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1. Council Film Industry Promotion Act

On 7 November 2016, the Film Industry Promotion Act ("FIPA") was adopted by the Standing Committee of the National People's Congress of the People's Republic of China ("P.R.C."), and it will enter into force on 1 March 2017. The main purpose of the FIPA is to support domestic movie production.

Considering the development of the Chinese movie market and the current movie industry supervision system, the following regulations of FIPA stand out.

Cancellation of the Approval Requirement for movie production Companies

The current legislation regime requires any organisation that intends to produce a movie the first time to establish an "entertainment and culture" company and apply for the "License for Producing a Film". If such a company produced two or more movies after having successfully applied for the "License for Producing a Film", it could apply for a constant "License for Producing Movies".

According to FIPA, any organisation may directly submit the script to the Film Department under the People's Government of the Province, Autonomous Region or Municipality in order to obtain authorisation for the production. The market entry for the production of movies shall become simplified in that way. Besides, the capital flow into the movie market and competition in the market shall increase.

However, it is speculated that "single movie project" companies may dominate the market in the future.

Supporting the Domestic Movie Productions

The purpose of the new FIPA is to support domestic movie productions. It follows that purpose by several policies.

Cinemas are required to reasonably arrange their screenings with domestic movie productions. FIPA emphasizes that no less than two thirds of the total amount of annual screening time shall be for domestic movie productions. The classification of a movie as domestic, however, will not change under the new regime and will depend on the qualification of the production company. E.g. foreign investors will remain limited to a maximum share of 49% in a Chinese joint venture and their productions will have to be joint productions with domestic producers in order to be qualified as domestic movie.

According to FIPA foreign organisations and persons must not engage independently in movie production activities within Chinese territory. Foreign investments to the Chinese film industry are still restricted.

Meanwhile, the development of the movie industry shall become part of the national economy and social development plans of the National council and local governments above the country level. And the FIPA advocates that private persons and organisations engaging in film activities shall enhance their awareness of protecting IP rights.

By all means, FIPA provides significant changes to the film industry in China and its promulgation appears as a milestone in the development of the Chinese film industry.

2. Judicial Interpretation of the Company Law of the People's Republic of China

On 5 December 2016, the Judicial Interpretation of the Supreme People's Court on Several Issues concerning the Application of the Company Law of the People's Republic of China IIII ("Judicial interpretation IIII") was adopted by the Plenary Meeting of the Judicial Committee of the Supreme Court. The Judicial interpretation IIII focuses on corporate governance and protection of shareholders' interests, providing detailed solutions to practical issues experienced in legal practice.

According to the Judicial Interpretation III,

- a plaintiff to file a lawsuit to nullify a resolution shall not be limited to shareholders and top managers anymore, but include employees or creditors in certain events, if they have direct interests in such resolution;
- the cause of action for a judicial revocation of a resolution shall include (a) the abuse of shareholders' power of a resolution that harm the interests of the company or other shareholders and (b) any resolution that excessively distributes profits or approves any improper material related to affiliate transaction that harms the interests or creditors;
- any plaintiff may apply to the court for an injunction to avoid the implementation of an invalid resolution;
- the scope of accounting records is expanded in order to provide shareholders with effective inspection rights;
- a cause of action is enacted for shareholders in order to demand the distribution of profits of the company; shareholders that did not participate to such actions may also apply for the enforcement of the referring judgment;
- pre-emptive rights in equity transfer shall not apply, if equity is transferred by inheritance or among existing shareholders or if non-transferring shareholders intend to exercise pre-emptive rights only to buy parts of the offered equity;
- shareholders of parent companies are entitled to file derivative suits on

behalf of wholly-owned subsidiaries.

3. Shenzhen-Hong Kong Stock Connect

On 5 December 2016, the China Securities Regulation Commission ("CSRC") and the Securities and Futures Commission of Hong Kong jointly announced the launch of the Shenzhen-Hong Kong Stock Connect.

Like the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect is an investment platform and it comprises two elements. First, it will enable Hong Kong investors to buy stocks listed on the Shenzhen Stock Exchange main board, on parts of the SME Board and on ChiNext through local security companies and brokers. Second, it will enable domestic Chinese investors to directly buy stocks listed on the Hong Kong Stock Exchange through local security companies and brokers.

While the Shanghai-Hong Kong Stock Connect is meant for large blue-chip companies, the Shenzhen-Hong Kong Stock Connect targets smaller companies with growth potential. Its Investment threshold for individual investors is RMB 500,000; but for qualified institutional investors, no investment threshold applies.

The daily quota of the Shenzhen Stock Exchange, however, is RMB 13 billion and the daily quota of the Hong Kong Stock Exchange is RMB 10.5 billion. Once the trading volume will reach the daily limit, the platform will be closed automatically.

As a general assumption, it may be said that there are some small stocks at the Hong Kong Stock Exchange which do not appear to be favoured by institutional investors, but which prices appear to be undervalued. At the same time, it seems as if there are retail investors in mainland China, who may prefer smaller stocks. At the Shenzhen-Hong Kong Stock Connect, such small stocks shall be opened to individual investors in mainland China.

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