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Relevant Information for the Primerus™ Asia Pacific Region

LETTER FROM THE CHAIR

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Welcome to the January 2023 issue of the Primerus™ APAC newsletter.

2022 has come to an end and we wish our Primerus™ APAC Members community a wonderful new year ahead.

Although 2022 was to some extent no less tumultuous than the year before, for example the emergence of China's zero covid policy and the political events in Hong Kong, there is reason to remain optimistic.

For example, the International Monetary Fund has predicted a moderate rise in economic growth throughout Asia of 4.3% in 2023 (up from a predicted 4% in 2022 – and a 6.5% growth in 2021).

In this edition of the newsletter, the authors have covered the following topics which we hope you will find of interest:

1. **Latest updates when conducting an M&A deal in China or Singapore**, written by Matthew Boyd and Ralf Ho of HJM Asia Law & Co LLC.

   HJM Asia Law identifies 5 areas of interest/relevance when conducting M&A transactions in both China and Singapore.

2. **Australian immigration law: What's changing in 2022? – Updates to the migration program**, written by Yee Mei Chow, Selwyn Black, Yue Lucy Han and Wing Ho of Carroll & O'Dea Lawyers.

   Carroll & O'Dea Lawyers provides an update of new immigration policies introduced recently in 2022 long after the initial outbreak of the COVID-19 pandemic.

3. **Construction: How to interpret a LDs clause when the contract contains conflicting and inconsistent information?,** written by Justin Lo of ONC Lawyers.

   ONC Lawyers provides an update on how liquidated damages clauses, particularly in the construction industry, are interpreted by the Hong

Kong courts where the contract contains inconsistent information.

4. **Is there legal certainty in land ownership in Indonesia?,** written by Eddy Leks of Leks&Co.

   Leks&Co. explains the Indonesian Supreme Court's interpretation of article 32 (2) of the Government Regulation of Land Registration of 1997 concerning certificated land and why foreign investors should be aware of their rights and potentially rights of others to land acquired in Indonesia.

5. **A discussion on how to prevent corporate deadlock via design of Articles of Association,** written by Li Huirong of Watson & Band.

   Watson & Band explains the concept of corporate deadlocks in a company and possibilities for resolving such deadlocks through the drafting of a company's articles of association.

6. **Interpretation of new regulations: The key issues in application of punitive damages for intellectual property infringement – An analysis of the guidelines on the application of punitive damages in the trial of intellectual property infringement civil cases issued by Beijing High People's Court,** written by Xiaobo He and Chengyuan Zou of Watson & Band.

   Watson & Band explores the guidelines on the application of punitive damages concerning intellectual property infringement promulgated by the Beijing High People's Court.

7. **Amendment to the Whistleblower Protection Act of Japan,** written by Kengo Nishigaki and Andrew Griffin of GI&T Law Office.

   GI&T Law Office outlines recent amendments to the Whistleblower Protection Act of Japan, including new requirements for certain companies to have in place suitable whistleblowing and non-retaliation policies.

8. **Getting to know our members: Eddy Leks (Leks&Co).**

9. **Getting to know our members: Abhishek Tripathi (Sarthak Advocates & Solicitors).**

10. **Environmental, social, and governance norms in India,** written by Mani Gupta and Abhishek Tripathi of Sarthak Advocates & Solicitors.

    Sarthak Advocates & Solicitors provides an overview of India's developing framework for Environmental, Social and Governance Norms and how these apply in relation to companies operating in India.

11. **Update of the month,** written by Mani Gupta and Abhishek Tripathi of Sarthak Advocates & Solicitors.

    Sarthak Advocates & Solicitors provides an update on their recent partnership with Robin Hood Army in the distribution of stationery materials and equipment to around 100 children in Mehrauli, South Delhi.

We are happy to showcase some of our members who share with us their motivation to become a lawyer, memorable legal experiences and surprising habits! We are pleased to introduce Eddy Leks of Leks&Co.

On behalf of the Primerus™ Asia Pacific Region, I wish to thank our Primerus™ Asia members for their contributions and enriching the legal knowledge of our community. We hope that corporate clients and Primerus™ members from all over the world learn and benefit from reading the articles in this newsletter.

In the meantime, we wish all Primerus™ members well wishes for the upcoming holiday seasons at the end of the year.

LATEST UPDATES WHEN CONDUCTING AN M&A DEAL IN CHINA OR SINGAPORE

Background

Whilst the number of M&A deals have fluctuated in recent years worldwide, commercial and strategic acquisitions both in the public and private sphere have kept up at a decent pace in both China and Singapore.

For example:

1. In the first half of 2022, a total of **6,173** M&A deals were recorded in China with a total deal value of **USD 236,000,000,000**[1]; and
2. Singapore, although also showing a decrease in M&A activity, showed a recorded M&A deal value of **USD 56,600,000,000** in the first half of 2022[2].

Indeed, according to a recent press release from the China Ministry of Commerce on September 19th, 2022[3], China enjoyed an inbound investment of USD 138,000,000,000 between January to August 2022. This was an approximate increase of 20.2% from the previous year.

In terms of growth sectors, it appears that much/many investment/M&A deals have focused on high-tech manufacturing and services sectors not least in the energy sector[4].

In this newsletter, we will outline five (5) latest updates/country-specific points which all companies should be aware of when conducting M&A deals in China and Singapore.

[1] PwC M&A 2022 Mid-Year Review and Outlook (August 2022).

[2] Singapore Business Review (July 2022).

[3] From January to August 2022, the country absorbed 892.74 billion yuan of foreign investment, an increase of 16.4% year-on-year (www.gov.cn).

[4] China has set targets by 2030 to reach peak carbon emissions and 2060 to reach carbon neutrality – China Briefing "A Recent Look at M&A in China" (July 25th, 2022).

Written by: Matthew Boyd and Ralf Ho - HJM Asia Law & Co LLC (Singapore & Guangzhou, China)

Matthew has considerable exposure within compliance, managerial and company secretarial matters for a vast array of foreign and local entities doing business within the Asia Pacific region. His work consists of assisting with the creation, maintenance, statutory compliance and winding up of local and foreign entities. Matthew is currently pursuing qualification within Singapore as a Chartered Secretary.

Ralf is a China-qualified attorney whose practice focuses on labor dispute and civil cases. Prior to joining HJM, Ralf was an associate at a Chinese law firm specializing in corporate compliance and employment law. In addition to his corporate practice, Ralf has assisted clients on a variety of litigation and arbitration matters, including the resolution of redundancy and class action labor disputes before various courts and arbitration commissions in China.

China

1. Prohibition and Restriction

   Foreign investment is forbidden or restricted to invest certain industries, which is subject to the Negative List issued by the National Development and Reform Commission and the Ministry of Commerce from time to time. The latest version of the Negative List was promulgated on December 27th, 2012 and implemented on January 1st, 2022. Hence, should the M&A deal involve the said industries, it shall also be forbidden or restricted by the Negative List.

2. Pre-Approval

   The transfer of state-owned assets shall be decided by the department performing the contributor's functions. If such department performing the contributor's functions decides to transfer the whole state-owned assets or transfer the partial state-owned assets which will cause the state to lose the controlling position over the enterprise, it shall report such a decision to the corresponding people's government for approval.

3. Appraisal

   For the transfer of state-owned assets, a minimum transfer price shall be reasonably determined on the basis of the price which is legally appraised and confirmed by the department performing the contributor's functions or approved by the corresponding people's government after being reported thereto by the department performing the contributor's functions.

4. License

   In the cases where the economy or security of China might be affected or a famous local brand is acquired, the transaction must be approved by the Ministry of Commerce.

5. Sanction

   The Anti-foreign Sanctions Law of China, which took effect on June 10th, 2021, sets forth a menu of sanctions countermeasures that the Chinese authorities can impose on anyone designated on the Anti-Sanctions List, in which the individual and/or legal entity on the list would be blocked from transactions with individuals and entities in China.

Singapore

1. Property

Singapore freehold and leasehold land/property is registered under a strata land title system administered by the Singapore Land Authority.

It is important to ensure that all original certificates of strata title from the seller are obtained and exchanged at pre-completion or at completion itself. Without this original certificate of strata title, the buyer's ownership to the land title cannot be legally transferred.

Where commercial/industrial property (i.e. office/factory premises) are sold as part of the deal, stamp duty will be payable by the buyer in accordance with the following rates calculated on either the market value or purchase price (whichever is higher):

Buyers stamp duty rates commercial/Industrial property Singapore		
No	**Price**	**Stamp Duty Payable**
1.	first SGD 180,000/ USD 127,000	1%
2.	next SGD 180,000/ USD 127,000	1%
3.	Amount above SGD 360,000/ USD 255,000	3%

2. Licenses

When conducting due diligence on a Singapore target company, it is advisable to clarify and list down all licenses issued to the company.

Whilst this may be a non-issue in the case of a share deal, it can pay dividends to find out at the earliest opportunity what licenses the new buyer's vehicle will need to apply for in the case of an asset deal[5].

That way, the buyer can potentially already work on applying for the similar licenses required by the Singapore target company on or soon after completion of the deal.

3. Employment

Depending on the size/sector of the Singapore target company, such company may be unionised. In the case of an asset deal, it will be necessary for the transferor and transferee companies to adequately ensure that all transferring employees of the Singapore target company and trade unions are provided with advance notice of the proposed transfer and how this will impact all employees concerned[6].

In addition, unless terminated by the seller, all employees of the Singapore target company will transfer by operation of law to the buyer[7].

