Newsletter

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Legal Updates

1. Registered Capital Regime Undergoes Administrative Fine-tuning (Authors: David TANG, Jun LI, Serina WEI)

Following amendments to the PRC Company Law at the end of 2013, in the past two years, the Chinese government has launched a series of legislative efforts aimed at reconciling related laws and regulations to realize the full implication of the capital regime reforms. In furtherance of the reforms, on October 28, 2015, the Ministry of Commerce ("**MOFCOM**") issued *the Decision on Revising Certain Rules and Normative Documents* (Announcement (2015) No. 2 of MOFCOM) ("**Revising Decision**") to amend provisions in 29 administrative rules and normative documents related to minimum registered capital, contribution timetables, first capital contribution installments, capital verifications, and annual examinations. Provisions concerning foreign investment have been a particular area of focus.

Background on the Revising Decision: Simplification of the Registered Capital System

At the end of 2013, China adopted an amendment to the Company Law ("**Company Law Amendment**") to reform the registered capital system. For most companies, except as otherwise provided under laws, administrative regulations or as directed by the State Council, the following requirements no longer exist: (a) at least 20% of registered capital must be paid-in upon formation (for foreign invested enterprises ("**FIEs**"), 15% within 90 days of formation) and the remainder paid within 2 years (5 years for investment companies); (b) minimum amount of registered capital; and (c) minimum cash capital contributions.

Shortly following the issuance of the Company Law Amendment, on February 7, 2014, the State Council issued a policy statement outlining reforms to the registration formalities directed by the Company Law Amendment, the *Circular of the State Council on Circulating the Reform Plan for the Registered Capital Registration System* (Guofa 2014 No. 7) ("**Reform Plan**"). The Reform Plan, in the form of a policy statement, calls for comprehensive reforms in the registration regime covering a variety of market participants, such as companies (including FIEs), proprietorships, partnerships, non-corporate enterprises and farmers' specialized cooperatives.

In the same manner, on February 19, 2014, the State Council issued the *Decisions to Repeal and Amend Certain Administrative Regulations* [Decree No. 648] ("**Decree No. 648**"). Decree No. 648 amends the provisions not in conformity with the Company Law Amendment and Reform Plan found in eight administrative regulations and abolishes two regulations which regulated capital contributions to FIEs.

In May 2015, the General Office of the State Council promulgated the *Notice of the General Office of*

the State Council on Accelerating the Implementation of the Reform of Registered Capital Registration (Guo Ban Han [2015] No. 14) ("**Implementing Notice**"). Although the Implementing Notice has not been publicly issued, it forms the basis for the Revising Decision and promotes its formulation and issuance.

Highlights of the Revising Decision: Changes concerning Foreign Investment

One of the key focuses of the Revising Decision is to revise administrative rules and normative documents concerning foreign investment. 16 of the 29 revised rules and documents relate to foreign investment. Certain changes are industry-neutral and touch upon general aspects of foreign investment, and some relate to specific business sectors. Major revisions are summarized below:

No.	Rules	Revisions
1	*Interim Provisions on Certain Issues Concerning the Establishment of Foreign-Invested Joint Stock Companies*, 1995	1. Repeal the RMB30 million minimum registered capital requirement and the 25% foreign investor minimum shareholding requirement 2. Repeal the requirement to make full capital contributions within 90 days following issuance of the approval certificate
2	*Interim Provisions on Investment Made by Foreign-Invested Enterprises in China*, 2000	1. Repeal the requirement to make full capital contributions before FIEs may make equity investments 2. Repeal the restriction on accumulated investments not exceeding 50% of the FIE's net assets
3	*Provisions on Mergers and Divisions of Foreign-Invested Enterprises*, 2001	Repeal the restriction on mergers or divisions of FIEs that no such activity before full capital contribution and the commencement of operations of the FIE(s)
4	*Administrative Provisions for Foreign-Invested Venture Capital Enterprises*, 2003	1. Repeal the USD 10 million minimum subscribed capital requirement for partnership-type venture capital and USD 5 million for corporate venture capital 2. Repeal the USD 1 million minimum subscribed capital requirement for single investors, and the five year maximum contribution period 3. Repeal the restriction that there can be no reduction in subscribed capital during the term of the venture capital entity 4. Repeal the joint annual examination requirement
5	*Administrative Measures on Foreign Investment in the*	Repeal the joint annual examination passage requirement and the requirement to make full capital

