INTELLECTUAL PROPERTY PROTECTION

China is a member of the WTO and consequently a party to all major intellectual property conventions of the organization, as well as others, including the Paris Convention, Patent Cooperation Treaty, Berne Convention, Universal Copyright Convention, Geneva Convention and Madrid Agreement on International Registration of Marks.

Patents

The Patent Law of the People's Republic of China (the "Patent Law") was amended on December 27, 2008. The revision came into effect on October 1, 2009 and was supplemented in 2010 with revised Implementing Regulations (the "Implementing Regulations"). The Implementing Regulations were published on December 30, 2009 and came into effect on February 1, 2010.

In July 2014, China's Supreme People's Court issued two important draft judicial interpretations with respect to patent infringement proceedings for public comment. The first draft (the "First 2014 Draft Opinion") issued on July 16, 2014 is intended to amend a previous judicial interpretation, the Several Rules on the Application of Law in the Adjudication of Patent Disputes (2001). The second draft (the "Second 2014 Draft Opinion") issued on July 31, 2014 covers various important issues for civil patent enforcement in China.

The Patent Law and its Implementing Regulations adopt a "first-to-file" rather than "first-to-invent" system. There are three types of patents: patents for inventions of 20 years duration from the application filing date; patents for utility models of 10 years duration; and design patents of 10 years duration. The system is compliant with the WTO Agreement on Trade-related Aspects of Intellectual Property Rights ("TRIPS

Agreement"), with Paris Convention priority. This means that if a patent application for an invention or utility model patent is first filed in another Convention-member country within 12 months before the filing date in China, the prior filing date will be regarded as the priority date in China. In the case of design patent applications, the relevant period is six months.

The Patent Law grants protection to inventions, utility models and designs. An invention comprises any new technical solution regarding a product or a process or an improvement thereof. This includes pharmaceutical products and substances obtained by means of a chemical process. Utility model comprises any new technical solution proposed for the shape or structure of a product or a combination thereof that is capable of practical use. Design relates to any new shape or pattern of a product or the combination of color, shape and pattern thereof that creates an aesthetic feeling and is suitable for industrial application.

The revised Patent Law tightens the criteria for patenting designs to combat "junk" design patents. To enjoy protection, designs must now possess "obvious distinctions" from either the prior art or combinations of prior art features. The patenting of two-dimensional designs (e.g., labels) will be prohibited where the graphics or colors or their combination are mainly used as indications of source.

The patentability of business method software patents remains unclear and obtaining protection is difficult.

Foreign applicants are required to submit patent applications in China through an officially designated patent agent, and should not apply directly to the Patent Office. International applicants may be granted a Chinese patent only after the applicant has carried out the relevant procedures in the PRC Patent Office. A patent applicant whose application is rejected by the Patent

Office may request a re-examination by the Patent Review Board ("PRB"). The decision of the PRB may be appealed to a People's Court.

Under the revised Patent Law, inventions that are completed in the PRC need to first be filed in China or undergo a security review in China, before being filed overseas. Parties that fail to do so risk losing their patent rights.

In addition, the revised Patent Law expands the definition of "prior art" to include any technologies or designs that are known to the public inside or outside China before the application date.

The right to apply for patents in relation to inventions, utility models and designs lies in the first instance with the inventor, subject to contractual provisions to the contrary. Where inventions, utility models or designs are created as a result of carrying out employment duties or primarily by using the materials and resources of an employer, the right to apply for patents belongs to the employer. The right to apply for patents in relation to inventions or designs unrelated to employment belongs to the inventor or designer. As in other jurisdictions, defining the scope of employment is crucial in determining patent rights. The Patent Law further states that in cases where inventions or designs are created as a result of using the materials and resources of the employer, if the employer and the employee have entered into a contract stipulating ownership of the patent application rights and patent rights, the contract will prevail.

The revised Patent Law creates a new basis for rejecting patent applications that warrants close attention by patent owners accustomed to relying on continuation or continuation-in-part filing strategies. Prior applications for similar technologies or

designs filed by any party, including the same applicant, will in future be deemed conflicting.