It is therefore important to ensure that any proposed employee reorganization/retrenchments are firstly addressed by the buyer and seller.

It should be noted that any retrenchment involving a company with over 10 employees must notify the Singapore Ministry of Manpower before carrying out such exercise[8].

[5] For example, most licences issued to the target company will not be assignable to the buyer.

[6] Section 18A of the Singapore Employment Act 1968.

[7] This includes, amongst other things, the duration of their term of service with the Singapore target company which will tack onto the new employer.

[8] Responsible retrenchment (mom.gov.sg).

4. Taxation

A common question when dealing with asset transactions is whether any tax (for example, a value added tax or goods and services tax) will be payable by the parties.

In Singapore, provided there is a sale of business assets as a going concern and the following conditions are met, the seller is not required to account for and the buyer is not required to pay Goods and Services Tax on the sale[9]:

a. The supply of assets is made in connection with the transfer of a business. It must not be a mere transfer of assets. The transfer of assets must have the effect of putting the transferee in possession of a business;

b. The transferred assets must be used to carry on the same kind of business as that of the transferor;

c. If only a part of the business is transferred, this part of the business must be able to operate on its own;

d. After the transfer is completed, there must be continuity of the business. There should not be immediate termination of the business, other than temporary closures to allow the business to be operationally ready; and

e. The transferee must already be a taxable person or immediately becomes a taxable person as a result of the transfer.

5. Post-Completion

Once all agreements have been signed between buyer and seller, there will be a number of likely post-completion electronic filings to be submitted to the relevant Singapore Authorities.

Among these include:

a. Changes to directors/officers/shareholders: the buyer will need to ensure relevant filings are submitted electronically to the Accounting and Corporate Regulatory Authority of Singapore within fourteen (14) days of completion[10];

b. Assignments of Intellectual Property: the buyer will need to ensure a standard form of assignment agreement is signed before submitting this to the Intellectual Property Office of Singapore[11]; and

c. Application to the Ministry of Manpower to approve transfers of work passes of foreign workers from the seller to the buyer company[12].

Conclusion

Despite the worldwide M&A scene seeing fluctuating levels of deals concluded between 2020 and 2022, there has been and is expected to continue to be increased investment activity particularly in high technology and manufacturing sectors.

According to a famous firm's report, the number of domestic M&A deals in China hit a record high in 2021, reaching 12,790, up 21% from 2020. The value of deals fell 19% to $637.4 billion from an all-time high in 2020, with private equity funds accounting for more than half of the total for the first time.

The record in 2021 is thanks to the themes of "double circulation", "industrial upgrading" and "digital economy and green development", and the general focus on consumer economy in the country, which will also continue to promote M&A deals in the future.

[9] Goods and Sevices Tax (Excluded Transactions) Order.

[10] Accounting and Corporate Regulatory Authority (acra.gov.sg)

[11] Intellectual Property Office of Singapore (IPOS)

[12] How do I transfer my company's work pass holders if it is undergoing business restructuring? (mom.gov.sg)

AUSTRALIAN IMMIGRATION LAW: WHAT'S CHANGING IN 2022? – UPDATES TO THE MIGRATION PROGRAM

Australian Immigration Law: What's Changing in 2022? – Updates to the Migration Program

Published on February 10, 2022 by Wing Ho |何宛穎律師, Maithri Panagoda AM and Yee Mei Chow.

Updated on October 13, 2022 by Yee Mei Chow, Selwyn Black, Yue Lucy Han and Wing Ho |何宛穎律師.

The COVID-19 pandemic has brought all kinds of challenges since the first case of coronavirus in Australia, especially for immigration. As we approach the end of 2022, more changes are taking place in Australian immigration law and below is a summary of changes that have been flagged in the news.

1. COVID-19 Temporary Graduate (subclass 485) replacement stream visa - the replacement stream has opened in July 2022

   Applications for the COVID-19 Temporary Graduate replacement stream visa opened on 1 July 2022. The Temporary Graduate replacement stream visa will give current and former visa holders impacted by COVID-19 travel restrictions the same length of stay as their original visa.

2. Subclass 485 visa validity period

   The length of stay for the subclass 485 visa granted to 'Masters by Coursework' graduates is now being increased from 2 to 3 years, in line with the visa validity period granted to 'Masters by Research' graduates. Similarly, the visa validity period for the Subclass 485 Graduate Work stream visa granted from 1 December 2021 is also temporarily increased to 24 months from 18 months.

3. Subclass 191 visa due to commence on 16 November 2022

   In November 2019, the Australian Government introduced the subclass 491

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Selwyn is an experienced commercial law partner. He has expertise in the establishment, sale and/or purchase and

Skilled Work Regional (Provisional) visa and the subclass 494 Skilled Employer Sponsored Regional (Provisional) Visa.

These visa subclasses provide the State and Territory governments and employers in regional Australia a broader range of skilled occupations for nominations of temporary skilled workers. There are other criteria for this visa, such as relevant work experience, English language proficiency and age limits (unless an exemption applies).

A person who has held the subclass 491 or the subclass 494 visa for at least 3 years and meets a minimum taxable income and other criteria may be eligible for the corresponding permanent visa (the Subclass 191 visa).

4. Visa extension for Skilled Regional (provisional) subclass 489, 491 and 494 visa holders

The Skilled Regional (Provisional) visas attract skilled workers to work and live in regional Australia.

On 18 February 2022, the Australian Government extended Skilled Regional (Provisional) visas for three years for visa holders impacted by COVID-19 international travel restrictions. The COVID-19 visa concessions include this extension. The objective is to allow the affected visa holders to plan to begin or resume working and living in regional Australia, especially after the COVID-19 travel restrictions.

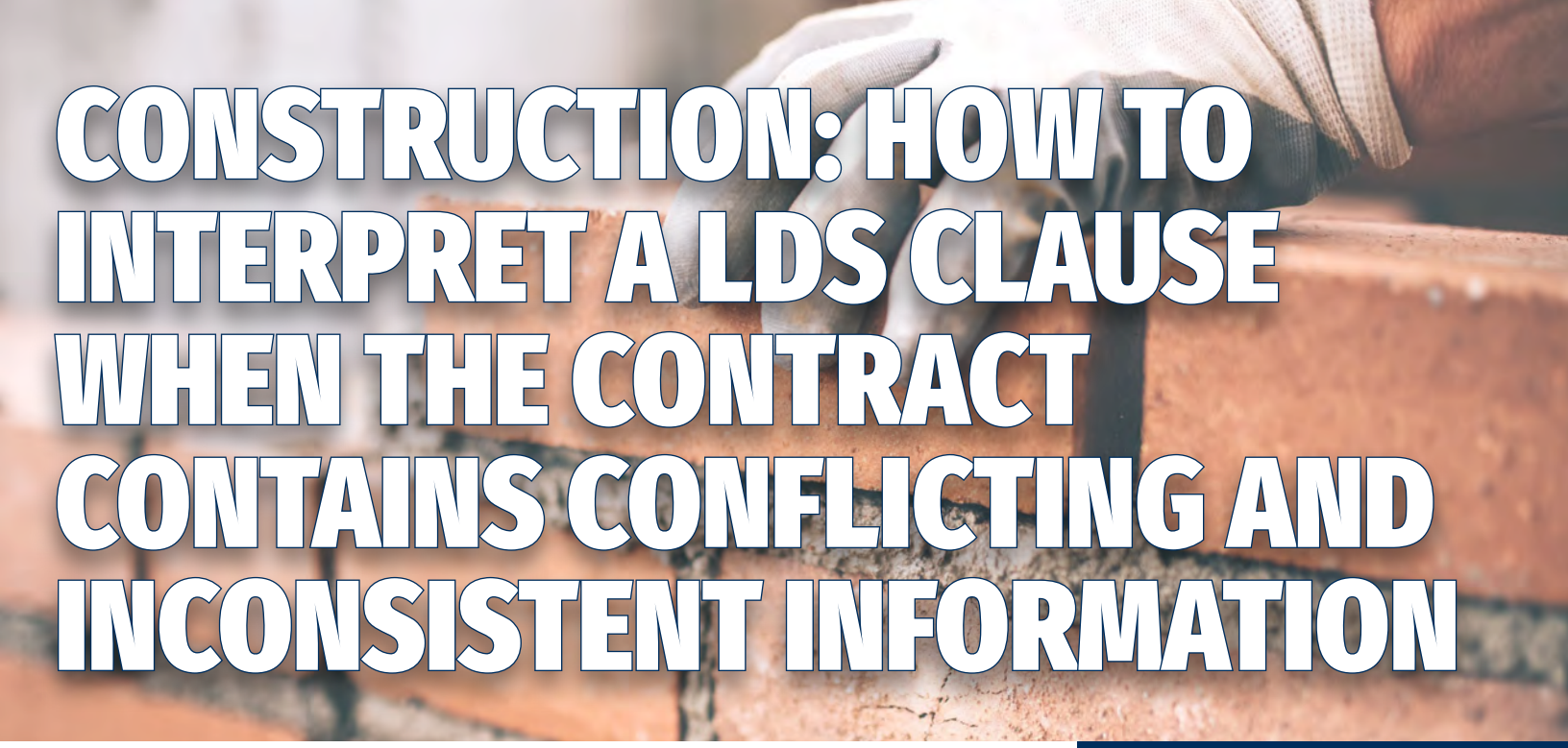
Skilled Regional (Provisional) visa holders would receive the extension if they have been outside Australia between 1 February 2020 and 14 December 2021 (inclusive) while holding the said visa. The eligible visa holders would have received notification of their extension, and can view the details in the Visa Entitlement Verification Online System (VEVO), which contains information about visa conditions.