No.	Rules	Revisions
	Commercial Sector , 2003	contributions for new store openings
6	*Notice on Issues Related to Expanding the Distribution Business Scope of a Foreign-Invested Non-Commercial Enterprise*, 2005	Repeal the joint annual examination requirement
7	*Provisions on the Establishment of Investment Companies by Foreign Investors*, 2004	1. Permit investment-FIEs to also be formed as companies limited by shares 2. Repeal the USD 30 million minimum registered capital requirement 3. Repeal the capital verification report requirement for portfolio(s) when applying for company formation 4. Repeal the requirement to fully contribute capital within 2 years following formation 5. Repeal the annual joint examination requirement
8	*Supplementary Provisions on the Establishment of Investment Companies by Foreign Investors*, 2006	1. Repeal the SAFE capital-account approval and tax certificate requirements when making capital contributions using RMB profits 2. Repeal the USD 30 million minimum capital contribution requirement and the requirement to make contributions within five years of formation
9	*Administrative Measures Concerning Foreign Investment in the Leasing Sector* , 2005	Repeal the USD 10 million minimum registered capital requirement
10	*Interim Provisions on Equity Contributions Involving Foreign-Invested* Enterprises, 2012	1. Repeal the full capital contribution and annual joint examination passage requirements before contributing equity to an FIE 2. Repeal the 70% limitation for equity contributions and other non-cash contributions 3. Repeal the annual joint examination requirement in the case of equity contributions

Impact on Foreign Investments: Nice Cleanup and to be Continued

The Reform Plan explicitly stipulates that all companies are to adopt the subscribed capital regime, except for those in certain ineligible industries. All companies are also to be relieved of the minimum registered capital requirement, except as otherwise stipulated under law, administrative regulation, or as directed by the State Counsel. Despite these developments, however, the reforms

have yet to take full effect due to various administrative regulations and rules that have been left in place. While Decree No. 648 has abolished two administrative regulations specifically relating to FIE capital contributions, and has revised the implementing regulations for FIE-related laws, provisions concerning minimum registered capital, contribution schedules and similar provisions are still prevalent in rules of lower force. The Revising Decision has repealed capital-related requirements and restrictions at the administrative rule level and has cleared obstacles within the legal framework for capital reforms.

From the Company Law Amendment until the recent issuance of the Revising Decision, it is encouraging to see that the regulatory landscape in China is changing to one which is likely more familiar to foreign investors. Foreign investors are expected to enjoy greater flexibility in structuring capitalizations in ways similar to those that they are accustomed to in other jurisdictions. However, the legacy registered capital requirements still await further action. For example, under the current rule concerning M&A activities by foreign investors, foreign investors are still required to follow the statutory contribution timeline when acquiring new capital of a non-FIE company or when forming a new FIE based on assets acquired domestically. While in certain locations such as Beijing, these requirements are not enforced with the understanding of reform in this regard, other local authorities still follow the letter of the rules. We expect these requirements to be repealed in the near future.

The Revising Decision was promulgated by MOFCOM with the consent of other governmental departments, including SAIC, SAFE, CSRC, the State Administration of Taxation, etc., representing a concerted effort towards realizing the Company Law reform initiatives. However, as mentioned above, there continue to be unresolved issues related to the registered capital registration system. We expect to see legislative action soon to address these outstanding questions.

2. Workforce Reductions in China (Authors: David TANG, Jun LI, John D. FITZPATRICK)

It is clear that economic growth in China is in a downtrend as dismal manufacturing data has consistently shown. By some measures, the manufacturing sector has shrunk at the fastest rate since 2009. With pro-growth policies yet to take effect and few prospects for near-term improvement, many firms are considering workforce reductions and cutting labor costs.