From the date a patent is granted, any party may apply to the PRB to invalidate the patent on the ground that its grant does not comply with the Patent Law. The PRB's decision in an invalidation application may be judicially reviewed.

Patent infringement occurs when aspects of a product fall within the scope of the protected claims of a patented item. The time limit for patentees to file infringement actions is two years from the date the patentee becomes aware of or should have become aware of the infringing activity. Infringement suits may be brought either through the People's Courts or through local Patent Management Bureaus. Administrative decisions may, however, be appealed to the People's Courts. As an interim measure, the patent owner may request the Court to issue orders for preservation of property and/or evidence. Security must be provided with the application.

The Patent Law stipulates that compensation for patent infringement should be calculated by reference to the loss suffered by the patent owner or the gain reaped by the infringer as a result of the infringement. If the patent owner's loss and the infringer's gain are both difficult to calculate, one to three times the reasonable patent license fee may be considered. The First 2014 Draft Opinion proposes to amend this position by providing that courts are not to be bound by the one to three times multiplier but will instead have the discretion to decide a figure outside this range. The revised Patent Law additionally provides that the patent owner is entitled to claim back reasonable expenditures incurred as a result of any actions taken to stop infringement. It also raises the maximum amount of statutory damages the court can award in situations where the license fee is difficult to determine from RMB500,000 to

RMB1,000,000. Furthermore, the Second 2014 Draft Opinion proposes to introduce a pro-patentee damage calculation and a reversed burden of proof. It is proposed that the court can decide on damages based on the plaintiff's evidence if the defendant refuses to provide its own financial records without reasonable justification. This amendment favours patentees since the burden of proof will be largely shifted to the infringer to furnish its financial records for the purpose of damage calculation.

The revised law permits two categories of acts which previously would have been regarded as patent infringement. Parallel importing has essentially been legalized. A new "Bolar Exemption", which allows the manufacture, use and import of patented pharmaceutical products or medical devices to obtain regulatory approval, has also been introduced.

In addition, the revised law adds provisions on compulsory licensing, mainly to codify existing regulations and ensure compliance with China's obligations under the TRIPS Agreement. On March 15, 2012, the State Intellectual Property Office ("SIPO") issued the revised Measures for Compulsory Licensing of Patent Implementation (the "Measures"). The Measures incorporate relevant provisions from the Patent Law and set out the procedural requirements for compulsory license applications. Overall, these Measures formalize the procedures for the application and issuance of compulsory licenses, including for the purpose of dealing with public health crises, and arguably provide patentees with greater legal certainty.

As in Europe, various forms of compulsory licenses may be applied for in different cases, such as non-exploitation of a patent or national emergency, but all are subject to payment of license fees to the patentee as mutually agreed by the parties or as stipulated by the Patent Office.

The current Patent Law is subject to another round of revisions, and the draft of the fourth amendment to the Patent Law was released for public comments on August 9, 2012.

The Second 2014 Draft Opinion issued in July 2014 covers various important issues for civil patent enforcement in China. It provides for more stringent procedural requirements in filing claims and greater discretion for the courts to suspend infringement actions. It also covers substantive legal doctrines and judicial practices impacting on claim construction, assessment of infringement, liabilities and defense. One of the proposed amendments includes the clarification of the interpretation of functional features. The Second 2014 Draft Opinion also introduces the fair, reasonable and non-discriminatory ("FRAND") requirements for standard essential patents. These mentioned important provisions of the Second 2014 Draft Opinion have been adopted, partially or fully, by different local courts in actual cases. It is anticipated that such provisions will make their way to the final judicial interpretation to be issued.

Trademarks

The Trademark Law of the People's Republic of China (the "Trademark Law") was amended for the third time with effect on May 1, 2014. The revisions to the Implementing Regulations of the Trademark Law (the "Implementing Regulations") were published on April 29, 2014 and also came into effect on May 1, 2014.

The Trademark Law imposes a strict first-to-file rule for obtaining trademark rights, whereby the first party to file for registration of a mark pre-empts later applicants. Prior use of an unregistered mark is generally irrelevant for trademark

registration purposes, unless the prior mark in question is a well-known mark, or the later filing is a bad-faith pre-emption of the prior mark that has achieved a certain degree of fame through use.