The Australian Government is taking steps to develop the migration program as one of the tools to address skills shortages in the Australian jobs market. Carroll & O'Dea has a team experienced in Australian Migration Law to help navigate the complexities of these changes.

restructuring of companies, trusts and businesses. He has worked in the pharmaceutical, food, media, IT, engineering, transport industries, and not-for-profit organizations.

Lucy works in Business Practice. She has a wide range of experience working on matters across commercial advisory and dispute resolution. Lucy has been involved in commercial negotiations and transactions in the start-up innovation space, cross-border M&A, privacy compliance projects, intellectual property disputes and strata disputes.

Wing practises in the areas of immigration and employment law. She has assisted in the preparation of numerous successful Australian visa applications, particularly for religious workers, skilled migrants and spouses/partners. Wing provides assistance with employment and workplace relations issues, including unfair dismissal, general protections, awards, enterprise agreements and interpretation of employment contracts. She has also acted for clients in Federal Court proceedings and works on regulatory/legal issues affecting registered organisations.



CONSTRUCTION: HOW TO INTERPRET A LDS CLAUSE WHEN THE CONTRACT CONTAINS CONFLICTING AND INCONSISTENT INFORMATION

Introduction

As previously discussed in our newsletter article "*The past, present, future of liquidated damages in Hong Kong*", it is common practice for parties to include a liquidated damages ("**LDs**") clause in commercial contracts to stipulate the amount of damages payable by the defaulting party in the event of a breach of contract. In a construction contract, LDs usually relate to the contractor failing to achieve practical completion by the completion date set out in the contract. However, in practice, disputes often arise on the construction and interpretation of the LDs provision. In *Buckingham Group Contracting Ltd v Peel L&P Investments and Property Ltd* [2022] EWHC 1842 (TCC), the Court shed some light on how to interpret a LDs clause when the contract contains conflicting and inconsistent information.

Background

Buckingham Group Contracting Ltd ("**Buckingham**") was engaged by Peel L&P Investments and Property Ltd ("**Peel**") to design and construct the production building and certain works for a project for the construction of a new plant at Ellesmere Port in Merseyside (the "**Works**") pursuant to a written agreement dated 29 January 2018 (the "**Contract**"). The Contract was based on a JCT standard form contract together with a schedule of bespoke amendments (the "**Schedule of Amendments**").

The Contract expressly stated that the Schedule of Amendments form part of the Contract and in case of any differences between the Schedule and the JCT standard form contract, the former is to prevail. According to the Contract Particulars of the Contract, the completion date was 1 October 2018 (the "**Contract Particulars Completion Date**") and the contract sum was £26,164,049.28 (the "**Contract Particulars Contract Sum**"). On one hand there is a clause 2.29 concerning LDs for delay in completing the Works, on the other hand, a bespoke clause 2.29A concerning LDs for failure to achieve "*Milestone Dates*" was also inserted by the Schedule of Amendments. It provides, *inter alia*, that:

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Justin specialises in construction law and arbitration. He advises on contract negotiations and management of claims and disputes. He has experience in preparing contracts and advising on risk management strategies in relation to building, engineering and infrastructure projects. His experience includes handling disputes in relation to the design and construction of a waste management facility in Hong Kong, rehabilitations of expressway in Philippines and transportation interchange in Dubai and early termination of the construction of a power plant in Central America. Prior to joining ONC Lawyers, Justin worked in an international law firm specialising in construction arbitration for over a decade.

"2.29A .1 If the Contractor fails to complete the works necessary to reach a Milestone Date the Employer may give notice to the Contractor that:

.1 he requires the Contractor to pay liquidated damages at the rate stated Schedule 10 or lesser rate stated in the notice, in which event the Employer may recover the same as a debt; and/or

.2 that he will withhold or deduct liquidated damages at the rate stated in Schedule 10 or at such lesser stated rate, from sums due to the Contractor."

Schedule 10 contained a table setting out a list of milestone dates, of which the seventh Milestone Date for Practical Completion was identified as 30 November 2018 (the "**Schedule 10 Completion Date**"). It also contained a proposed contract sum of £25,710,050.28 (the "**Schedule 10 Contract Sum**") (which is different from the Contract Particulars Contract Sum), *two* sets of daily rates for LDs, *two* sets of weekly rates for LDs and a cap on maximum LDs in the sum of £1,928,253.77.

Furthermore, it expressly stated that:

"If there is any conflict or inconsistency between the wording of this schedule and clause 2.29 the wording of this schedule shall take precedence."

The Dispute

The Works were significantly delayed and parties were in dispute as to the responsibility for those delays. Buckingham then commenced proceedings against Peel, seeking declarations that the provisions in respect of LDs were void for uncertainty and that the cap on the LDs also operated as a cap on their liability for general damages.

Buckingham argued that the LDs provisions were void and thus unenforceable due to the following reasons:

1. The Contract Particulars Completion Date was 1 October 2018, whereas the Schedule 10 Completion Date was 30 November 2018;
2. Schedule 10 contains two sets of rates and it is impossible to discern which set the parties intended to apply;
3. There were two sums contained in the Contract, i.e. the Contract Particulars Contract Sum of £26,164,049.28 and the Schedule 10 Contract Sum of £25,710.050.28;
4. Schedule 10 failed to provide a scheme in respect of sectional completion/partial possession.

Decisions

When considering whether the LDs provisions were void and thus unenforceable, the Court examined and re-affirmed

some decisions made by other courts in previous cases. As summarised in paragraph 39 of the judgement:

> *"the court is reluctant to hold a provision if a contract is void for uncertainty and if it is open to the court to find an interpretation which gives effect to the parties' intentions, then it will do so. It is only if the court cannot reach any conclusion as to what was in the minds of the parties or where it is unsafe to prefer one possible meaning to other equally possible meanings that the provision would be void."*

Different completion dates

In respect of the two different completion dates, the Court concluded that by choosing to include a bespoke milestone date regime in Schedule 10, which actually included a date for practical completion of the whole of the Works and LDs in respect thereof, the parties must have intended for that clause to operate as the sole regime in this respect. The bespoke regime prevails. In the circumstance, liability would arise when the contractor failed to meet the milestone dates, not the Contract Particulars Completion Date.

Different sets of rates

For the issue of two sets of rates described in Schedule 10, the Court allowed Peel to rely on the evidence of a witness to explain the background to Schedule 10. Notwithstanding Buckingham had objected to the relevance of the witness evidence on the grounds that it was evidence of negotiations, the Court still found that it was appropriate to take into account the factual background for the purpose of ascertaining parties' intention. The Court concluded that it was "*plain that the parties had (perhaps unwisely) taken a short cut by copying and pasting the entire table into Schedule 10 without removing those parts of it which described it as a proposal*". Since parties had executed the entire agreement as a deed, the parties must have intended the table to have had legal effect. In respect of the two sets of rates, the Court found that it is perfectly possible to rule that the right hand set of columns was the only relevant one.

Different contract sums

Regarding the conflicting contract sums issue, the Court accepted Peel's submissions and found that it was obvious that the LDs table within Schedule 10 was initially drawn up as a proposal. Despite the contract sum being changed after the table was prepared, the parties nonetheless included the table in that form and the parties clearly intended to adopt the weekly LDs rates as calculated in Schedule 10.

Sectional completion

Lastly, the Court also rejected Buckingham's submissions on how Schedule 10 was unenforceable for its failure to provide a workable scheme in respect of partial possession. The Court was of the view that the Contract did not provide for sectional completion. In fact, "*on multiple occasions within the Contract Particulars they stated 'Sections do not apply'*". Although there are descriptions within in the table of "*sectional milestones*" in Schedule 10, this does not turn them into Sections. For a more detailed discussion on the relationship between sectional completion and LDs, please refer to our earlier article "*One of the burning questions in construction project – Are you entitled to reduction of liquidated damages upon sectional completion?*"

To conclude, it was held that the provisions were therefore certain and enforceable.

Takeaway

Poorly drafted LDs provisions may result in disputes in the future. In the present case, the Court confirmed that they are reluctant to hold that LDs provisions are void for uncertainty if a clear interpretation can be deduced. As such, it is vitally important to ensure the contract terms in respect of LDs are well drafted for the purpose of avoiding inconsistencies and ambiguities and mitigating legal risks.

IS THERE LEGAL CERTAINTY IN LAND OWNERSHIP IN INDONESIA?

Written by: Eddy Leks of Leks&Co. (Jakarta, Indonesia)

Eddy Leks is the founder and Managing Partner of Leks&Co. His main responsibility is to manage company's general corporate/commercial issues, build-operate-transfer project, and acquisition of shares and assets of property project. At time of joining, he was one of the youngest legal managers of the company.

Introduction

The questions often fearfully asked by many landowners, especially foreign investors, are the following:

- Is there any legal certainty in land ownership in Indonesia?
- How are landowners legally protected after they have bought the land?
- How can the landowner's land, that is already certificated, be claimed by a third party?

These are valid questions which need to be addressed. There might be one principal argument to answer them, but when entering into the complexity of land ownership disputes that may involve different documents related to the same land, various parties (including the land office), falsification of documents (known or unknown) or maladministration, that principal argument might not be satisfactory. However, there is one provision that is often referred to by landowners of certificated land, namely article 32(2) of the Government Regulation on Land Registration of 1997 (the provision).

