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Insights & Ideas

Beijing's newly Issued Measures on Foreign Invested Equity Investment Fund Management Enterprises (Author: Xiaolin Teng)

On January 4, 2010, Beijing Municipal Financial Bureau, Beijing Municipal Commission of Commerce, Beijing Administration for Commerce and Industry and Beijing Municipal Commission of Development and Reform jointly promulgated the *Interim Measures on Establishment of Foreign Invested Equity Investment Fund Management Enterprises in Beijing* (the "**Interim Measures**"), which took effect as of January 1, 2010. The Interim Measures will have a trial implementation within the Zhongguancun National Innovation Model Park for a period of 3 years starting from January 1, 2010. In comparison with Shanghai and Tianjin, the promulgation of the Interim Measures, to some extent, places Beijing in a more advantageous position in attracting offshore equity investment entities, such as venture capital (VC) and private equity (PE) funds, to invest in its jurisdiction.

The most eye-catching aspects of the Interim Measures are addressed below.

First, to the extent permitted by national policies, the Interim Measures offers foreign equity investment capitals a new investment vehicle by allowing them to establish partnership foreign invested equity investment fund management enterprises (the "**EIFMEs**") in Beijing.

Pursuant to the Interim Measures, foreign investors may establish EIFMEs in Beijing in the form of partnerships or other non-corporate entities provided that the national policy so permits. The *Administrative Measures on Establishment of Partnerships within the Territory of China by Foreign Enterprises or Individuals*, promulgated on November 25, 2009 and coming into force as of March 1, 2010 (the "**Administrative Measures**"), provides to foreign investors a new alternative structure to invest in China, i.e. setting up a foreign-invested partnership. However, the Administrative Measures is somehow reluctant to allow foreign investors to establish partnership enterprises primarily engaging in investment business by setting forth an open clause stipulating that "if the state has otherwise provisions regulating partnership enterprises established within China by foreign enterprises or individuals primarily engaging in investment business, those provisions of the state shall prevail". Likewise, the Interim Measures sets forth a precondition to such new investment model, i.e., being permitted by the national policy. As such, it seems that neither the Administrative Measures nor the Interim Measures officially approves the establishment of partnership foreign invested EIFMEs. Even so, the promulgation of the Interim Measures indicates a greater effort taken by Beijing in attracting foreign equity investment capitals in comparison with Shanghai and Tianjin who did not mention such new investment vehicle in their respective measures on equity investment funds.

Second, besides the same policy supports as provided to domestic EIFMEs, foreign invested EIFMEs may enjoy additional financial support if qualified under the Interim Measures.

The Interim Measures provides that, “Foreign invested EIFMEs and equity investment funds initiated or set up by such EIFMEs which are registered with Beijing AIC and Beijing Tax Bureau shall be given policy supports in accordance with the *Opinions on Encouraging Development of Equity Investment Funds Industry*”; “Foreign invested EIFMEs which are in compliance with the national and Beijing municipal industry policies, equipped with a generally acknowledged excellent management team and in compliance with the supporting directions of equity investment development funds in Beijing may be given financial supports by Beijing Equity Investment Development Fund.” However, Shanghai and Tianjin do not provide such financial supports to foreign invested EIFMEs in their measures on PE funds.

In addition, pursuant to the Interim Measures, newly set-up foreign invested EIFMEs shall meet the following requirements: 1) it shall be established in the form of a limited liability company and may use the words “fund management” in its corporate name; 2)its registered capital shall be no less than USD 2 million and the investors shall make the capital contributions in accordance with the relevant PRC law; 3) it shall have more than 2 senior officers who have more than two (2) years experiences with respect to equity investment fund management operation or related business and have no record of violation or been involved in any pending economic disputes during the recent five (5) years and have reputable personal credit records. In respect of foreign invested EIFMEs transformed from foreign-invested enterprises, in addition to satisfying the aforesaid three requirements, they shall have no record of violation or been involved in any pending economic disputes during the recent five (5) years.

