MMLC Group

北京铭辉达知识产权代理有限公司

Lawyers and Consultants

China Update

10 July 2017

BEIJING
1209 Tower W3
The Towers
No.1 East Chang An Avenue
Dongcheng District 100738
Beijing, China
北京东城区东长安街 1 号东方广场东方经贸城
西三办公楼 1209 室, 邮编 100738
writer's p: +86 10 8515 1091
f: +86 10 8515 1089
w: mmlcgroup.com

Business News

China's Economic Growth Set to Reach 6.8 to 6.9%

China is expected to achieve relatively fast GDP growth of 6.8 or 6.9 percent in the first half of this year. It is better than expected and more optimized in structure, featuring improving indicators, increasing jobs, stable prices and a sound balance of international payments. Meanwhile, industrial output growth was on the rise and consumption has become a major pillar of growth, indicating that the economy's inherent growth momentum is strengthening. Although growth in the second half of this year may ease due to the higher base of growth in the same period of 2016, possible weakening of the real estate sector and changes in the international trade environment, there should be no doubt that the country would meet its growth target of "around 6.5 percent" for this year.

China OKs More Mergers in June

Mergers of Chinese-listed companies picked up in June, signaling the securities regulator may allow more publicly traded firms to improve their quality through consolidation, at least in the near term. Last month, the China Securities Regulatory Commission gave the green light to 24 listed companies to merge, acquire or restructure their businesses. It was the highest monthly total since the beginning of this year. Most of the approved plans were reverse mergers or so-called backdoor listings, in which unlisted assets are injected into another publicly listed shell company.

China's Sinomach Merges with State Textile Giant

China's State Council has approved a merger between China National Machinery Industry Corporation (Sinomach) and textile giant China Hi-Tech Group Corporation. The textile conglomerate has become a wholly-owned subsidiary of Sinomach, an equipment manufacturing group, and will no longer be directly supervised by the State-owned Assets Supervision and Administration Commission. The merger was in line with the country's aim to raise the

BEIJING
With support offices in Brisbane and Sunshine Beach
Matthew Murphy Ellen Wang Hong Mei Yu Du Xia Yu
Sarah Xuan Fei Dang
Partners and Associates in the MMLC Group are admitted to practice law in China, Australia and Europe (UK)

competitiveness of SOEs, bringing technology and research capabilities to companies such as China Hi-Tech Group, which is in an industry with shrinking revenues.

China Examines Deals Gone Awry to Gauge Banking Risks

The China Banking Regulatory Commission is seeking to gauge how much risk Chinese banks face by lending funds to Anbang Insurance Group Co., Dalian Wanda Group Co., Fosun International Ltd., HNA Group Co., and the Chinese buyer of the AC Milan soccer club. Specifically, the regulator is seeking to assess the likelihood of litigation costs, potential losses to banks if the deals sour and whether enough due diligence was conducted. As a result, Chinese companies have only announced $65.6 billion in global acquisition deals this year after a record $247 billion in overseas acquisitions in 2016.

Natural Gas Consumption to Reach 15% by 2030

China plans to increase use of natural gas to 15% of total energy consumption by 2030. Recently, it calls for greater involvement of private capital in expanding natural gas capacity, including in overseas gas exploration and pipeline construction. In addition, it also encourages the increased use of natural gas in heavily polluted areas, such as Beijing and Tianjin.

Cabinet-Level Financial Regulation Meeting Scheduled for Mid-July

A State Council-led meeting on financial reform, held every five years, is scheduled for mid-July. It will likely focus on improving regulatory oversight of the financial sector and mitigating systemic risks. Currently, credit and liquidity risks within China's financial sector remain largely controllable, while reiterating the urgent need for various financial regulators to cooperate to plug regulatory loopholes and curb excessive leverage.

General Motor Sets a Record for Selling Cars in June in China

General Motors had its best June ever in terms of vehicle sales in China after dropped sales for two consecutive months. The company will roll out 10 new and refreshed models over the next six months to build on the momentum.