This article investigates how the Supreme Court interprets and judges this provision in relation to the land dispute ownership involving already-certificated land.

Legal context

Article 32(2) stipulates that:

> *If over a plot of land a certificate has been legally issued and registered under the name of a person or legal entity having obtained that land in good faith and actually possesses it, then the other party, who feels having entitlement on that land right, may not be able to demand the implementation of that right if within 5 years since that certificate is published, no objection in writing submitted to the certificate holder*

and to the respective head of land office or does not file any claim to the court on such land possession or certificate issuance.

The elucidation of this provision is long. It explains that the publication system in Indonesia is not purely negative where the state does not guarantee the truthfulness of data as outlined. The regulation further explains that this provision is intended to stand firm against the negative publication system, which also means giving the true owner the right to file a legal claim. On the other hand, the regulation also provides balance to the other party who possesses a plot of land in good faith and is registered as the right holder with a certificate. For a landowner with a land certificate, when claimed by a third party, this provision is normally used as their defence so that the panel of judges can simply decline third party claims.

Case law

In decision No. 604 K/Pdt/2009, the Supreme Court held as follows:

> *therefore the judex facti (High Court) is not wrong in applying the law, since based on Article 32 paragraph (2) PP No. 24 of 1997 [government regulation on land registration], the Claimant cannot claim over a certificated land, after the lapse of 5 years since that certificate is issued under the name of certificate holder.*

Further, in decision No. 900 K/Pdt/2011, the Supreme Court held that:

> since the Claimant is unable to prove his arguments, and in addition the disputed object has been certificated under the right of ownership since 1989 and the claim had been lodged in 2009 then under the Government Regulation No. 24 of 1997 the certificate and ownership by one who acts in good faith can no longer be disturbed.

Further, under decision No. 291 K/Pdt/2017, the Supreme Court considered that:

> *according to Article 32 paragraph (2) of Government Regulation No. 24 of 1997 on Land Registration, a claim lodged by a party against a party possessing a plot of land in good faith, which possession is based on a valid ownership proof issued more than 5 years, then that claim must be declined.*

Based on these three considerations, it is evident that the panel of judges follow the provision of government regulation on land registration. This provides legal certainty for landowners who already hold land certificates.

This does not necessarily mean that the Court will rule in the same way for every land certificate issued more than five years ago since Indonesia land law adopts a negative publication system, even though it is not a pure one.

In decision No. 2934 K/Pdt/2017, the Supreme Court annulled the land certificate, despite its five-year issuance, due to a fraudulent defect in the land transfer history. The Supreme Court considered that:

> *the Defendant I has been proven conducting a criminal fraud against the Claimant based on the Judge's decision that has a permanent legal force causing the disputed object land owned by the Claimant [under] Letter C No. 608 under the name of Muniroh/Claimant has been transferred to become a Certificate of Right of Ownership No. 119 under the name of Defendant I.*

Further, the Court considered:

> *the act of Defendant I is an unlawful act and Certificate of Right of Ownership No. 119/Kelurahan Karang Rejo does not have any legal power since its issuance caused by a criminal action of Defendant I.*

In this case, the land office, as the cassation petitioner, (previously one of defendants) referred to article 32(2) of the Government Regulation on Land Registration in its memory of cassation. But, as seen in the consideration, the Supreme Court judges did not consider it at all and still proceeded with the annulment of the land certificate. In another case, through decision No.2031 K/Pdt/2017, the Supreme Court considered:

> *the obtainment of disputed object by the Defendant I from her husband . . . originated from the GG land which has been opened by Amaq Ahnan in 1990 which then has been delivered to the Village Government, then the disputed object is an asset of Village Government Wanasaba Lauk... so that the issuance of Certificate of Right of Ownership under the name of Defendant I is legally defective.*

In this case, the defendant who filed the cassation

petition referred to the article 32(2) by emphasising that the land certificate had been issued for more than five years and within that time limit the claimant had not lodged any objection verbally or in writing. In this case the defendant, as holder of the land certificate, lost on all court's stages to the Supreme Court.

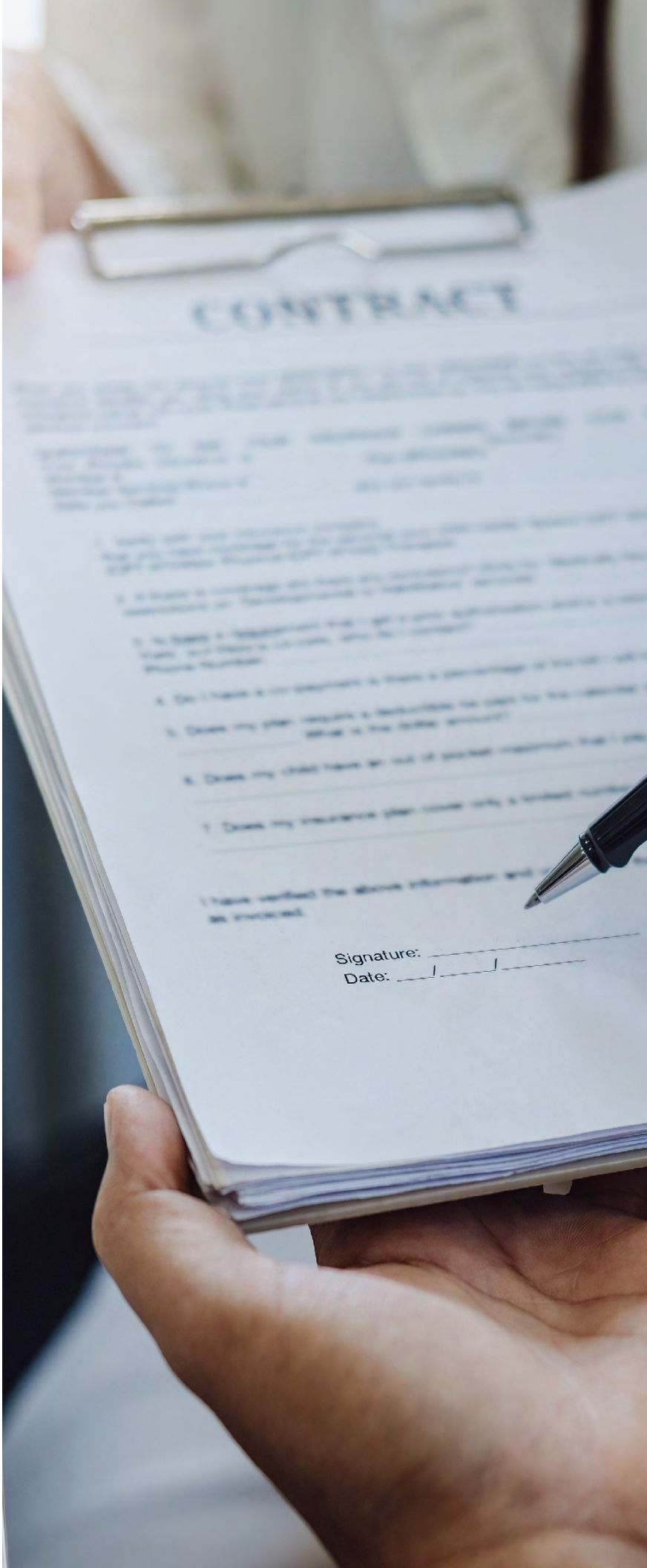
Comment

Both these decisions and the Supreme Court judges' considerations show that the provision of article 32(2) is not considered absolute. If there is a defect in the land transfer history or if it originated from crime, the true owner will still have the chance to claim their right even if the five-year- issuance date has passed.

In sum, four important elements contained in article 32(2) must be proven in court, namely that:

- the land certificate has been issued;
- the land certificate complied with the valid certification procedure;
- the land was acquired in good faith; and
- the landowner actually possesses the land.

When these four elements are proven during the evidentiary hearing, the judges should regard the land certificate as legitimate. But if any one of these four elements cannot be proven, the provision can no longer be used as the landowner's line of defence in court.



A DISCUSSION ON HOW TO PREVENT CORPORATE DEADLOCK VIA DESIGN OF ARTICLES OF ASSOCIATION

The most classic sentence in theoretical and practical circles of company law must be "unless otherwise provided in the articles of association of the company", which is also a magic weapon for shareholders to manage their company in an effective and flexible way by reaching agreements among themselves through the articles of association. Then can the sentence of "otherwise provided in the articles of association" be used to prevent circumstances of "corporate deadlock", a shared headache of shareholders and directors in operating a company? This article attempts to make a general discussion on this issue from three aspects: the definition and typical types of corporate deadlock, its causes and the key points of designing the articles of association to prevent corporate deadlock.

1. **Definition and typical types of corporate deadlock**
   a. **Definition of corporate deadlock**
   Corporate deadlock normally refers to a situation of stalemate caused by intensified conflict among shareholders and directors during existence and operation of a company. Because of corporate deadlock, the shareholders' meeting, the board of directors and other organs of the company are unable to make decisions pursuant to statutory procedures, making normal operation of the company impossible or even paralyzing the company. Corporate deadlock mostly happens in limited liability companies, especially those with a smaller number of shareholders holding similar percentages of shares, where it becomes impossible to make decisions pursuant to applicable provisions of the company law, bringing the decision-making process to a standstill.
   b. **Typical types of corporate deadlock**
   It is generally believed that corporate deadlock has two categories, namely shareholder deadlock and director deadlock: (1) **Shareholder deadlock** refers to a situation where, due to severe disagreement among shareholders, effective decisions on corporate operation fail

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to be reached during two consecutive shareholders' meetings and such failure may cause substantial damage to the company; (2) **Director deadlock** refers to a situation where, due to severe disagreement among directors, effective decisions on corporate operation fail to be reached during two consecutive board meetings and such failure may cause substantial damage to the company. There is also another special type of corporate deadlock, namely a director deadlock caused by shareholder deadlock, meaning that when a director's term of office expires, severe disagreement among shareholders makes it impossible to select a successive director during two consecutive shareholders' meetings and as a result, the number of directors at the board is insufficient for making operation decisions.