Legal Updates

1. SAIC Regulation on Foreign-invested Partnerships Registration (Author: Hong JIANG)

On 29 January 2010, the PRC State Administration for Industry and Commerce ("**SAIC**") issued the *Regulation on Administration for Registration of Foreign-invested Partnerships* (the "**Regulation**"), so as to implement the *Measures for the Administration of Partnerships Established within the Territory of China by Foreign Enterprises or Individuals* issued by the State Council of the People's Republic of China ("**State Council**") on 25 November 2009 (the "**Measures**") (Order of the State Council No.567). Both the Regulation and the Measures will go into effect as of 1 March 2010. The Regulation consists of nine sections, mainly addressing such issues as the formation, alteration, cancellation, branches registration, and annual verification of foreign-invested partnerships (the "**FIP**").

In comparison with domestic-funded partnerships, the administration for registration of FIP has its own characteristics:

Formation Restriction

Investors are generally prohibited from establishing FIPs to invest in projects which are listed in the Foreign Investment Industry Catalogue as forbidden sector or marked with "limited to equity joint ventures", "limited to cooperative joint ventures", "limited to equity joint ventures and cooperative joint ventures", "the Chinese party shall hold the majority of shares", "the Chinese party shall hold the relative majority of shares" and have other restrictions on foreign proportion.

With respect to projects which belong to restricted industries in the Foreign Investment Industry Catalogue without statuary prior approval or involve other government bodies' duties, the registration authorities should seek written opinions from competent government bodies within 5 days after accepting the registration application, and should make a decision on whether to approve the registration or not within 5 days after receiving written opinions form other competent bodies.

Registration Authorities

Under the Measures, where establishing a FIP, a representative or agent commonly designated by all partners may directly file an application with the registration authority, and no prior approval from the commerce bureau is required. The Regulation reaffirms the aforesaid requirement and provides that the SAIC and its local branches ("**local AIC**") which are authorized by SAIC should be in charge of the administration for registration of FIPs. Upon the formation, alteration and cancellation of a FIP, the registration authorities should

timely inform the commerce bureau at the same level of the relevant registration information.

Contribution of Foreign Partners

Where a foreign partner makes capital contribution with the RMB revenues legally gained within the territory of China, it should submit relevant supporting documents, including but not limited to the approval letter for foreign exchange dealings under capital account issued by State Administration of Foreign Exchange ("**SAFE**") with regard to the re-investment using domestic RMB profits or other lawful RMB proceeds. Where a foreign general partner makes capital contributions with labor services, it should submit its work permit to the registration authorities and follow procedures as specially set forth in the relevant RPC regulations.

Alteration Registration

Section 3 of the Regulation provides detailed requirements for alteration of FIPs. It stipulates, inter alia, that where a FIP changes its executive partner, its type of partnership, name of partner(s), the manner in which liability is borne, capital subscription or paid-in capital, duration of payment, method of contribution and method of appraisal, etc., the signatures of all relevant application documents should be notarized by a statutory Chinese public notary office.

Please note that, even if the partnership agreement does not change any matters which should be registered, the FIP still should file the modified partnership agreement or the resolution for modification of the partnership agreement with the original registration authorities.

Special Provisions on FIP mainly engaging in investment business

The Regulation specifically provides that the local AIC at the provincial level should be in charge of the registration of FIPs mainly engaging in investment business. In addition, where a FIP mainly engaging in investment business re-invests in China, it should comply with the Chinese laws, regulations and rules with regard to foreign investment. Where a foreign investment company or a foreign-invested venture capital enterprise establishes a partnership or joins an existing partnership established by Chinese individuals or legal persons or any other organizations in China, it should refer to the provisions of the Regulation.

2. China Strengthens Administration on Foreign Enterprises Representative Offices (Author: Li ZHANG)

The PRC State Administration for Industry and Commerce and the Ministry of Public Security promulgated on January 4, 2010 the *Notice on Further Strengthening the Administration of*

Registration of Resident Representative Offices of Foreign Enterprises (the "**Notice**"). The Notice aims to strengthen the administration of foreign enterprises resident representative offices ("**RO**"). It calls for a crack down on such phenomena as changing a RO's registration matters without going through required procedures, submitting fraudulent documents to finish registration, and conducting business operations illegally etc.