An application for trademark registration must be filed with the Trademark Office of the State Administration for Industry and Commerce ("SAIC"). Under the revised Trademark Law, the Trademark Office is required to complete preliminary examination of an application within a shortened timeframe of nine months from the filing date. After a trademark application has been granted preliminary approval by the Trademark Office, it will be published in the PRC Trademark Gazette. If no opposition is filed within the statutory three-month opposition period, the PRC Trademark Office will publish an announcement in the Trademark Gazette and issue a registration certificate.

The Trademark Law provides that any "visually perceptible" sign capable of distinguishing the goods of one natural person, legal person or other organization from those of another may qualify for registration as a trademark. The sign may take the form of words, figures, letters, numbers, three-dimensional signs, color combinations or a combination of any of these elements. The revised Trademark Law allows the registration of sound marks. However, single-color marks, smell and taste marks are still not available for registration. Collective marks and certification marks may be registered as trademarks in the PRC. Geographical indications may be registered as collective or certification marks.

The revised Trademark Law permits multi-class trademark applications. Applicants are generally required to follow standard specifications of goods and services when filing their trademark applications.

Under the revised Trademark Law, oppositions based on absolute grounds may be filed by anyone, but oppositions based on relative grounds (i.e. conflicts with prior trademarks or other rights) may only be filed by a prior rights holder or a "materially-interested party". The revised Trademark Law shortens the timeline for oppositions and also radically changes the opposition procedures. If the Trademark Office rejects an opposition, the opposed mark will proceed straight to registration. If dissatisfied, the opposing party has no opportunity to appeal the Trademark Office's decision but will instead have to apply to the Trademark Review and Adjudication Board to invalidate the disputed trademark.

A trademark registration is valid for 10 years from the final date of approval (i.e. upon expiration of the three-month opposition period or, for international trademark registrations extended to the PRC under the Madrid Agreement or the Madrid Protocol, the date of filing), with further 10-year renewal terms available. Under the revised Trademark Law, renewal applications can be filed with the Trademark Office during the last 12 months of the current term or, subject to payment of an additional fee, within six months after expiration of the term.

Trademark owners pursuing oppositions and cancellations may seek formal recognition of their marks as "well-known" (*chi ming* in Chinese), thereby aiding attempts to block others from registering similar marks covering dissimilar goods or services. Determinations on well-known status are made on a case-by-case basis. An interpretation issued by the Supreme People's Court allows courts to formally recognize the well-known status of a mark during a civil dispute. The revised Trademark Law also provides clarification as to the proceedings in which well-known mark protection can be sought.

Where a PRC-registered trademark is assigned, the assignor and assignee must execute an application which must be filed for approval with the Trademark Office. Upon approval, the assignment will be gazetted. Legal title to the trademark is not deemed to pass until the assignment has been approved by the Trademark Office.

The Trademark Law requires a trademark registrant to enter into a written license contract when licensing a PRC-registered trademark to third parties. The revised Trademark Law no longer requires submission of a copy of the trademark license agreement for recordal purpose. However, a trademark license that has not been recorded may not be used against a bona fide third party.

The revised Trademark Law provides a modified list of acts of registered trademark infringement. Moreover, it expands on the fair use defense. This includes an exception for the legitimate use of generic and directly descriptive wordings. More importantly, the revised Trademark Law now provides a prior use exception. Although not stipulated, prior use will most likely need to have occurred in China for the exception to apply.

Interim measures are available in trademark infringement cases brought before civil courts, including the issuance of injunctions and seizure of evidence by judicial authorities. The revised Trademark Law has significantly increased the amount of statutory damages of up to RMB3,000,000, which is six times the previous amount, in cases where the plaintiff's losses, the defendant's profits, or trademark royalties cannot be easily proved. Further, the civil courts can compensate trademark owners for enforcement-related expenses, including legal and investigation costs (although such awards are normally modest). The revised Trademark Law also introduces punitive

damages in cases involving bad faith infringement of a trademark.

Administrative enforcement authorities, known as Administrations for Industry and Commerce ("AICs"), and civil courts are authorized to confiscate and destroy infringing products and trademark representations and the equipment used to make them.