2. **Analysis on the causes of corporate deadlock**
   Per practical experience, corporate deadlock has the following common causes:
   a. **Unreasonable design of the equity structure of the company**
      Normally in a limited liability company with a smaller number of shareholders, each shareholder holds a balanced or even identical amount of shares, such as the common structure of 50%:50% or 1/3 for each. Under this kind of equity structure, if no separation design or special provision is made concerning the shareholding ratio and the voting power ratio, during operation of the company, when shareholders cannot reach a consensus on the philosophy and strategy of operation, and, because limited liability companies have natural characters of incorporation by humans, when initial trust among shareholders when setting up the company collapses and their relationship goes into a deadlock, neither party, with the shares held by it, is able to secure an effective decision made in accordance with their will. As a result, operation of the company will fall into an ongoing stalemate.
   b. **Unreasonable design of the voting mechanism of shareholders/directors**
      If the articles of association provide that a resolution of the shareholders' meeting or board of directors can only be passed by unanimous consensus of all shareholders or directors, or confer the one-vote veto power on an individual shareholder or director (the so-called "article that is unable to make but enough to break"; the one-vote veto power vested in an individual director is a controversial issue in practice), the company may fall into a deadlock if a resolution cannot be passed due to failure to reach unanimous consensus or an individual shareholder/director's exercise of his/her one-vote veto power.
   c. **The loss of contact or missing of a shareholder/director**
      It may happen in practice that, due to various reasons, a shareholder or director is unaccounted for, missing or not heard of for a long time. As a result, a normal shareholders' meeting or board meeting cannot be convened and no resolution of the company can be formed, leading the company into a deadlock.
   d. **Moral hazard of shareholders and directors**
      In practice, corporate deadlock may be caused by moral hazards where the official seal is withheld by a major shareholder or director without permission due to divergent interests or other reasons, or a shareholder or general manager takes along the

company's business license without authorization and disappears, etc.

Although it seems that corporate deadlock is a result of the dysfunction of a company's decision-making mechanism caused by dispute or conflict among shareholders or directors, the crux of corporate deadlock lies in the company's institutional system. While the existing company law has provided effective protection of shareholders' rights and interests as well as the company's interests, it also brings certain risks and challenges to company operation. These factors are fundamental causes of corporate deadlock. The institutional arrangement in the existing company law and the closure of the institutional structure of companies are a hotbed for corporate deadlock.

3. **Key points of designing the articles of association to prevent corporate deadlock**

Corporate deadlock not only causes huge damages to a company and its shareholders, but is also against the original aspiration of shareholders when setting up the company in the first place. Even though the law has offered judicial remedies after the occurrence of corporate deadlock, the damages caused by corporate deadlock are irreparable. Therefore, shareholders are advised to take preventive measures against corporate deadlock as early as establishment of the company. The articles of association constitute a corporate contract among shareholders when the company is established, and thus has a contractual nature. The Chinese company law allows a relatively large room of autonomy for shareholders when formulating the articles of association. Given that, shareholders should make full use of such autonomous power based on their own circumstances when formulating the articles of association and strive to avoid corporate deadlock through scientific and reasonable design of the voting system and the company's governance structure. From a practical perspective, the following clauses may be placed in the articles of association to prevent corporate deadlock:

a. **Design a diversified voting mechanism according to the circumstance of the company**

According to the company law, major resolutions of the company should be passed by shareholders representing a majority of votes, while especially significant resolutions such as amending the articles of association and adding or reducing the company's registered capital should be implemented after being passed by shareholders representing at least two thirds of the voting rights, and decisions on general operation matters should be voted by the board of directors and be passed by directors representing a majority of votes. When there is fierce conflict or dispute among shareholders or directors who hold utterly confrontational attitude against each other, it is likely that neither party will be able to secure such majority or two thirds of votes. As a result, it is almost impossible to have a resolution passed and a corporate deadlock is thus formed. Below are some common types of voting systems, the core of which is to separate the shareholding ratio and the voting system rather than keeping them united with each other, so as to break the unitary structure where shareholders enjoy voting rights corresponding to their portions of shares. Founders or shareholders of companies may select among these types in combination with the practical situations of their companies and themselves.

i. **The mechanism of voting rights restriction.** This means that the articles of association provide that the number of a shareholder's voting rights should be reduced when its/his portion of shares reaches a certain level. This mechanism puts restrictions on the controlling shareholder's voting rights to prevent it/him from infringing minority shareholders' legitimate rights and interests by taking advantage of the capital majority decision-making system.

ii. **The special voting mechanism for specific matters/significant matters,** meaning that certain matters to be voted by the shareholders' meeting will be passed only if certain shareholders are among those who consent such matters, which replaces the simple voting mechanism prescribed by the company law requiring majority votes or two-thirds absolute majority votes. This will to some extent avoid the situation where minority shareholders' lawful rights and interests are at risk during decision making for major or significant matters. For example,

the articles of association may provide that in the event of asset disposal involving an amount of over RMB 5 million, the resolution can only be implemented after being passed by shareholders that include a certain shareholder and represent a majority of votes.

iii. **The mechanism of recusal of voting rights.** The system of recusal of shareholders' voting rights, also called the voting right exclusion system, means that during the voting process at a shareholders' meeting, the shareholder(s) with special interests in the voted matter should be recused and should not exercise his/their voting rights on such matter on his/their own or represented by others. The system of recusal of directors' voting rights means that during the voting process at a board meeting, the director(s) with special interests in the voted matter should be recused and should not exercise his/their voting rights. Specific and clear provisions should be included in the articles of association on matters such as related-party transaction, provision of guarantee for shareholders and directors and self-dealing with the company.

Extension: Circumstances where shareholders' voting rights should be restricted or recused as set forth in the Company Law

1. Where a company provides a guaranty for a shareholder or actual controller of the company, a resolution shall be passed by the shareholders' meeting, and such shareholder or actual controller shall not participate in voting on the resolution (see Article 16 of the Company Law).
2. Where a director or senior officer conducts self-dealing with the company or takes advantage of his/her position to compete with the company in the same trade, he/she shall first obtain the consent of the shareholders' meeting or the general meeting of shareholders, and such director shall not participate in voting on the consent (see Article 148 of the Company Law).
3. A shareholder who fails to fulfill his/its capital contribution duty or unlawfully withdraws his/its capital contribution does not have any voting right on the resolution concerning his/its expulsion.

Related statutory provisions: Article 42 (exercise of the shareholder's voting right) and Article 43 (methods of deliberation and voting procedures of the shareholders' meeting) of the Company Law, etc.

b. Reasonable assignment of the power of control over the company

Where a company has two shareholders, the company's articles of association may provide that if one party serves as the chairman of the board, the other party may designate a majority of directors; where the two parties have an equal number of directors, an intermediary agency may be retained to designate independent directors; or, in a company without the board of directors, if one party serves as the executive director, the other party may act as the general manager, and the articles of association may specify that the executive director does not have the authority to retain or dismiss the general manager.

Related statutory provisions: Article 42 (exercise of a shareholder's voting right), Article 103 (a shareholder's voting right) and Article 104 (decision making power of the general meeting of shareholders on significant matters) of the Company Law, etc.

c. **Set the final say mechanism**
The articles of association may give the chairman of the board the authority to make the final decision when a voting deadlock occurs. It may also provide that when a voting deadlock occurs at the board meeting, the matter concerned may be referred to the shareholders' meeting for voting, etc. Such final say mechanism can be used to alleviate deadlock at the board of directors.

Related statutory provisions: Article 37 (function and power of the shareholders' meeting), Article 103 (a shareholder's voting right), Article 46 (function and power of the board of directors of a limited liability company), Article 108 (function and power of the board of directors of a company limited by shares) of the Company Law, etc.

d. **Specify causes of dissolution of the company**
Article 43 of the Company Law provides that, "Unless otherwise provided in the law, methods of deliberation and voting procedures of the shareholders' meeting shall be specified by the company's articles of association. Any resolution made at the shareholders' meeting on any **revision to the company's articles of association**, any increase or reduction of its registered capital, or any **combination, division, dissolution** or transformation of the company must be passed by shareholders representing two thirds or more of the voting rights." **When a dissolution resolution cannot be passed at the shareholders' meeting, agreed dissolution appears to be very important**. Shareholders may specify other causes of dissolution in the articles of association in addition to the statutory causes. When any of the circumstances happen, the company will be dissolved. Such practice may, to a large extent, solve a dissolution deadlock by avoiding the situation where the only way out is an individual shareholder's filing of a corporate dissolution lawsuit with the court.

