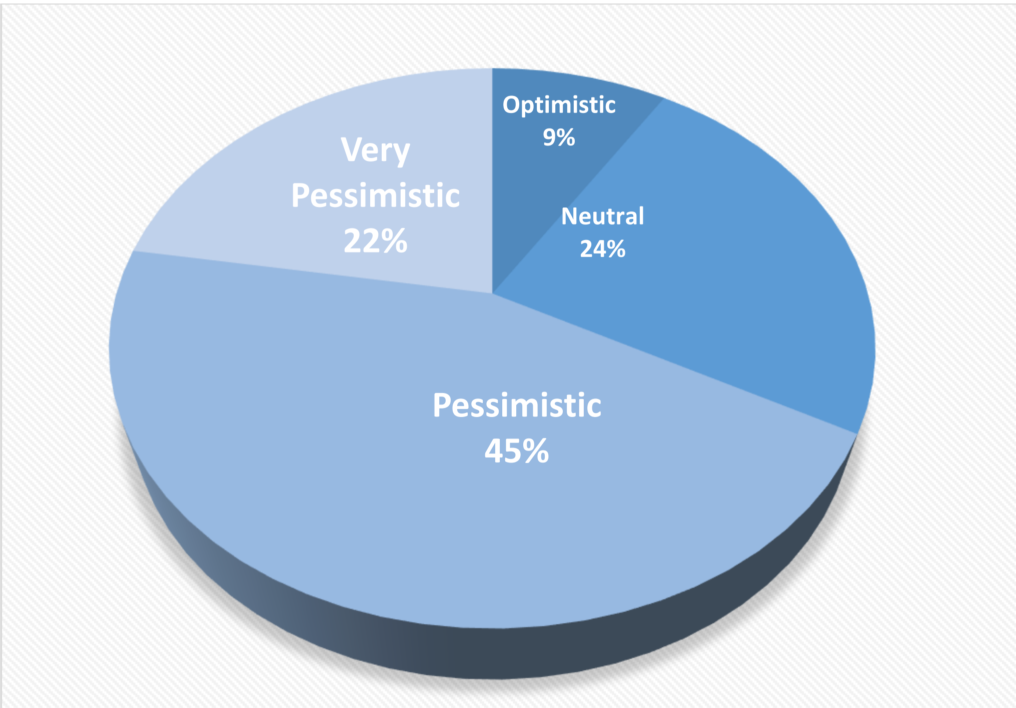
- *The survey is constituted and analysed by the Hong Kong Venture Capital and Private Equity Association ("HKVCA").*

7. Do you agree it is worthwhile for HKVCA to advocate the establishment of an onshore fund and onshore management structure?



***64% of participants are "Strongly Agree / Agree"** that it is worthwhile for HKVCA to advocate onshore fund regime*

8. Are you optimistic that the Hong Kong government is committed to helping the PE section?



***67% of participants are "Very Pessimistic / Pessimistic"** that the HKSAR will commit to assist the PE industry and relevant professionals.*

- *The survey is constituted and analysed by the Hong Kong Venture Capital and Private Equity Association ("HKVCA").*

About the Hong Kong Venture Capital and Private Equity Association (HKVCA)

HKVCA is an association which represents over 180 PE firms based in HK and close to 145 Associate members from firms which provide services to the private equity sector. Established in 1987, the HKVCA members manage over US$1 trillion in assets globally and across all types, and includes seven of the world's top ten largest private equity firms as well as small venture capital investors. Our member firms are engaged in venture capital and private equity investments at all levels across Asia-Pacific, including venture, growth, buyout, secondary, pension, fund of funds and family offices.

Contact Us

Room 2001, Wilson House
19 - 27 Wyndham Street
Central, Hong Kong
Telephone: (852) 2167 7518
Facsimile: (852) 2167 7530
www.hkvca.com.hk