Group Layoffs

US and certain other foreign firms which may enjoy at-will employment in their home countries have found it challenging to dismiss employees in China. Even with for-cause dismissal clauses in labor contracts, employers are unable to terminate employees unless the cause for termination is itself statutorily articulated. In other words, grounds for an employer to unilaterally terminate employees

can be based only upon reasons expressly provided for under PRC law, and nothing else.

Legal grounds exist but are limited

In general, an employee may be unilaterally terminated if he or she:

a) commits serious wrongdoing;

b) is unable to work due to non-work related injuries upon the conclusion of the statutory medical period; or

c) is proven to be incompetent after training or a change in work duties.

An employee can be terminated only in very limited instances if he or she is not at fault and is able and in good health. Fortunately for foreign investors, group layoffs are recognized under PRC law. The Labor Contract Law (promulgated in 2008 and later amended in 2012) has offered broader and more practical applications than the Labor Law (promulgated in 1994). Whereas the old law permitted group layoffs only during bankruptcy-related restructuring and in cases of serious production or operational difficulties, the Labor Contract Law now recognizes other circumstances. Such circumstances include "changes in business direction, major technological innovation or changes in business model," and "other material changes in objective economic circumstances which . . . make continued employment no longer possible."

Bankruptcy is an end-game scenario which most employers will not encounter. Other legal grounds, however, are both reasonable and provable. As is often the case with PRC legislation, however, the layoff provisions are worded too general without detailed provisions and thus implementation by each competent authority tends to vary significantly. Therefore, before initiating a group layoff, employers are well-advised to thoroughly research local labor tribunal cases in order to better evaluate how to proceed. While legal precedent is not binding in China, case law nevertheless serves as a useful guide when pursuing similar cases.

Procedural matters

Procedurally, a group layoff of more than 20 people or 10% of the workforce requires notice, consultation and reporting. A 30-day notice to the labor union of the employer (or all employees in the absence of a labor union) shall be delivered. After details of the layoff plan have been determined, it shall be consulted with the labor union (or all employees) to solicit comments. In theory, no approval is required from the labor union or another employee representative. In reality, however, the support of the union or the employee representative should be sought because its or the representative's signature or official chop is generally required in documents to be submitted to the labor bureau, and because employers may need help in supporting employee morale. After consultation, an employer will report the plan to the labor bureau. Reporting a planned layoff is generally handled at the district or county level, although local rules may require a sizable group layoff be reported to higher level authorities.

After fulfilling consultation and reporting obligations, an employer is then able to formally announce and execute the layoff. Time is usually of the essence for a successful layoff, but the involvement of the labor bureau, labor union, and possibly the entire workforce, will often prolong the process, which often concerns employers. Some employers therefore prefer to initiate successive rounds of smaller group layoffs, because layoffs of fewer than 20 people or 10% of the workforce are exempt from the procedural requirements discussed above. In the case of such a layoff, the employer is only required to give notice to the labor union prior to termination, with no minimum period of notice or approval by the labor union is required.

Alternatives – Unilateral Termination, Mutual Agreements, and other Cost-Saving Measures

Employers often seek to avoid formal layoffs because of the legal constraints, worries over capricious local tribunals, and fears of labor unrest and negative publicity. Therefore, what else can employers do to reduce their workforce or cut labor costs?

Multiple individual terminations

First, an employer can terminate an employee upon 30 days' notice if there has been a "material change in objective circumstances" that existed at the time the contract was concluded which results in the contract no longer being able to be performed. Same as a formal group layoff, "material change in objective circumstances" is a vague and ambiguous concept. Employers can pursue this approach if the factual circumstances warrant. Before termination, employers must consult with employees in an attempt to amend employment contracts. Usually, employers will offer a substitute position and reduced wages, or, in other cases, explain that other suitable positions are unavailable. Proposed terms shall be reasonable to show the employer is engaging in good faith negotiations. If the parties cannot reach an agreement, the employer may then terminate the labor contract. While the termination and negotiation are usually conducted on a case-by-case basis, if the "material change" relates to a corporate restructure or change in business model affecting multiple employees, a "de facto" layoff may take place. Such de facto layoffs are not subject to the same procedural difficulties as formal layoffs, but prior notice to the labor union is required. The labor union has the right to raise objections though it cannot directly overturn a termination.