Related statutory provisions: Article 43 (methods of deliberation and voting procedures of the shareholders' meeting), Article 180 (causes of corporate dissolution) and Article 182 (petition the court to dissolve the company) of the Company Law, and Article 1 (circumstances where a corporate dissolution lawsuit may be filed) of the Interpretations II of the Company Law.

e. **Specify the mechanism of a shareholder's withdrawal from the company under special circumstances**
Article 71 of the Company Law sets out the procedure and conditions of stock rights transfer in a limited liability company, **which seems to have provided two ways to shareholders of a limited liability company to withdraw from the company via stock right transfer: transferring stock rights to other shareholders of the company without limitation; or transferring the stock rights to any person other than the shareholders of the company after obtaining consent of other shareholders of the company**. However, because limited liability companies have relatively strong characters of incorporation by humans and establishment of the companies is based on mutual trust among shareholders, and because stock rights in

limited liability companies are not transferred in an open trading market like that of companies limited by shares, the difficulty of stock right transfer in limited liability companies has virtually increased. Therefore, in most cases in practice, persons other than the shareholders of a limited liability company are normally unwilling to join the company through stock right transfer, so such stock right transfer can only be done among shareholders within the company. **However, under a corporate deadlock, such internal transfer route is blocked, directly making it impossible for shareholders to withdraw from the company through transfer of their stock rights, which continues the deadlock situation.**

If it is agreed in the articles of association in advance that, in special circumstances or a corporate deadlock, minority shareholders have the right to request the controlling shareholder to purchase stock rights concerned at an agreed or reasonable price, or solve conflict among shareholders through the company's repurchase of one shareholder's stock right and reduction of capital, thus providing clear and operable routes for shareholders to withdraw from the company under a corporate deadlock. Such agreement belongs to autonomy of will among shareholders, and is binding to all shareholders and the company as soon as incorporated in the articles of association. Such agreement forms a legal relationship of expected transfer or repurchase of shares among shareholders and the company. Once certain conditions are met, qualified shareholders will be entitled to requesting other shareholders or the company to purchase its shares according to agreed conditions, so that shareholders who no longer intend to participate in the operation of the company can withdraw smoothly and the company will continue to exist.

Related legal provisions: Article 71 of the Company Law (conditions and procedures of transfer of stock rights in a limited liability company) and Article 16 of the Interpretations (IV) of the Company Law (limitation on the exercise of the preemptive right when a natural person shareholder is changed due to the inheritance relationship).

To sum up, in the context of the Chinese company law which intends to release regulation and respect the autonomy of companies, setting out clear agreement of voluntary clauses in the articles of association can supplement and amend default rules preinstalled by the company law; from a practical perspective of the company, reasonably setting out the rights and obligations of shareholders and directors in the articles of association can to some extent effectively avoid corporate deadlock; or, when a corporate deadlock happens, specific mechanisms as agreed in the articles of association can be triggered to provide institutional support for the company to walk out of deadlock.

Conclusion

As Hamilton the jurist once said, "Without agreement, no remedy for a deadlock can be fully satisfying". When it comes to corporate deadlock, it is necessary to "nip in the bud": reasonably design the voting system and the company's governance structure by actively using the voluntary clauses of the articles of association, which is the best way to prevent corporate deadlock.

INTERPRETATION OF NEW REGULATIONS: THE KEY ISSUES IN APPLICATION OF PUNITIVE DAMAGES FOR INTELLECTUAL PROPERTY INFRINGEMENT – AN ANALYSIS OF THE GUIDELINES ON THE APPLICATION OF PUNITIVE DAMAGES IN THE TRIAL OF INTELLECTUAL PROPERTY INFRINGEMENT CIVIL CASES ISSUED BY BEIJING HIGH PEOPLE'S COURT

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Article 63 of the *Trademark Law of the People's Republic of China* amended on August 30, 2013 is the earliest rule on punitive damages. The *Anti-Unfair Competition Law* amended in 2019 added clauses related to punitive damages. Article 1185 of the *Civil Code of the People's Republic of China* released in 2020 established the fundamental clauses about punitive damages for IPR infringement. Afterwards, the *Patent Law* and the *Copyright Law* made corresponding changes based on such fundamental clauses and added the clauses about punitive damages. The establishment of a punitive damages system for intellectual property infringement is helpful to punish severe IPR infringement in accordance with the law, enhance IPR judicial protection and fully exert the deterrent effect of the punitive damages system.

On March 2, 2021, the Supreme People's Court released the *Interpretation on the Application of Punitive Damages in the Trial of Intellectual Property Infringement Civil Cases* (hereinafter the "*Interpretation*"), unifying the standards for applying punitive damages. On April 25, 2022, the Beijing High People's Court released the *Guidelines on the Application of Punitive Damages in the Trial of Intellectual Property Infringement Civil Cases* (hereinafter the "*Guidelines*"), further enhancing the effective implementation of IPR punitive damages and curbing severe IPR infringement. This article will briefly analyze some key issues and changes of the application of punitive damages in IPR-related cases in the context of the Guidelines.

I. Constitutive elements

To apply punitive damages in IPR infringement civil cases, two statutory constitutive elements, i.e. "**intention**" and "**severe circumstances**", shall be satisfied.

"Intention" includes "bad faith", which can be understood as the same meaning. According to the Interpretation, to determine whether an intellectual property infringement is intentional, the people's court shall fully consider the objective type of the infringed intellectual property right, the status of the intellectual property right, the popularity of relevant products, the relation between the defendant and the plaintiff, or the relation between the defendant or any other interested party, as well as other factors. The Interpretation also lists the following circumstances under which an intellectual property infringement shall be deemed intentional: (1) The defendant still commits the act of intellectual property infringement after it is notified or warned by the plaintiff or any other interested party; (2) The defendant or its legal representative or manager is the legal representative, manager or actual controller of the plaintiff or any other interested party; (3) There is labor, labor service, cooperation, franchise, dealership, agency, representative relations between the defendant and the plaintiff or any other interested party, and the defendant has come into contact with the infringed intellectual property; (4) The defendant had any business relation with the plaintiff or any other interested party, or had any consultation for the conclusion of any contract, and has come into contact with the infringed intellectual property; (5) The defendant commits any act of piracy or counterfeits any registered trademark.

To determine whether an intellectual property infringement is severe, the people's court shall fully consider the infringement approach, frequency, the duration of infringement act, its territorial scope, scale, consequence, the act of the infringer in the litigation, as well as other factors. The Interpretation also lists the following circumstances under which the intellectual property infringement shall be deemed severe: (1) The defendant commits the same or similar infringement act after it has been subject to any administrative punishment or has assumed liability as ruled by the court due to infringement; (2) The defendant operates mainly by IPR infringement; (3) The defendant forges, destroys or conceals any evidence of infringement; (4) The defendant refuses to implement the ruling of preservation; (5) The defendant gains profits or causes huge losses to the right holder as a result of the infringement; (6) The defendant's infringement act may endanger national security, public interest or personal health; (7) Other circumstances that may be deemed to be severe circumstances.

Based on the Interpretation, the Guidelines extend the scope of circumstances of "intention" in addition to those listed in Article 2.2 of the Interpretation, including bad-faith registration, use of others' well-known trademarks, coverage or eradication of right marks, continuous use of the revoked intellectual property rights, continuous infringement after receiving the infringement notice from the relevant authorities and other typical circumstances in practice. In addition to the "severe circumstances" set forth in Article 2.4 of the Interpretation, the Guidelines add a series of typical circumstances such as IPR infringement at sports events and exhibitions, dissemination of infringing videos via different channels, frequent infringement, long-term infringement, severe harm to the goodwill, interruption to the evidence collection and investigation of any state functionary through violence, threat or other illegal means, specifying "**the**

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acts and performance of the infringer during the administrative action" as one of the standards for identification of severe circumstances.

Moreover, different from the Interpretation, the Guidelines set forth in Article 2.5 the circumstances of IPR infringement which may be deemed both intentional and severe and are typical and consistent with the development of business practices, including: (1) operating mainly by IPR infringement; (2) disseminating the infringing works without permission before the film, TV series, entertainment shows, sports event programs or online games are released or launched in public or at the early stage of such release or launch; (3) at the time of providing such goods or services as related to the IPR under legal authorization, providing goods or services infringing the same IPR without permission; (4) providing such genuine goods or services as related to the IPR in advertising, negotiating, signing contracts, displaying samples and providing customer experience and other activities, while providing or mainly providing infringing goods or services of the same IPR during actual transactions;(5) re-committing or continuing such infringement by the same infringer as has been determined as infringement in an administrative penalty or administrative decision; (6) re-committing or continuing such infringement by the same infringer as has been determined as infringement in a settlement agreement reached voluntarily by relevant parties; (7) re-committing or continuing such infringement by the same infringer as has been determined as infringement in an effective judgment, mediation letter, or arbitral award; (8) re-committing or continuing the same infringement by establishing a new company, changing the name of the company, replacing the legal representative, making use of the affiliate, etc.

The list of above circumstances combining both the objective and subjective constitutive elements in practice can help accelerate the trial progress and significantly relieve the proof burden of the right holder to some extent. However, any exceptions not covered by the above circumstances shall be analyzed and identified in accordance with Articles 2.2 and 2.4.

II. Determination of the base amount of damages

Pursuant to the Interpretation, when determining the amount of punitive damages, the people's court may take the plaintiff's actual loss amount, the defendant's illegal income and the profits gained from the infringement as the base amount for calculation. Where it is difficult to calculate the aforesaid actual loss amount, illegal income and the profits gained from the infringement, the people's court shall, in accordance with the law, determine the aforesaid amount, income and profits according to a multiple of the license fee of the relevant right, and take them as the base amount to calculate the amount of punitive damages.

