



Hong Kong Venture Capital And
Private Equity Association
香港創業及私募投資協會

7 October 2005

Hon James Tien Pei-chun
Chairman of the Bills Committee
Legislative Council
HKSAR of the People's Republic of China

Dear Sir,

Bills Committee on Revenue
(Profits Tax Exemption for Offshore Funds) Bill 2005 (the "Bill")

We refer to your letter dated 21 July 2005 inviting the Hong Kong Venture Capital and Private Equity Association ("HKVCA") to give views on the Bill, and the supplementary notes to the Bill issued on 4 October 2005. As requested, we are providing you with our written submission.

The HKVCA is strongly supportive of legislation that seeks to maintain and further develop Hong Kong as a financial hub for Asia. Accordingly, from a general perspective, the HKVCA supports new legislation with this objective. However, the HKVCA notes that the Bill excludes from its scope securities issued by private companies which, as I am sure you are aware, are the focus of investments made by venture capital and private equity funds. Accordingly, the HKVCA views the Bill as potentially a helpful piece of legislation for funds investing in securities issued by publicly-listed companies but of limited relevance to funds, particularly venture capital and private equity funds which focus on investing in securities issued by private companies. In addition, the HKVCA notes that the Bill does not address the taxation status of funds that make investments in both securities issued by publicly-listed companies which are included in the Bill and those by private companies which are not.

The HKVCA would like to take this opportunity to reiterate its stance, which is in line with other common law jurisdictions with well developed venture capital and private equity investment communities, that it considers the profits generated on investments made by venture capital and private equity funds typically to be capital in nature. Accordingly, such capital profits should fall outside the scope of Hong Kong Profits Tax irrespective of where such funds source their capital. The HKVCA would further like to take this opportunity to state that it would be of assistance to the venture capital and private equity industry in Hong Kong for the Government to provide more formal clarification of the non taxation of such profits and, thus, the non-application of the Bill to venture capital and private equity funds notwithstanding that they may be serviced by venture capital or private equity fund managers or advisers operating in Hong Kong.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Vincent Chan', written over a white rectangular area.

Vincent Chan
Chairman
Hong Kong Venture Capital and Private Equity Association