Mutually agreed terminations

Another alternative to group layoffs is termination by mutual agreement. This is a preferable means of terminating employees if the terms of such an agreement are not too costly to the employer. The potential for employee legal claims can be greatly reduced by using mutual agreements. Negotiations will usually take rounds and the final agreed upon severance payments are usually higher than the statutorily required minimum. In practice, employers often choose to offer "N+2" or "N+3" deals, where "N" stands for the number of employee service years, plus an additional two or three months of pay. Sometimes, a month's wage in lieu of notice is also provided, although notice is not required for mutual terminations. Individual discussions for mutual terminations are

appropriate for management level employees or for those upon whom employers wish to impose non-competition obligations. If the employees are mostly blue-collar workers, or employers have no general preference with respect to which employees are terminated, a voluntary departure plan (or a voluntary resignation incentive program) may be more economical and effective. Such plans are essentially the equivalent of a group mutual termination. Voluntary departure plans can be appealing if the terms make economic sense to both the employer and employees. However, these plans also present certain pitfalls, such as if more employees are interested in leaving than expected, if there is any negative impact on the morale of employees who seek and are denied termination, or, even worse, if unwanted employees remain. Sometimes, such a plan may cause business disruption if it is too well received by employees. Care must be taken when formulating eligibility and terms of the plan.

Other cost-saving measures

Other than directly reducing headcounts, employers may also utilize cost-saving measures. Undertaking cost-saving measures may provide the added benefit of showing that the employer has exhausted all other remedies if it later becomes necessary to pursue layoffs. Such measures may also be good transition steps if shareholders cannot yet reach an agreement on strategic changes for the company's repositioning or downsizing.

Employers may negotiate compensation reductions with employees, with or without reducing job responsibilities. Employees who are aware of operational difficulties will often comply with reductions for fear of being laid off. As employment contracts are to be in writing, any amendment to them should also be in writing. Note that the Supreme People's Court, in its judicial interpretation relating to labor contract disputes, has relaxed documentation requirements -- orally agreed amendments are effective if the amended contract has been performed for more than one month, unless the amendment conflicts with statutory provisions or is against public policy. Therefore, the reduced compensation or change in work duties can be effective if the employee has performed under the amended contract for a period longer than one month, and cannot otherwise prove that he or she has objected the amended terms.

Alternatively, employees can be placed on temporary leave. Uncompensated leave is illegal, but if the leave is due to a facility shutdown which lasts for more than one wage period (typically one month), employers are required only to pay the local minimum wage. In this scenario, the leave would be accompanied by the shutdown of all or part of the employer's business operations. Under certain local rules, payments to employees may be further reduced. In Beijing, for example, an employer is required to pay only 70% of the local minimum wage; in Shenzhen the amount is 80%.

Conclusion

When considering workforce reductions in China, employers should consider both the legal and

practical business elements involved. A well-planned and thoughtful strategy usually requires an understanding of the local practices, skilled communication with employees and labor authorities, and effective management of employee expectations. Whether or not a direct layoff is feasible, employers should also be flexible with other alternatives in order to achieve the best possible results under PRC law.

3. Vitalizing Chinese Film Industry? —Comments on Film Industry Promotion Law (Draft) (Authors: Jun HE, Huanhao HE, Beichen WEI)

On October 30th, 2015, the Standing Committee of the National People's Congress completed the first deliberation of the *Film Industry Promotion Law of the People's Republic of China (Draft)* (the "Draft"), and circulated the Draft to the public for comments on November 6th.