The main contents of the Notice are as follows:

The local administration for industry and commerce ("**AIC**") shall strengthen examination of registration application materials of ROs and strictly implement the notarization and certification system of overseas legal documents. During its establishment or name change process, a RO shall submit the lawful certificate of incorporation of its affiliated enterprise which exists more than two years and the capital credit certificate issued by the financial institution which has business connections with the enterprise, all of which shall be notarized and certified by the national or regional notary public office and the embassy or consulate of the PRC in that country or region. When setting up a RO of an enterprise incorporated in Hong Kong, Macao or Taiwan or changing its name, the required documents shall be in accordance with current relevant regulations. When a RO applies for the renewal of the registration certificate, it shall submit the certificate of good standing issued by the relevant authorities in the country or region where its affiliated enterprise resides.

The local AIC shall issue uniformly registration certificates with a term of one year to ROs applying for establishment and renewal. The issued certificates with a term more than one year shall be reissued when the ROs conduct registration change or renewal.

Generally the number of the representatives (including the chief representative) of a RO shall not exceed four. ROs with more than four representatives are only allowed to deregister the representatives in principle and not allowed to add new representatives.

The local AIC shall conduct on-site examination against such registration matters as the resident address of newly-established ROs within three months following obtaining the registration certificates by the ROs. The ROs which have submitted fraudulent documents shall be timely investigated and dealt with in accordance with law. The ROs which have conducted business operations by charging fees in various forms shall be punished according to the relevant regulations concerning operations without business licenses.

The local AIC and public security authorities will cooperate and coordinate to administer the ROs. The AIC shall notify on a regular basis the exit and entry administration department of the public security authorities of the ROs' registration matters and their unlawful activities. Where a RO is suspected of committing fraud or conducting illegal operations, the AIC shall

timely hand over the case to the public security authorities according to the relevant laws and regulations. Where the exit and entry administration department of the public security authorities discovers that a RO or its representative uses fraudulent address for registration conducts business in a place other than its registered address or fails to file annual inspection, etc., it shall timely notify the AIC to handle the foregoing matters in accordance with law.

3. Summary of Second Amendment of the Implementing Rules of the Patent Law of the People's Republic of China (Author: Ning LI)

On December 30, 2009, the Ninety-fifth Executive Meeting of the State Council passed the *Decision of the State Council to Amend the Implementing Rules of the Patent Law of the People's Republic of China*, which makes further amendments to the *Implementing Rules of the Patent Law of the People's Republic of China* as amended on December 28, 2002 (the "**Old Rules**"). The newly amended *Implementing Rules of the Patent Law of the People's Republic of China* are set to take effect on February 1, 2010 (the "**New Rules**"). This article is to highlight the provisions materially changed in the New Rules, as compared to the Old Rules, so as to give you some basic ideas of the major amendments in the New Rules.

Confidentiality Check Prior to Applications for Foreign Patents

Article 20 of the Patent Law provides that, any entities or individuals who apply for foreign patents with inventions or utility models that are completed in China shall first apply with the patent administrative authority under the State Council for confidentiality check.

Article 8 of the New Rules sets forth the definition of "inventions or utility models that are completed in China" as stipulated in the above provision (i.e., Article 20 of the Patent Law) and clarifies the manner for application of confidentiality check. According to this Article 8, "The inventions or utility models that are completed in China as set forth in Article 20 of the Patent Law shall refer to those inventions or utility models the substantial content of whose technical solutions is completed in China. Any entities or individuals who apply for foreign patents with inventions or utility models that are completed in China shall apply with the patent administrative authority under the State Council for confidentiality check in one of the following manners: (i) if the applicant files its patent in a foreign country directly or file an international patent application with applicable foreign institutions, it shall apply to the patent administrative authority under the State Council in advance for a confidentially check and give a detailed description of its technical solutions; (ii) if the applicant plans to file its patent in a foreign country or file an international patent with applicable foreign institutions after it files an patent application with the patent administrative authority under the State Council, it shall apply to the patent administrative authority under the State Council for a confidentially check before it files a patent in a foreign country or files an international patent with applicable

foreign institutions. The applicant shall be deemed to have applied for the confidentiality check if it submits an international patent application with the patent administrative authority under the State Council."