U.S. Beef Debuts in China after 14 Years

China, the world's largest pork producer and consumer, has seen beef demand climb as more people adopt Western-style eating habits. China's beef imports hit $2.5 billion last year, with total shipments at 579,836 tons. China has re-started imports of U.S. beef, lifting a ban put in place in 2003 that was triggered by a case of mad cow disease in Washington. The U.S. aims to export more high-quality and safe farm products to China to help balance trade between the two countries. It also hopes that China can approve more traits of genetically modified corn and soybeans and finalize an agreement on rice.

China, Russia Set Up RMB Investment Fund

China Development Bank and the Russian Direct Investment Fund (RDIF) announced a plan to set up China-Russia RMB Investment Cooperation Fund to facilitate the establishment of a simplified framework for direct investments with settlements in national currencies. The investments will total 68 billion Yuan ($10 billion). The investment activities will focus on Russian and Chinese projects, including the Belt and Road Initiative. The fund will promote the comprehensive and long lasting financial and economic partnership between two countries, and facilitate RMB internationalization.

Tencent Sets Limits for Online Gaming

Tencent, the internet giant which ranks first in the world for gaming revenue, began limiting daily playing times for some Chinese kids on its smartphone smash hit King of Glory to ensure children's healthy development. The game is the world's highest grossing game with estimated revenue around 6 billion Yuan ($882 million) for the first-quarter of this year. Users under 12 years old are now limited to one hour of play a day, and will not be permitted to sign in after 9 pm. Users between 12 and 18 years old are limited to two hours per day.

TCL, Tencent Tie Up in Smart TVs

TV giant TCL will sell about 17% of its Thunderbird Technology division, which makes smart TVs and complementary services supplied over the internet, to leading social media firm Tencent for 450 million Yuan ($66 million). The new partnership aims at bringing in Tencent's expertise as an internet company and a supplier of value-added services to its own internet TV business, which has 20 million active users. The tie-up marks at least the second one for TCL and Tencent. In 2012, the pair jointly developed a large screen smart TV that incorporated a video player, a music player and a photo album.

Top 10 Most Competitive Cities in China

Shenzhen, Hong Kong, Shanghai, Taipei, Guangzhou, Tianjin, Beijing, Macao, Suzhou and Wuhan are identified as top 10 most competitive cities in China in a recent report of the Chinese Academy of Social Sciences. The index measures the performance of 294 cities with most located in the Pearl River Delta, Yangtze River Delta and Bohai Rim. Shenzhen has become the most economically competitive city in the country, followed by Hong Kong and Shanghai. The report also looked at liveability and sustainabilities competitiveness with Hong Kong ranking first on both those counts.

China's IPOs surge in first half of 2017

China has been on initial public offerings (IPO) frenzy in the first six months of 2017, with 247 companies going public and more than 125 billion Yuan ($18.46 billion) secured in IPO fundraisers. About 119 enterprises were listed on the Shanghai Stock Exchange and 128 on the Shenzhen Stock Exchange went public in the first half of 2017. Most of the listed companies are from traditional industries such as industrial manufacturing, consumer goods and services. The number of IPO deals in 2017 is expected to reach 320 to 350 and fundraising could generate up to 250 billion Yuan.

Growing Sale of Industrial Robots in China

China remained the largest market for industrial robots in 2016, with sales rising by 26.6 percent year on year to 88,992. The advanced robots account for 61.5 percent of total sales, and the market share of domestic-made robots reached 33 percent. In China, industrial robots are used in sectors including car manufacturing, aviation and home appliances. In the next three to five years, it is expected that 3C industry (computers, communications and consumer electronics) will become the largest application field of industrial robots. The development of industrial robots has become a major aspect in transforming and upgrading China's manufacturing industry.

HSBC Wins China JV Approval

HSBC has finally won approval from the China Securities Regulatory Commission for its Chinese joint venture-HSBC Qianhai Securities, enabling it close the gap on the select few other global banks with an onshore presence as financial sector interest in China picks up anew.