Comparing with the *Regulations on the Administration of Films* (effective as of February 1st, 2002, the "Regulations") currently in effect and the previous *Film Industry Promotion Law of the People's Republic of China (Exposure Draft)* (the "Exposure Draft") published by the Legislative Affairs Office of the State Council in 2011, the Draft has shown substantive changes on multiple problems of Chinese film industry demanding prompt solution. Will these changes vitalize the Chinese film industry as expected? Let's take a close look at the current situation of Chinese film market and the most important reforms that the Draft introduces.

Highlight I: Cancel One-time Film Production Permit

Comments: lower market threshold, but fiercer competition

i) A good news to film investors?

This reform is undoubtedly one of the biggest highlights of the Draft. Under current rules, in order for an enterprise to shoot a film for the first time, it shall apply for a "Permit for Film Production (for single film)" first, and only after producing at least two films with permission for public projection will it be entitled to apply for a "Permit for Film Production". The Draft completely cancels the requirement for the one-time "Permit for Film Production (for single film)" and allows an enterprise with qualified personnel, funds and other conditions for film production to apply for a "Permit for Film Production" directly. Meanwhile, the Draft also delegates the power of examination and approval which currently belongs to the State Administration of Press, Publication, Radio, Film and Television (the "SARFT") to its provincial counterparts, and reduces the time limit of examination and approval from 90 days to 20 days.

This will greatly lower the market access threshold and as a consequence, make it easier to obtain a

"Permit for Film Production". At present, it is widespread practice for investors in Chinese film industry to adopt the approach of co-production, for which the reasons can be various. By taking this approach, the lead producer probably aims at responding to its financing pressure, diversifying investment risks, and combining the industrial chain to ensure the film's distribution and box office income (i.e., distributors and theaters may also co-invest); on the other hand, however, this approach is probably the last resort to some investors (especially those fresh players) before obtaining a "Permit for Film Production". Therefore, it is anticipated that the "Permit for Film Production" will be no longer a scarce resource, and that more social capital which has sufficient finance strength but lacks legal qualification for the time being will flood into the film market.

ii) Intensified market competition

However, not all practitioners can benefit from the aforesaid reform because the market liberalization will simultaneously bring more intensive competition, particularly for the Chinese film-producing market which already presents a high elimination rate and a high investment risk. The following data would be helpful to understand such status:

According to a preliminary statistics of Chinese film industry collected by insiders, for the year to date, about 4000 film scripts have been filed or approved, around 1200 "Permit for Film Production" and 600 "Permit for Public Projection of Films" have been issued and only about 280 films have eventually been shown in cinemas. Assuming the investment amount per film is RMB 50 million, the aggregate investment of Chinese film market this year will exceed RMB 30 billion, while the aggregate estimated box office income will be only around RMB 43 billion, which means the remaining gross box office income distributable to the investors be as low as around RMB 14 billion. In other words, the whole industry will suffer a loss of at least RMB 16 billion, and only 10 percent of investments can be recovered or profitable.

It is foreseeable that, when the Draft turns into the final legislation, the Chinese film producing field would witness a more prosperous investment boom and consequently the fiercer competition and elimination, especially given the background that many Internet giants such as the "BAT" and Leshi and traditional industry leaders like Wanda are rushing into the film market one after another. Who will be the last winner of this upcoming war? No doubt that would be a dramatic and fantastic legend.

iii) Limitations of foreign investment remain

Although the Draft greatly lowers the market access threshold, a WFOE (wholly foreign-owned enterprise) is still prohibited from entering Chinese film market. Article 17 expressly provides that "foreign enterprises and other organizations shall not engage independently in film-producing activities in China, and foreign individuals shall not engage in film-producing activities in China." Under the current regulations, a foreign investor who desires to enter the Chinese film market evading the film import quota would, in practice, have no choice but to co-produce films jointly or collaboratively with a Chinese party or by commissioning a Chinese party (establishing a joint

venture company with a Chinese party proves unfeasible). In addition, the above Article 17 also sets an explicit limit that “those enterprises or other organizations cooperated which have engaged in activities damaging China’s honor and interests, endangering social stability or hurting national feelings shall not be approved.”