Articles 3.2-3.4 of the Guidelines elaborate the rules for determination of the base amount in terms of the determination method, the application order and the adoption of such method.

Firstly, the Guidelines remain consistent with the Interpretation in terms of the method of determining the base amount, specifying that the statutory amount of damages shall not be used as the base amount in calculation of punitive damages. Moreover, the Guidelines emphasize that the profits gained from the infringement refer to the property proceeds acquired by the infringer from the

infringement of intellectual property rights, and generally mean the operating profits thereof. However, for the infringer who operates mainly by IPR infringement, profits from infringement may be calculated based on the sales profits.

Secondly, the Guidelines summarize the general rules for the application of punitive damages in different types of IPR-related cases in light of trial practices. Pursuant to the *Trademark Law* and the *Seed Law*, punitive damages are applied in the following order: (1) the actual losses of the right holder; (2) the profits gained by the infringer as a result of infringement; (3) a reasonable multiple of the royalty; the application of punitive damages under the *Patent Law* and the *Copyright Law* is in the following order: (1) the actual losses of the right holder or the profits gained by the infringer as a result of infringement; (2) a reasonable multiple of the royalty or fees for use of the IP rights; pursuant to the *Anti-Unfair Competition Law*, punitive damages for trade secrets infringement are applied in the following order: (1) the actual losses of the right holder; (2) the profits gained by the infringer as a result of infringement.

Thirdly, the Guidelines specify that with respect to the order of application, it is generally preferred to determine the base amount of punitive damages in accordance with the prior method. Where it is difficult to determine the base amount according to the prior method, the right owner may choose a following method. The Guidelines specify the rules for the right holder to determine the applicable base amount and improve the conventional thinking adopted by the court when applying punitive damages in the trial of IPR-related precedents, thus enhancing the protection of the core technologies, key fields and emerging industries.

III. The determination of multiple

Article 6 of the Interpretation merely briefly specifies that when determining the multiple of punitive damages, the people's court shall consider the defendant's subjective fault, the seriousness of infringement act, as well as other factors. When determining the multiple of punitive damages, the people's court shall also take into consideration circumstances under which the same infringement act has already been subject to administrative or criminal penalty and such penalty has been fully paid.

Articles 3.14-3.19 of the Guidelines set forth detailed provisions on the determination of the multiple. In addition to the circumstances of "intentional infringement" and "severe circumstances" as specified therein, the following factors may also be taken into account according to the specific circumstances of the case: (1) the degree of intention of infringement; (2) the duration of infringement act; (3) the number of infringed IP rights; (4) damage caused by the infringement to the industry; (5) whether the infringer has repeatedly infringed the IP rights; (6) whether the infringer has truthfully submitted the evidence of profits.

The Guidelines also provide guidance to determination of the multiple of punitive damages in patent, trademark, copyright, trade secret, new plant variety and other infringement cases. With respect to patent infringement, the type of the patent, the degree of innovation, the value, the remaining valid period of the patent and the number of the infringed patents shall be particularly considered; with respect to trademark infringement, the goodwill of the right holder, the popularity of the trademark, the degree of similarity between the infringing trademark and the granted trademark, the horizontal competition between the infringer and the right holder and other factors shall be taken into account; for copyright infringement, the popularity and influence of the right holder, the business model related to the subject matter of the copyright, the number of rights under or related to the infringed copyright, infringing profits, the scale and duration of infringement, etc. shall be considered; for infringement of trade secrets, the type and value of the trade secret, the innovation degree, the cost input, confidentiality measures, means of infringement, the maintenance of the competitive advantage, etc. are most relevant; with respect to the infringement of new plant varieties, the following factors shall be taken into consideration: the production and reproduction scale and the price and quantity of the infringing plant variety, the market scale of the authorized plant variety whether the seeds of the authorized plant variety are prohibited from importation or exportation, and whether the said infringement is harmful to the national food security.

Moreover, Article 3.20 of the Guidelines specifies the principle of application of punitive damages according to agreement. The relevant parties may reach an agreement on the base amount for calculating punitive damages, the method of determining such base

amount, the multiple and the total amount of damages and the agreed multiple is not subject to the statutory scope of 1 to 5 times. The exception principle of "obviously unreasonable" shall apply to the agreed punitive damages. In other words, on the one hand, where the punitive damages claimed by the right holder are different from such agreed punitive damages and the infringer claims application of the punitive damages within the said agreed scope, the infringer's claim may be supported, unless the right holder provides justifiable evidence proving the said agreement is obviously unreasonable; on the other hand, where the agreed multiple of punitive damages falls out of the statutory scope and one party requests the application of the agreed multiple, such request is generally supported, unless the other party provides justifiable evidence proving the said agreement is obviously unreasonable.

IV. Application of punitive damages to internet service providers

To solve the significant problem of IPR infringement in live-streaming marketing and purchase by agent, the fourth section of the Guidelines sets forth the rules on application of punitive damages to Internet service providers ("ISPs"). According to Article 4.2 of the Guidelines, the ISP shall be deemed to have known that its users take advantage of the network services to conduct the infringement where the said ISP: (1) receives the infringement notice from the right holder; (2) receives the infringement notice from the IPR administrative authorities; (3) is involved in such relevant proceedings as litigation or arbitration due to the infringement by its users through taking advantage of the network services; (4) provides the subject matter of the infringement by cooperating with its users.

Article 4.3 of the Guidelines lists six circumstances under which the assistance or instigation by the ISPs shall be determined as severe circumstances, including but not limited to:

(1) Where the network users refuse to perform the effective judgements or rulings, and the ISP still provides network services to the said network users to continue the same infringement;

(2) Where the ISP still provides network services to its users to continue or conduct the same infringement again after the ISP has been ruled infringing in accordance with the law due to such users' taking advantage of its network to conduct infringement.

Articles 4.7-4.8 list the circumstances of live-streaming marketing and purchase by agent where punitive damages are probably applicable.

The above provisions can serve as reliable grounds for further regulating the online platform governance and avoiding further expansion of consequences of intentional infringement, in timely response to the demand for the application of punitive damages at a time of rampant infringement on online platforms.

Lastly, the fifth section of the Guidelines deals with the procedural issues in the application of punitive damages. On the one hand, it specifies the timing of claiming or changing the calculation of the punitive damages and sets forth detailed rules on the circumstances under which the joint right holders make separate claims for punitive damages, or the right holder claims different punitive damages against the joint infringers. On the other hand, the Guidelines make clarifications on the application of punitive damages based on different stages of infringement, providing clear guidance to judicial practices. In conclusion, under the principle provisions of the Interpretation, the Guidelines refine and differentiate relevant rules in light of practical experience, providing corresponding measurement criteria for different circumstances, which are more typical and practical.

AMENDMENT TO THE WHISTLEBLOWER PROTECTION ACT OF JAPAN

On June 1, 2022, an amendment to the Whistleblower Protection Act of Japan (the "Act") became effective. According to this amendment, companies with more than 300 employees must establish an internal whistleblowing system that ensures non-retaliation against the whistleblower as well as the confidentiality of the whistleblower's identity. The Consumer Agency, the governmental agency overseeing implementation of the Act, has issued detailed guidelines for companies to establish such systems in compliance with the Act.

The Act further stipulates that if persons managing the whistleblowing systems disclose a whistleblower's identity, they may be subject to a criminal penalty (up to 300,000 JPY or approx. 2,000 USD). Although the penalty is not substantial in monetary terms, violators may incur significant negative stigma. Thus, it is imperative that compliance officers who deal with whistleblower reports keep a whistleblower's identity in strict confidence. Most major Japanese companies have already implemented their own internal whistleblowing systems and we highly encourage international companies operating in Japan that have 300 employees or more to make sure they have set up a whistleblower system that meets the requirements of the amended Act.

Domestic Japanese companies manage their whistleblowing systems at their Japanese headquarters, but foreign-capital firms with operations in Japan tend to process whistleblowing reports at their headquarters in the US or Europe. We caution that this may not be compliant with the Act as amended. The guidelines issued by the Consumer Agency in relation to the Act are quite extensive (more than 100 pages), nevertheless we recommend that international and foreign-capital firms in Japan review them and if necessary, revise their whistleblower-report handling process in Japan to ensure that a whistleblower's identity is not to be shared with anybody other than the legal and/or compliance departments.

Written by: Kengo Nishigaki and Andrew Griffin - GI&T Law Office LC (Tokyo, Japan)

Kengo Nishigaki founded GI&T Law Office LC in 2020. Before that, he worked at Baker & McKenzie from 2000 to 2020, being a partner of the dispute resolution group for more than 10 years. From 2004 to 2005, he worked at their Chicago office where he worked on matters related to compliance with the US Foreign Corrupt Practices Act.

Andrew has been in Tokyo, since 2006, where he has been international in-house counsel for a top Japanese construction company, chief compliance officer for a major Japanese oil & gas offshore production company and law firm of counsel.

MEMBER PROFILE

Eddy Marek Leks

Leks&Co. Lawyers (Jakarta, Indonesia)

What was your motivation to become a lawyer?

To utilize and contribute my legal knowledge in a concrete and practical form, achieving justice and truth in law.

What are the most memorable experiences you have had thus far as a lawyer?

Winning in an arbitration dispute against one of the largest world's oil producers.

What are your interests and/or hobbies?

Reading and gardening as well as singing.

Share with us something that Primerus™ members would be surprised to know about you.