Under the revised Trademark Law, AICs are now entitled to impose much higher fines. If there is no illegal turnover or the illegal turnover is less than RMB50,000, the AICs can impose a fine up to RMB250,000. Where the illegal turnover is over RMB50,000, the AICs can impose fines of up to five times the illegal turnover. The revised Trademark Law also provides for heavier penalties in cases involving repeat offenders or other serious circumstances.

There may be criminal liability if the value of the counterfeited goods exceeds certain thresholds. Currently, the matter will be regarded as serious and criminal liability could attach where the value of the goods exceeds RMB50,000.

Copyright

The Copyright Law of the People's Republic of China (the "Copyright Law") was amended with effect from October 27, 2001, and its Implementing Regulations (the "Implementing Regulations") were amended with effect from September 15, 2002. The Copyright Law was again amended in 2010 with effect from April 1, 2010 (the "2010 Amendment") and the Implementing Regulations were revised with effect from March 1, 2013. The 2010 Amendment was in response to a 2009 WTO dispute, and attempts to confirm that "illegal" works can obtain copyright protection. In recent years, the PRC National

Copyright Administration ("NCA") and the State Council have been working on draft amendments to revise the Copyright Law. The proposed draft amendments have gone through three rounds of public consultation.The latest draft amendments were released for public comments on June 6, 2014. At the time of writing, no timeline has been set as to when the draft amendments will be submitted to the Standing Committee of the National People's Congress.

The current Copyright Law introduces protection for (1) written works, (2) oral works, (3) musical, dramatic, Chinese folk art, choreographic and acrobatic works, (4) works of fine art and architectural works, (5) photographic works, (6) cinematographic works, (7) graphic works, (8) model works and (9) computer software. The Copyright Law does not protect databases, i.e. collections of original information that do not qualify for copyright protection. However, if the means of compilation satisfies the requirement of originality, then such compilation can be protected.

The Implementing Regulations provide protection for performances and sound recordings produced or distributed by foreigners and stateless persons, provided that (1) the performances or sound recordings are performed or created in China, or (2) the foreign country where the foreigner performed or created the performances or sound recordings has signed treaties with China. Likewise, protection is explicitly recognized for rights in radio and television programs broadcasted by foreign radio and television stations, provided the country where the radio/television station is located has signed treaties with China.

In compliance with Article 3 of the Berne Convention, the Implementing Regulations clarify that works created by foreigners or stateless persons that are published in China

within 30 days after first publication outside China will be deemed to have been simultaneously published in China.

Under the Copyright Law, an author's moral rights of attribution, revision and integrity are perpetual. A citizen's right of publication and the various economic rights are protected for the duration of the life of the author plus 50 years. For works of a legal person or other organization, or works for hire vested in a legal person or other organization, as well as for photographic works and cinematographic works, the right of publication and other economic rights are protected for a period of 50 years from the date of first publication.

Registration is not a precondition to copyright enforcement but can provide prima facie evidence of ownership in enforcement actions.

The Implementing Regulations require exclusive license agreements to be in writing, and also provide for the voluntary recordal of licenses and assignments. Both full and partial assignment of economic rights in copyrighted subject matter are permissible.

The Copyright Law and relevant judicial interpretations introduce provisions on the enforcement of copyright through civil and administrative measures. Preliminary injunctions may now be sought against copyright infringers, but this is rare in practice. In cases where the plaintiff's damages or the infringer's profits cannot be determined, statutory damages of up to RMB500,000 may be awarded. In the latest draft amendments to the Copyright Law, this ceiling has been raised to RMB1,000,000.

The NCA and local copyright bureaus, the primary government bodies designated to handle administrative enforcement against infringers, are authorized to exercise a wide range of powers.

These include the power to issue administrative injunctions, confiscate the illegal income of infringers, confiscate and destroy infringing copies, impose fines, and confiscate materials, tools and facilities primarily used for the production of infringing copies. The 2013 amendment to the Implementing Regulations empowers the local enforcement authorities to fine infringers up to five times the revenue generated from the illegal transactions, or up to RMB250,000 in cases where the revenue cannot be calculated. However, in practice, the copyright bureaus' enforcement capability is poor, as they do not have sufficient resources. In several provinces such as Guangdong and Zhejiang, a local administrative body called the Bureau of Culture, Radio, Television, News and Publication has been established to handle administrative enforcement for copyright, and appears to have greater resources for anti-piracy actions.