Highlight II: Cancel Censorship of General Theme Script

Comments: less prior censorship, but possibly higher risk

Article 16 of the Draft divides film scripts into 2 categories: respectively, “the general theme” and “the special theme”. For the general theme script, instead of applying for approval, the only requirement is to file the script’s abstract, while for the special theme script, it is still necessary to submit the whole script to the State Council or provincial film authorities for approval.

However, as every coin has two sides, canceling of script censorship procedure may even to a certain extent increase the uncertainty of a completed film confronted with the pre-projection censorship, since a film shot based on an approved script may face a higher possibility of passing the pre-projection censorship. For instance, even among commercial films, which typically put more emphasis on passing the review safely, the film *No Man Land (《无人区》)* directed by Ning Hao was unable to release until 4 years after its completion of shooting due to modification for several times as required during the final censorship phase, and the film *Gone With The Bullets (《一步之遥》)* had to postpone its premiere for the same reason as well.

Nevertheless, there being a risk does not by itself justify maintaining the script censorship procedure. This reform undoubtedly deserves welcome and advocacy from the whole industry, as long as they fully understand and take appropriate measures to minimize the aforesaid risks.

Highlight III: Moderately Relax Pre-Projection Censorship

Comments: higher predictability and professionality, but implementation remains to be seen.

Comparing with the Exposure Draft, Article 21 of the Draft expressly delegates the authority of film censorship prior to its public projection and the issuance of a “Permit for Public Projection of Films” to the SARFT or its provincial counterparts.

Article 21 and 22 of the Draft also require the SARFT to establish specific criteria for the pre-projection censorship, consult the public for comments and organize experts to conduct feasibility studies during the criteria formulation process. Censorship authorities shall also organize experts to review the film during the censorship procedure, and the decision shall be made on the basis of the experts’ comments. With the establishment of the censorship criteria and the participation of experts, the predictability and professionality of the procedure will be greatly enhanced.

Notwithstanding the upcoming implementation of the aforesaid reform, given that the pre-projection censorship remains the last line of defense in the whole film censorship system after the relaxation of the production approval and script censorship phases, we have reasons to believe that the film authorities would tend to take a more cautious attitude towards relaxing the film censorship prior to its public projection.

Highlight IV: Cancel and Delegate Several Film-related Administration Approval and Examination Items

Comments: decentralized regulation and higher efficiency

As a part of the work to accelerate the transformation of government's functions and decentralization, comparing with the current rules, the Draft sets no new approval items but instead cancels and delegates a number of approval items, which mainly include:

i) canceling the "Permit for Film Production (for single film)";

ii) canceling the censorship of the general theme script;

iii) delegating the authority of approving the "Permit for Film Production" from the SARFT to its provincial counterparts;

iv) delegating the authority of approving the special theme script from the SARFT to the SARFT and its provincial counterparts;

v) delegating the authority of approving the "Permit for Public Projection of Films" from the SARFT to the SARFT and its provincial counterparts;

vi) delegating the authority of approving the "Permit for Film Projection and Operation" from the local film authority at the county or city divided into districts level to the local film authority at the county level;

vii) delegating the authority of approving holding foreign film festivals (exhibitions) from the SARFT to the SARFT and its provincial counterparts; and

viii) modifying the authority of approving films with "License for Public Projection of Films" to be taken to participate in foreign film festivals (exhibitions) from the SARFT to the SARFT or its provincial counterparts, and meanwhile clarifying that the films without "License for Public Projection of Films" are forbidden from being distributed, projected or taken to participate in any film festivals (exhibitions).