Article 9 of the New Rules further provides the procedures and timeline of the confidentiality check by the patent administrative authority under the State Council: "If the patent administrative authority under the State Council, after receiving and examining the application made under Article 8 of the New Rules, determines that the inventions or utility models may involve national security or significant national interests and shall be kept confidential, it shall timely give the applicant a notice of confidentiality check; the applicant may file a patent in a foreign country or file an international patent with applicable foreign institutions, if the applicant has not received a notice of confidentiality check within 4 months after the submission date of its application for a confidentiality check. Where the patent administrative authority under the State Council decides to undertake a confidentiality check, it shall timely issue a decision as to whether the inventions or utility models in concern shall be keep confidential. The applicant may file a patent in a foreign country or file an international patent with applicable foreign institutions, if the applicant has not received a decision that confidentiality measures shall be taken within 6 months after the submission date of its application for a confidentiality check.

Disclosure of Genetic Resources

To implement the provisions of the Patent Law that the genetic resources shall be disclosed when apply for patents with inventions completed relying on genetic resources, the New Rules specifies the definition of "genetic resources". Article 26 of the New Rules provides that the genetic resources provided in the Patent Law shall refer to materials from human bodies, animals, plants or microorganism, etc which contain units with genetic functions and have actual value or potential value. Meanwhile, "inventions completed relying on genetic resources" are defined by the New Rules as those inventions completed relying on the genetic functions of genetic resources, therefore, those inventions relying on biological resources but not genetic functions shall not bear a burden of disclosing the information of origin of the genetic resources. In addition, Article 26 of the New Rules further provides the manner of disclosing the origin of the genetic resources, which states that the applicant, who apply for a patent with an invention relying on genetic resources, shall so specify in the patent request and fill out certain forms prepared by the patent administrative authority under the State Council.

Patent Right Evaluation Report

The Patent Law replaces the search report system for utility models with evaluation report system for utility models, adds evaluation report system for design patent, and set forth that

the evaluation report issued by the patent administrative authority under the State Council may be used as evidence in adjudicating or handling patent infringement disputes. The New Rules specifies the manner for an applicant to request a patent right evaluation report and the time limit for the patent administrative authority to issue such patent right evaluation report. According to Article 56 of the New Rules, the applicant shall submit an application and indicate the patent number when requesting for a patent right evaluation report; Article 57 of the New Rules states that the patent administrative authority shall issue a patent right evaluation report within 2 months after receiving the request, and if there are more than one applicants requesting for patent right evaluation reports with the same utility model or design, the patent administrative authority under the State Council shall only issue one patent right evaluation report which can be inspected or reproduced by other units or individuals.

Compulsory License

The Patent Law adds new types of compulsory license and specifies the scope of compulsory license. To implement the relevant provisions of the Patent Law, the New Rules provides that a patentee "insufficiently exploits its patent" if the patentee or its licensee "does not satisfy domestic demands of such patented products or patented processes in either method or scope of exploitation". To make the compulsory license system meet the need of coping with public health crisis, Article 73 of the New Rules provides that the patented drugs as provided in Article 50 of the Patent Law shall refer to any patented products in medical field needed to solve public health problems, or any products directly obtained according to patented processes, which shall include any patented active ingredients needed to manufacture such products and any diagnostic appliance necessary in using such products". As to the grant of compulsory license regarding drug patents, the New Rules explicitly provides that it shall simultaneously comply with the condition and procedure requirements of relevant international treaties (save as reserved by China).

Patent Pass-off

The New Rules combines the acts of passing off other persons' patents or passing non-patented products or processes off as patented products or processes into patent pass-off acts and adds a catch-all provision. Article 84 of the New Rules sets forth that the following shall constitute patent pass-off acts: to attach patent labels to unpatented products or their packages, to continue to attach patent labels to the products or their packages after a patent has been declared null and void or terminated, or to attach others' patent number to products or their packages without being licensed; to sell any products as described in the foregoing section; to misleadingly describe unpatented technologies or designs as patented technologies or designs, refer to patent application as patent in product specifications or other materials, or use others' patent number without being licensed, misleading the public to believe that the involved technologies or designs are patented technologies or patented

designs; to forge or alter patent certificates, patent documents or patent application documents; and other acts which may mislead the public to believe that unpatented technologies or designs are patented technologies or patented designs.