China's Vision for a Straddling Bus Dissolves in Scandal and Arrests

In 2016, a Chinese inventor planed to develop a giant tram rolling over pesky cars clogging the streets. After some delays and breathless news coverage, such a bus designed to ride on tracks, but with its body elevated so that two lanes of traffic could pass underneath, was tested in August last year in the northern seaside town of Qinhuangdao. In subsequent months, the Chinese news media and investors raised pointed questions about the company behind the project which promoted the "reliability" of investing in public-private partnerships like the bus initiative and promised annual returns of up to 12 percent. In the fall, as public scrutiny increased, the test track and the huge, 72-foot-long, 16-foot-high prototype fell into disuse. In June this year, workers began dismantling the 330-yard track, a sign the local government would not allow the project to continue. Actually, this project has been effectively killed after 32 people from an investment company that backed the project were arrested.

Second Chinese Bike-sharing Firm Shuts after Public Appeal Fails to Bring Back Stolen Bicycles

Bike-sharing schemes have proved extremely popular in China, but companies face intense competition with about 30 operators in business. The Beijing-based company 3Vbike was first registered last year with initial capital of 100,000 Yuan (US$14,700). The founder of the company, then spent 700,000 Yuan himself buying 1,000 bicycles for hire in four cities in Hebei and Fujian provinces and on operational costs after failing to find fresh funding. However, many bicycles were stolen within days as the firm had to rely on cycle location tracking supplied on a WeChat social media page rather than providing their own app. The company appealed publicly for its bikes to be returned last month to try to save the firm from collapse. Only several dozen were handed in. The firm was shutting last month just over a week after Wukong Bicycle in Chongqing closed its services.

Ghana Signs $10 Billion Bauxite Project Agreement with China

Ghana signed an agreement with China that could lead to the development of a $10 billion bauxite venture, involving the construction of refineries and railway infrastructure. The two countries agreed to a memorandum of understanding in which China will provide funding for the project to exploit the West African nation's 960 million metric tons of bauxite deposits.

Tencent Dominates in China. Next Challenge is Rest of the World

Tencent, which is based just north of Hong Kong in Shenzhen, permeates daily life in China. More than two-thirds of Chinese people use its two messaging apps, WeChat and QQ, for everything from texting to shopping, flirting, dating, watching videos, playing games, and ordering food and taxis. Chinese users collectively spend 1.7 billion hours a day on Tencent apps, more than they spend on all other apps combined. Tencent's stock had risen to make it the most richly valued company not only in China, but in all of Asia—a record it now trades back and forth with its archrival, Alibaba Group Holding Ltd. Currently, its executives focus on the direction of where the company is going. Where the company wants to go, eventually, is outside its home market.

There's no hiding any longer, now that the company has one of the most formidable challenges in all of business: taking a quintessentially Chinese company to the world.

Tencent's China Literature Files for Hong Kong IPO

Tencent unit China Literature Ltd. is the country's largest online and e-book publisher. It has a business similar to Amazon's Kindle Store, operating a platform with 8.4 million literary works from 5.3 million writers. It is said the company has filed for a Hong Kong initial public offering that is expected to raise up to $800 million. The company is looking to raise funds for acquisitions and expand its mobile reading business. Tencent Holdings Ltd. planned to hold at least 50% of China Literature after the spinoff and that the offering will consist of 15% of the firm's enlarged share capital.

China's Securities Regulator Hands out More Fines in H1

China's securities regulator has handed out more fines in the first half of this year to punish market violations amid tightened financial supervision. Financial regulators have rolled out a string of tightening measures targeting shadow banking and other undesirable practices. In the first half of 2017, the China Securities Regulatory Commission (CSRC) has given fines totaling 6.36 billion Yuan ($938.8 million), up 149 percent year-on-year. A total of 30 people were suspended from securities businesses in the first half, almost on par with the number of the whole year of 2016. During the period, the CSRC has dealt with 24 cases of violations in information disclosure, 24 cases of insider trading, and 14 cases of market manipulation.

Crown's Jason O'Connor Jailed by China for Gambling-Related Crimes

More than a dozen employees at Crown Resorts Ltd., billionaire James Packer's gaming company that's at the center of a probe in China, were convicted of illegally promoting gambling in the most high-profile crackdown on overseas casino operators courting customers on the mainland. Jason O'Connor, Crown's head of international high-roller operations, was handed a sentence of 10 months in jail. Two other Australians received nine months from Shanghai's Baoshan district court. They could have faced a maximum of three years under Chinese law. The sentencing takes into account the time they have served in detention since October last year, which means some of them could be released within weeks.