Highlight V: Watching Tips, No Advertisement Spots and Box Office Calculation

Comments: it will bring a better watching experience and a healthier consuming market

Article 32 of the Draft provides "if a film to be projected may cause physical or psychological

discomfort in the audience, corresponding tips shall be given." Article 33 provides "the cinema shall not play advertisements during the period from the express indicated start time of the film to its end. Cinemas shall install a computer ticketing system in line with the national standards, take accounting pursuant to the laws and calculate the sales income truthfully." The Draft also provides the administrative penalties for violation of the foregoing requirements, which helps to improve the viewing experience as well as to give a severer blow to the phenomenon of box office evasion and concealment.

Highlight VI: Encouraging Financing, Insurance and Financing Guarantee Services in the Film Industry

Comments: the poor environment of financing would be gradually improved

Before shooting a film, it is necessary to solve the financing problem. In addition to inviting other investors to share the financing pressure and risks (which is similar to equity financing), investors often seek debt financing as well, where bank loans would typically be the first consideration. Concerning about the prospectus of film investments, banks tend to demand a higher credit rating when assessing a film-related loan application. For example, as a consideration for Bank of Nanjing to provide a loan of RMB 70 million to Leshi, the lead investor of the film *Tiny Times 1.0 (《小时代》)*, certain affiliate company and officer of Leshi have provided a joint and several liability guarantee as a credit improvement mechanism. This pattern would be difficult for some producers with limited financing strength to follow. In addition to financing and financing guarantees, completion bond is also a prevailing mode in Hollywood which aims to warrant that the film will be completed within budget. In this regard, it has been repeatedly appealed by domestic film industry but never get any legislative support.

The Draft finally made a formal response to the aforesaid demand on the legislation level. Article 40 of the Draft provides that China encourages financial institutions to provide financing services for film activities and film infrastructure improvement, to carry out intellectual property pledge business relating to film, and to provide support to the development of film industry in aspects of credit and so forth; China encourages insurance agencies to legally develop insurance products as adaptable to the development of the film industry; China encourages financing guarantee institutions to legally provide financing guarantee services in the film industry, and to spread risks through ways of re-guarantees, joint guarantees and the combination of guarantee and insurance; for the film production permitted by the SARFT, its loan term and interest rate shall be reasonably determined under relevant regulations. Although Article 40 has merely stipulated no more than principle requirements, it will definitely attract high and enthusiastic attention of the market players, and with the joint efforts of the industry and the competent authorities, it is believed that the supporting mechanism will be gradually established and the corresponding market practice will accelerate as well.

Besides the abovementioned highlights, there are lots of other innovations in the Draft as well, including the emphasis on protection of intellectual property in connection with films, explicit prohibition of recording in the theater, increasing support in pro bono projection of films in rural areas and so forth.

Summary

While the Draft is still in the consultation stage (up to December 5th, 2015), we expect the final *Film Industry Promotion Law* will be formally promulgated in the near future, and we will continually pay close attention to relevant developments.

The core idea of the Draft is to lower the market access threshold, to simplify and loose the prior censorship, to introduce more market mechanism and release the vitality of the market, and to regulate the market order and industrial growth. We are looking forward to the unprecedented prosperity and increasing creativity and productivity to be brought by the Draft and the future *Film Industry Promotion Law*. There is no doubt, with full of opportunities and challenges, the great time of Chinese film industry is coming. Are you ready?

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
No. 1 East Chang An Ave.
Beijing 100738, P. R. China

Estella CHEN Attorney-at-law
Tel.: +86-10-8525 5541
Email: estella.chen@hankunlaw.com

Shanghai Office
Tel.: +86-21-6080 0909
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.: +86-755-3680 6500
Room 2103, 21/F, Kerry Plaza Tower 3, 1-1 Zhongxinsi Road, Futian District, Shenzhen 518048, Guangdong, P. R. China

Jason WANG Attorney at-law
Tel.: +86-755-3680 6518
Email: jason.wang@hankunlaw.com

Hong Kong Office
Tel.: +00852-2820 5600
Suite Rooms 2001-02, 20/F, Hutchison House, 10 Harcourt Road, Central,
Hong Kong, P. R. China

Dafei CHEN Attorney at-law
Tel.: +852-2820 5616
Email: dafei.chen@hankunlaw.com

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