Article 84 of the New Rules further provides that if a person or entity sells a counterfeit patent product but it does not know that it is a counterfeit patent product and is able to prove that the product is obtained for lawful sources, the government authority in charge of patent administration may only order the same to cease selling the product, and exempt it from paying any fines.

Patent Application and Examination

Given the modifications made by the Patent Law in relation to patent grant conditions, the New Rules makes detailed changes with respect to patent application and examination. Article 16 of the New Rules adds and specifies the items which shall be written in the patent application letter, and Article 28 thereof modifies the items which shall be written in the specifications for design patents. Article 41 of the New Rules provides that if an applicant simultaneously applies for a utility model patent and an invention patent on the same invention on the same date, the applicant shall respectively specify in each patent application that it has applied for another type of patent. In accordance with the doctrine that one invention can only be granted with one patent, this article provides that, where an applicant has simultaneously applied for an invention patent and a utility model patent on the same invention, the applicant can be granted with an invention patent only if it declares to abandon the utility model patent it has obtained. If the applicant refuses to make such waiver, its application for an invention patent will be rejected; if the applicant fails to respond within the specified period, it shall be deemed to have revoked the invention patent application; the utility model patent shall expire as of the announcement date of granting the invention patent. Article 35 of the New Rules provides that similar designs in a design patent application shall be similar to the basic design and shall not exceed 10 items.

Other Modifications

Besides the above, the New Rules also makes the following modifications:

The New Rules removed four charging items, i.e. suspending procedure request fee, compulsory license request fee, compulsory license exploitation fee, and application maintenance fee.

The reward and compensation system for work for hire has been modified. The agreement between the employer and the inventor or designer with respect to the manner and amount of the reward and compensation shall prevail over the statutory standard. The employer, as

grantee of a patent may agree on the manner and amount of such reward and compensation with the inventor or designer or so stipulate in its legally enacted rules and regulations. The statutory standard shall prevail if there are no agreement or the manner or amount of such reward and compensation has not been provided in the employer's internal rules and regulations. Kindly note that the application scope of the statutory standard for rewards of work for hires has been expanded to include all kinds of employers, and is no longer limited to state-owned enterprises and public institutions, and the statutory standard for such reward has been raised. The employer shall reach an agreement with the inventor or designer in relation to rewards and compensation for work for hires or add provisions to the same extent in its internal rules and regulations, if it does not want to apply the statutory standard.

The New Rules also clarifies that patent pledge shall be registered with the patent administrative authority under the State Council by the pledgor and the pledgee jointly, which help resolve vague issues under the *Interim Regulations for Administration of Patent Pledge Contracts*.

Important Announcement

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If you have any questions regarding this publication, please contact:

Contact Us

Beijing Office
Tel.: +86-10-8525 5500
Suite 906, Office Tower C1 Oriental Plaza
1 East Chang An Ave.
Beijing 100738, P. R. China

Wenyu JIN Attorney at-law
Tel.: +86-10-8525 5557
Email: wenyu.jin@hankunlaw.com

Shanghai Office
Tel.: +86-21-6080 0919
Suite 5709, Tower 1, Plaza 66, 1266 Nanjing West Road,
Shanghai 200040, P. R. China

Yinshi CAO Attorney at-law
Tel.: +86-21-6080 0980
Email: yinshi.cao@hankunlaw.com

Shenzhen Office
Tel.: +86-755-2681 3854
Suite 4715, Diwang Commercial Centre,
Shun Hing Square, 5002 Shennan Dong Lu,
Luohu District, Shenzhen, P. R. China

Jason WANG Attorney at-law
Tel.: +86-755-2681 3854
Email: jason.wang@hankunlaw.com