The Criminal Code sets out the criminal penalties for copyright infringement. For individuals and sole proprietors engaged in the illegal reproduction or distribution of copyrighted works, crimes may be deemed to have been committed when the value of the counterfeited works manufactured or stored exceeds RMB50,000, the illegal income generated exceeds RMB30,000, or the unauthorized units reproduced exceed 500 units. For enterprise offenders, the thresholds are three times the above amounts.

Internet

Article 10(12) of the Copyright Law provides a "right of communication through information networks" for copyright holders. The Measures for the Administrative Protection of Internet Copyright (the "Internet Copyright Measures"), which came into effect on May 30, 2005, facilitate more efficient

administrative enforcement against copyright infringement on the Internet by imposing administrative liability on Internet service providers ("ISPs") and by providing for administrative penalties. Under the Internet Copyright Measures, upon receipt of a notice from a copyright owner of alleged infringement, the ISP is required to remove the offending content from its service and retain records of the provided information. Similar take-down provisions are found in the Regulations for the Protection of Right of Communication through Information Networks ("RPRCIN"), which entered into force on July 1, 2006 and was revised on March 1, 2013. The RPRCIN introduced civil liability for circumventing technical protection measures, as well as ISP liability and safe harbours for third party copyright infringement. According to the newly amended RPRCIN, an infringer may be fined up to five times the revenue generated from the illegal transaction, or up to RMB250,000 in cases where the revenue cannot be determined. The Supreme People's Court also introduced judicial interpretations which explicitly criminalize online infringements, subject to the requirement in the Criminal Code that such infringements be for profit. The civil enforcement against online infringements is governed by a separate judicial interpretation concerning online copyright disputes, which was last amended on January 1, 2013.

Computer software

Copyright in computer software is governed by general provisions in the Copyright Law and the Regulations for the Protection of Computer Software ("Software Regulations"), issued in 1991,amended in 2001 and more recently on January 30, 2013.

To implement the TRIPS Agreement, the Software Regulations provide for rental rights and the right of communication

through information networks for software. Consequently, online distribution of software without authorization (whether for profit or otherwise) is considered a prohibited form of reproduction. Further, the Software Regulations provide explicit protection against activities that attempt to circumvent or sabotage technological measures used by software copyright owners. Likewise, the Software Regulations outlaw the removal or alteration of electronic rights management information incorporated into works to facilitate copyright protection.

In the case of software owned by legal persons and other organizations, the period of protection is 50 years, ending on December 31 of the fiftieth year after the work was published. If the software is not published within 50 years after its creation, no protection is provided.

The Software Regulations permit registration for the purpose of providing prima facie evidence of ownership and validity of software. The Measures for the Registration of Copyright in Computer Software apply to the registration of software copyright, exclusive software copyright license contracts, and assignment contracts.

Under the Software Regulations, administrative and civil liability for infringement by reproducers of software appears to be provided on a strict liability basis, and reproducers will only be able to avoid liability if they can prove they were lawfully authorized. Parties accused of distributing or renting software can be pursued if they are unable to provide evidence that the software is from a "lawful source". The Software Regulations impose a significant limitation on the ability of copyright owners to pursue infringing end-users, i.e. parties that use software, but do not copy it in the routine sense. A party that possesses infringing software will not be liable to pay compensation if he or she did not know or did not have any reasonable grounds to

know that the software was infringing. However, they may be ordered to immediately stop using such software and destroy infringing copies.

Rights holders can file complaints with either civil courts or administrative enforcement authorities. The Software Regulations also give administrative authorities powers to deal with infringements, including the power to issue injunctions, confiscate illegal income of infringers, confiscate or destroy infringing products, and impose fines. In "serious cases", administrative authorities may also confiscate materials, tools, and facilities primarily used for the production of infringing copies.