Legal News

Intellectual Property

Parallel Import of Spirits with Lot Numbers Removed Found to be Infringing on Trademarks in China

In 2016, ALLIED DOMECQ SPIRITS & WINE LIMITED (ADSWL), the owner of the registered trademarks "Ballantine's" and "百龄坛 (Ballantine's in Chinese)" in Class 33 in China, found a retailer in Changsha being engaged in selling parallel imported authentic Ballantine's whisky, parallel imported, with the lot number removed and the original back label covered with ADSWL's "百龄坛" label without authorization. A lot number is an identification number enabling manufacturers to perform quality control checks, calculate expiration dates, and issue corrections or recall information concerning their production, and giving consumers an identifier that they can use in contacting the manufacturer and researching the production of goods received. Then, ADSWL brought a lawsuit against the retailer before the Changsha Intermediate Court. On January 22, 2017, the Court holds that removing the lot number from the product hurts both the consumer and the trademark owner since it compromises the identifying function of the trademark and it interferes with the trademark owner's capacity to trace the product and control the quality. The Court, therefore, finds the act of removal (lot number) and the unauthorized use of the "百龄坛" trademark constitutes an act of infringement as defined by Article 57.7 of the 2013 Trademark Law, and grants an injunction and damages for an amount of RMB 20,000.

Copyright Infringement Cases Accounted for Half of the Total IP Infringement Cases

In accordance with a report issued by the Supreme People's Court recently, the numbers of the intellectual property infringement cases in 2016 increased by 41.34% compared to 2015, of which the proportion of copyright infringement cases, trademark infringement cases and patent infringement cases were 50.20%, 34.17% and 15.63% respectively. Guangdong, Beijing and Zhejiang concluded the largest number of cases.

Nokia, Xiaomi Sign Patent Licensing Deal

Telecoms network equipment maker Nokia and Chinese smartphone maker Xiaomi Technology have signed a patent licensing agreement. The agreement includes a joint license to each company's cellular standard patents. Meanwhile, Nokia will also provide network infrastructure equipment to Xiaomi.

OEM is Found Infringement When the Trademark Used is NOT the Same

The Shanghai Intellectual Property Court recently issued a judgment finding that an OEM manufacturer infringed upon domestic trademark registrations of "PEAK" marks under Registration No. 676992 and 5087689 when manufacturing identical products for a foreign trademark owner for pure exporting purposes due to the reasons such as the logo actually used on the OEM products incorporates "PEAK" in a prominent way making the logo distinguishable from the foreign trademark owner's but similar to the domestic "PEAK" trademarks; there is a possibility for the relevant Chinese public to buy the exported products from the internet; and the domestic "PEAK" trademarks have enjoyed a certain degree of recognition in China, USA and other markets abroad. Shanghai IP Court's finding will fundamentally shift the "OEM exemption" previously established by the Supreme People Court, which basically confirmed that when goods are made purely for exporting purposes and are not distributed to the local market, the relevant domestic consumers will have no access to the goods and the logo on the goods do not function as a trademark; therefore there is no infringement on the domestic trademark owner.

China Slams Europol Report Highlighting its Position as Top Source of Fake Goods

According to a recent report from the European Union's law enforcement agency, China remained by far the main country of provenance for counterfeit products in the EU, with Hong Kong acting as a transit point for goods originally manufactured in China. The report cited statistics from a U.S. Chamber of Commerce study which estimated that 72 percent of counterfeit goods in circulation in the European Union, Japan and the United States, were exported from China in 2016. China condemned the report that accused the nation of being the main source of counterfeit goods in the European Union, calling the report and its findings "irresponsible" and reiterating its efforts to crackdown on intellectual property right violations in its markets.