I am a doctor for the philosophy of law (philosophy degree).

Do you have any special messages for Primerus™ members?

Keep on shining and working together as an international worldwide team of lawyers.

Leks&Co lawyers

MEMBER PROFILE

Abhishek Nath Tripathi

Sarthak Advocates & Solicitors (New Delhi, India)

What was your motivation to become a lawyer?

I was preparing to do engineering when I got through Law School. While I started preparing for engineering at an early age, when the time came, I was determined not to do it. So, the immediate motivation to do law was to escape from engineering.

I was formally studying sciences and mathematics in school, however I always had special interest in social sciences- history, politics and literature. I was an avid reader of newspapers and current affair magazines since my childhood, which perhaps ignited my initial interest in law. So, when the time came to choose between engineering and law as a career, law was an obvious winner.

What are the most memorable experiences you have had thus far as a lawyer?

There have been many experiences as a lawyer, but what stands out is being invited by the Standing Committees of the Parliament to depose as an expert on a host of legislations. It was a special feeling.

What are your interests and/or hobbies?

I have diverse interests and hobbies. I am a compulsive reader, and I like reading books in as many languages as I know. Sometimes the desire to read diverse literature has also led me to learn new languages. I also run a blog that compiles folk songs in Bhojpuri (a dialect of Hindi, spoken in northern India). I am also learning Hindustani classical music.

Most of all, however, I like playing with my kids and my dog, Sultan. I have young kids, so I strive to enjoy their company as much as I can.

Share with us something that Primerus™ members would be surprised to know about you.

Not sure if it should surprise people, but I write poetry in Hindi and Urdu. I hope to be able to publish my book of poems one day.

Do you have any special messages for Primerus™ members?

Let's drive together to thrive together.

Primerus™ is a great network of brilliant lawyers spread around the globe. While diverse professional, geographical, cultural, religious, racial and linguistic backgrounds of our lawyers should help us build a valuable professional network, a deeper personal engagement can also help us evolve as better human beings. Deeper personal bonds should also aid better professional outcomes for our members.

SARTHAK
advocates & solicitors

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE NORMS IN INDIA

The rise of Environmental, Social, and Governance ("ESG") standards is a relatively new and evolving discourse around the world – even as many argue on its value proposition for stakeholders in a business. ESG standards assist in analysing how a business is managing its risks and opportunities on environmental, social, and governance parameters.

The environmental norm require businesses to pay attention to global issues such as climate change, carbon footprints, deforestation, etc. The social norms assess the commitment and application of principles of equal opportunities, gender and diversity inclusion, mental health and general wellbeing of the workforce. The governance standards require companies and businesses to evaluate whether there are sufficient checks and balances on powers of company leaders, compliance with anti-corruption & bribery policies.

In India, there is not one single set framework that regulates ESG. While there is a long history of laws that seek to prevent environmental degradation and labour laws that protect working classes, these laws cannot be viewed from the ESG prism as it is evolving today. At the most rudimentary level, [Indian] Companies Act, 2013 mandates disclosure of information and details such as steps taken by companies for conservation of energy, utilising alternate sources of energy and the capital investment on energy conservation equipment in the report of the board of directors. A similar provision existed in Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 under Companies Act, 1956. This provision is applicable to all companies – irrespective of their size or capitalisation.

The Companies Act, 2013 also introduced the concept of women directors on the board of directors with a view to promote diversity in listed companies or a company having paid up capital of INR 100 crore or more or a company whose turnover is INR 300 crore or above. While basic corporate governance framework is set out in the Companies Act, 2013, various other sectoral regulators such as SEBI and RBI have taken the lead in implementing a governance framework for entities and businesses, regulated by them. Similarly, there is a requirement to report on instances of sexual harassment at the workplace in an annual report with local authorities.

With the introduction of mandatory Corporate Social Responsibility (CSR) under the Companies Act, 2013, social spending by large businesses no longer remains confined to voluntary acts of charity. In this regard, India's regulatory

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Mani is a Partner and heads the Firm's litigation practice and insolvency litigation practice, as well as manages the Firm's practice in education sector and policy intervention. Mani advises clients in financial distress in managing their litigation and the Corporate Debt Restructuring and Strategic Debt Restructuring process of the Reserve Bank of India. Mani also has an expertise in handling commercial arbitrations in construction contracts, and power and infrastructure projects. Mani also has had significant experience as a corporate transactional lawyer, and she has been involved in setting up of managed funds including offshore funds and venture capital funds.

regime differs from other countries where CSR spending is voluntary.

In addition, several new legislations have been enacted and older ones revamped to address the age old problems of corruption, benami property and black money, and money laundering. The realm of laws such as Prevention of Money Laundering Act, 2002, Prevention of Corruption Act, 1988 and Benami Transactions (Prohibition) Act, 1988 has been expanded to include private business dealings as well. These laws introduce new risks which require businesses to have the highest degree of ethical governance practices. The need for professional advice in these areas has never been greater.

SEBI has also introduced a framework for ESG reporting in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which currently applies to top 1000 listed companies (by market capitalisation). These companies need to submit a business responsibility and sustainability report. This is a beginning which is expected to be expanded to cover more companies in coming years.

On May 10, 2021, Securities and Exchange Board of India (SEBI) issued a circular requiring the mandatory for the top 1000 listed companies (by market capitalization) to file Business Responsibility & Sustainability Report (BRSR). ESG standards safeguard the interest of the stakeholders from shareholders and management that may act irrationally, brazenly and/or unethically. To that extent, a verifiable and assessable ESG framework may assist stakeholders in monitoring the performance of ESG-conscious company practises, including with the help of rating agencies. A better and more ESG compliant business is increasingly seen as a better value proposition for investors and other stakeholders.

As Indian businesses become more ESG sensitive, it is useful for the businesses and regulators to come together and evolve a framework that suits Indian society and its needs. A framework that may work in a certain geography and economy may not work in India, and pushing such framework may have unintended consequences for a growing economy that houses the largest population living below the poverty line. The standards and framework may also vary from sector to sector and industry to industry. Industries may do well to evolve a self-regulated ESG framework, based on industry best practices. Such framework will also help the regulators in aligning the broader regulatory needs with the needs of the businesses.

Abhishek is the Managing Partner of the Firm. Abhishek advises clients on a wide range of laws, such as energy and power sector related laws, insolvency laws, real estate laws, companies' law, foreign exchange laws, securities regulations, insurance laws and telecom laws. He routinely interacts with governmental and regulatory authorities in India on several matters. He is also a registered insolvency resolution professional. Abhishek advises clients in infrastructure, power, education, real estate and financial services sectors. He has also been involved in advising clients in several cross border transactions.

UPDATE OF THE MONTH

To ride-in the festival season, team Sarthak Advocates & Solicitors joined hands with the Robin Hood Army earlier this month. The team got together and distributed small stationery kits, sustainably packed in old newspapers to about 100 children from weaker sections of society living near #Mehrauli in #southdelhi . The small token was a meagre contribution towards their education; but their smiles lifted our spirits in a way that cannot be expressed into words.

Written by: Mani Gupta and Abhishek Tripathi - Sarthak Advocates & Solicitors (New Delhi, India)

FIRM UPDATES

Managing Partner Caroline Berube joins Canadian International Trade Minister Mary Ng at Canadian Thanksgiving Event in Singapore hosted by the Canadian Chamber of Commerce in Singapore

Thankful during Canadian Thanksgiving to be Canadian after more than 24 years living in Asia, Caroline Berube, Managing Partner of HJM Asia Law & Co LLC, still remains proud and thankful to be Canadian and misses her family in Canada.

This year's Thanksgiving was special as Caroline Berube, who is also President of the Canadian Chamber of Commerce in Singapore, spent time with Canadian International Trade Minister Mary Ng during her visit to Singapore.

They discussed potential opportunities in Asia for Canadian companies and how the Chamber can assist in these markets, with Singapore being used as a gateway to Asia.

Rugby league football is a favourite sport in Australia. The Canterbury-Bankstown Bulldogs club (Bulldogs) is a professional rugby club supported by its members. On 28 September 2022, Yue Lucy Han was part of a panel presenting the top 3 areas of a business health check to Bulldogs' members. The panelists also included the rugby legend Terry Lamb, who spoke to keen fans during the webinar.

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1. **Watson & Band Honored "Intellectual Property Law Firm of the Year: East China – Local" in the ALB China Regional Law Awards 2022: East China**

On the evening of August 19, 2022, the award ceremony of ALB China Regional Law Awards 2022: East China was grandly hosted in the Shanghai Tower. With our excellent performance and good reputation within the intellectual property area over the more than two decades' time, Watson & Band was honored "Intellectual Property Law Firm of the Year: East China Local".

2. **Watson & Band Partners Selected into the First Expert Directory for Resolution and Guidance on Overseas IP Rights Disputes In August**

On August 30, the "2022 China · Shanghai 'The Belt and Road' IP Rights Protection Forum", also the "Founding Ceremony for the Shanghai Overseas IP Rights Disputes Resolution and Guidance Expert Database", which was jointly guided by the Shanghai Municipal Intellectual Property Administration, the Shanghai Hongqiao international CBD Administrative Committee and the Shanghai Council for Promotion of International Trade, and organized by China (Shanghai) Intellectual Property Protection Center (Shanghai Sub center of National Overseas IP Rights Dispute Resolution and Guidance Center), and jointly co-organized by Shanghai Minhang District Intellectual Property Association, was grandly hosted at Shanghai Hongqiao Libao Plaza.