The Software Regulations specify a maximum fine of RMB100 for each pirate reproduction. Alternatively, a fine of one to five times of "the value of the goods" may be imposed in cases involving unauthorized reproduction of all or a portion of the software, as well as unauthorized distribution, rental or transmission via information networks (e.g., the Internet). Furthermore, fines of up to RMB200,000 may be imposed for wilful evasion or destruction of anti-circumvention measures.

The Software Regulations refer to the possibility of obtaining preliminary injunctions in software disputes brought before the Chinese courts. In addition, the Software Regulations explicitly state the possibility of pursuing copyright violations under China's Criminal Code.

Domain names

China has issued various regulations to regulate the use of domain names. These include the Measures for the Administration of Internet Domain Names in China, which took effect in 2004, and the Detailed Implementing Rules of the China

Internet Network Information Center for the Registration of Domain Names (the "Registration Rules"), effective from 2002. The Registration Rules were amended in 2009, and again in 2012. The current Registration Rules are effective from May 29, 2012.

The Registration Rules cover applications to register domain names with ".cn" as the top-level domain and Chinese-language domain names administered by the China Internet Network Information Center ("CNNIC"). Any natural person or organization that can independently assume civil liability may apply for domain name registration. Applications should be submitted in writing. The "first-to-file" principle continues to apply, i.e. priority is given to the first applicant who files a valid application. Applications for approval can be made to the domain name registrar for the assignment of domain names.

The Registration Rules have strengthened the privacy of domain name registration information through explicit provisions on the transmission, storage, disposal, and destruction of such information.

Domain name dispute resolution is governed by several measures which focus on the procedural rules for registration and dispute resolution. These measures apply to disputes that arise due to the registration or use of ".cn" domain names or Chinese-language domain names under the administration of the CNNIC. Such disputes can be accepted and resolved by special dispute resolution bodies recognized by the CNNIC, which include the Domain Name Dispute Settlement Center of the China International Economic and Trade Arbitration Commission ("CIETAC") and the Hong Kong International Arbitration Center ("HKIAC"). Any organization or person that believes there is a conflict between a domain name registered by another party and its lawful rights and interests may submit

a complaint to one of these dispute resolution bodies. If the complaint meets the specified conditions, the domain name holder will be required to participate in the dispute resolution proceedings. The measures are only applicable to disputes relating to domain names that have been registered for less than two years. Rulings of the dispute resolution bodies, however, are not final. Either party is entitled to commence civil litigation before, during or after such proceedings.

The Supreme People's Court Explanation issued in October 2002 makes it clear that the following conduct constitutes trademark infringement: registering, as a domain name, words that are identical or similar to the registered trademark of a third party, and using that domain name to carry out e-commerce trade in related products, thereby easily causing confusion among the relevant public.

Trade secrets

A trade secret is defined in both the Law of the PRC Against Unfair Competition ("Unfair Competition Law") and the PRC Criminal Code as technical and business information which is private, able to bring economic benefits to the rightful party, is practical, and for which that party has adopted measures to maintain its confidentiality. A non-exhaustive list of measures to maintain confidentiality is set forth in the Several Provisions on the Prohibition of Acts of Infringement of Trade Secrets (the "Trade Secrets Provisions"), effective from November 23, 1995 and amended on December 3, 1998. Such measures include disclosing secrets on a need-to-know basis only, adopting physical preventive measures such as locking, marking information "confidential", requiring access codes and passwords, and requiring confidentiality agreements.

Trade secrets are protected under the Unfair Competition Law. Under the legislation, business operators are prohibited from infringing upon commercial secrets by obtaining the commercial secrets of others by theft, inducement, coercion or other illicit means; revealing, using or allowing others to use commercial secrets obtained by such means; and revealing, using or allowing others to use commercial secrets of others which are in their possession by violation of agreements or other requests for confidentiality by the owners concerned. If a third party knows or should have known of such acts violating the law, but obtains, uses or reveals commercial secrets of others, this will also constitute infringement.

Under a Supreme People's Court Interpretation on intellectual property crimes issued in 2004, the infringement of a trade secret causing loss in excess of RMB500,000 will be regarded as serious and will trigger criminal prosecution under the PRC Criminal Code.

China's legal framework for the protection of intellectual property is comprehensive, but the challenge is for China to enforce the legislation effectively and transparently.