

Eye on China:

An On-the-Ground Perspective on IP
and Investment Issues and Strategies

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Investment Vehicles: Considerations and Strategies

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Choosing Suitable Vehicle

- Typical Vehicles for Investing in China
 - Non-Corporate Form (Without Substantial Presence)
 - Contractual relationship
 - Direct Sales Contract
 - Distribution Agreement
 - Licensing Agreement
 - Outsourcing Agreement
 - Supply Agreement
 - Representative Offices



Choosing Suitable Vehicle (cont.)

- Corporate Form (with Substantial Presence in China): Foreign-Invested Enterprises (FIEs)
 - Joint Ventures (JVs)
 - Equity JVs
 - Contractual JVs
 - Wholly Foreign-Owned Enterprises (“WFOEs”)





Choosing Suitable Vehicle (cont.)

- Additional Vehicles
 - Holding companies
 - Foreign-invested companies limited by shares
 - Foreign-invested commercial enterprise (FICEs)
 - Foreign-invested venture capital (VC) enterprise
 - Foreign acquisition of tradable shares in 1000+ listed companies



Choosing Suitable Vehicle (cont.)

- Chinese Regulations on Foreign Investments and Technology
 - Products and technologies are classified
 - Approvals and/or registrations are required
 - Laws and regulations are evolving





Choosing Suitable Vehicle (cont.)

- Foreign Investments Industrial Guide Catalogue
 - Encouraged Industries
 - Restricted Industries
 - Prohibited Industries
 - All others are “Permitted Industries”
- Technology Import and Export Catalogues
 - Prohibited Technologies
 - Restricted Technologies
 - Permitted Technologies



Choosing Suitable Vehicle (cont.)

- What is your company's top priority in China over the next five years?
 - Importing into China for local sale
 - Sourcing from China for local sale
 - Sourcing from China for global operations
 - R&D in China for global operations
 - Manufacturing in China for local sale
 - Manufacturing in China for global sale





Choosing Suitable Vehicle (cont.)

- **Other (Business) Considerations**
 - Protecting and retaining control of your IP
 - Level of comfort and trust in local partners
 - Employee base
 - Maintaining competitive edge
 - Understanding the legal system, language, business and culture
 - Investment time horizon
 - Regulatory considerations (for certain industries)

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Protecting IP While Doing Business in China

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Intellectual Property Strategies

Three Points to Make

- Acquire IP assets in China;
- Conduct your due diligence carefully;
- Prepare to enforce and do enforce.



Intellectual Property Strategies

Myths about Chinese Legal System

- Case law is binding;
- There is discovery;
- It takes millions of dollars to litigate in China;
- Judges are selected from experienced legal practitioners;
- Litigation is lengthy;
- Arbitration is cheaper than litigation;
- Foreign companies are treated unfairly;
- Lost in translation.





Intellectual Property Strategies

Issue No.1

My former distributor is copying my product in China, but I have not filed patents covering the product, and my Chinese trademark application is pending. The worst I have heard is that this former distributor filed a patent application based on my product in China.

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Intellectual Property Strategies

Issue No.2

My former licensee has continued to use my IP after the license expired.

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Intellectual Property Strategies

Issue No.3

My licensee/distributor in China now makes extra products by its connections bearing my trademark, and selling at a price that is 40% lower with poor quality.

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Intellectual Property Strategies

Issue No. 4

Normally my US parent registers IP in China, then licenses to my China operations to use the IP. I was told it may not be an efficient plan.

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Intellectual Property Strategies

Issue No. 5

My company is intended to buy a technology company in China, but the due diligence reveals that the target has not kept good records on IP. My business people want to go ahead but my legal department says no.

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Intellectual Property Strategies

Issue No. 6

I am working with a State Owned Enterprise (SOE) in China on a JV. The Chinese government requires me to transfer my most up to date technology to the Chinese party, also share my future improvements, and one thing I don't feel comfortable is that the Chinese party will own my technologies at the end of JV.

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Intellectual Property Strategies

Issue No. 7

I want to do R&D in China as there are so many universities and research institutes full of cheap and talented students, professors and researchers. But I am not sure if I can hire them as an independent contractor and whether I can obtain unencumbered ownership of the research result.

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Intellectual Property Strategies

Issue No. 8

My people in China reported that they suspect that some local companies may infringe our IP after they have done the comparison. My US counsel tells me to send a cease desist letter right away.

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Intellectual Property Strategies

Issue No. 9

My top engineers in China recently quit and started a competing business.

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Intellectual Property Strategies

Issue No. 10

I know a big SOE in China is infringing my IP, how to approach it for a license?

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Intellectual Property Strategies

Summary

- Acquire IP assets in China when there is a strategic need;
- Conduct a careful due diligence when you are about to distribute, license, form a company and acquire a target in China;
- Enforcement is always centralized in order for your China IP strategy to work.

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