Privacy

Apple Distributors Arrested for Allegedly Selling Customer Personal Information

Police in China's Zhejiang province released a statement reporting the arrest of 22 third-party Apple distributors for allegedly selling customer data on the black market. Officials claim that the suspects searched an internal Apple database to obtain sensitive information, such as names, Apple IDs and phone numbers. Each sale was for between 10 Yuan to 180 Yuan (A$1.95 to A$35.17). The entire scam was reportedly worth more than 50 million Yuan (about A$9.8 million). It is presently unclear whether there were victims outside of China, or how many people were affected by the breach.

Arbitration

Specialized Arbitration Centre Launched in Response to Rising Prominence of PPP in China

On 16 May 2017, the China International Economic and Trade Arbitration Commission (CIETAC) launched its Public-Private Partnership Arbitration Centre in Beijing. The new arbitration centre is the first in China that has a matter specific competence dedicated to resolving disputes arising from public-private partnership (PPP) projects. The PPP Arbitration Centre will use CIETAC Arbitration Rules instead of its own tailor-made rules, and will have a distinct panel of arbitrators consisting of select Chinese and international experts in PPP, construction and project management related disputes. The design seems to be balancing specialization and continuity with CIETAC's rich case administration experience under the existing rules.

Investment

New Investor Protection Rules

The China Securities Regulatory Commission (CSRC) made it compulsory for all securities and futures brokerages and fund companies to perform a suitability assessment on investors starting July 1. The rules place the burden of assessing investor competence on the financial institutions. It is a milestone for investor protection in China, where more than 80% of market participants are retail investors. As a result, brokerages or fund companies must first cull the professional investors from the ordinary ones. Those who are not professional investors are classified as ordinary investors. Among these investors, the mandatory assessment will categorize them into one of five tiers, with tier 1 being the most vulnerable group. Brokerage and fund companies are required to categorize their own products and investment strategies into five tiers, with tier 1 being the least risky. Brokerages or fund companies must adhere to the investor's risk profile when selling them investments or services.

China Further Lifts Barriers to Foreign Investment

China announced that it will use a "negative list" management approach for all foreign investment, open up more sectors and further relax restrictions for foreign businesses. From July 28, the negative list approach, which identifies sectors and businesses that are off-limits or restricted, will be implemented nationwide. Meanwhile, the National Development and Reform Commission and Ministry of Commerce jointly issued a revised foreign investment catalogue, which includes the negative list as well as sectors and industries that the government wants to encourage foreign companies to invest in. As a result, foreign investment now have easier access to China's highway passenger transport, processing of certain rare metals, as well as manufacturing of rail transit equipment, and cooking oil, among others. The catalogue also shortened the list of sectors that completely ban foreign investment from 36 to 28. Sectors that are off-limits to foreign investors include air traffic control and compulsory education institutes.

NDRC's Probe of the Foreign Finance Sector May Signal Increased Antitrust Enforcement Risks Related to SSA Market and Beyond

Recent press reports in China have indicated that China's National Development and Reform Commission (NDRC) is launching an inquiry into firms in the foreign finance sector to determine if they have engaged in price fixing. While the NDRC has not released any public information regarding the probe, local sources note that it is likely to be in its early stages and related to possible manipulation in the trading of so-called supranational, sub-sovereign and agency bonds.

Chinese mainland, HKSAR Sign Two New Agreements under CEPA

The Chinese mainland and Hong Kong signed two new agreements under the framework of the existing bilateral economic pact Closer Economic Partnership Arrangement (CEPA). The two agreements are the Investment Agreement and Agreement on Economic and Technical (Ecotech) Cooperation. The former is the first investment agreement of the mainland with pre-established national treatment commitments made for the advocation of investment adopting a negative listing approach. The agreement on Ecotech specially emphasizes mainland's support to Hong Kong in participating in the Belt and Road Initiative.

FTZs open wider to foreign firms

China has pledged to offer more market space to foreign companies to carry out manufacturing, transportation, information, mining, scientific research and culture-related business in 11 pilot free trade zones. Recently, the Ministry of Commerce announced more sectors are now open for foreign investment in these zones, ranging from helicopter manufacturing to financial services. The central government removed the restriction that Chinese partners must hold stakes when foreign businesses set up companies to manufacture helicopters over three metric tons in its FTZs, and that urban rail vehicle production business must be conducted under the format of joint ventures.