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The Future of Global Franchising: Innovations, Technologies, and New Markets

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Hunter Qiu
Zhong Lun
China

2025 China Commercial Franchising Enforcement: Key Trends and Legal Analysis

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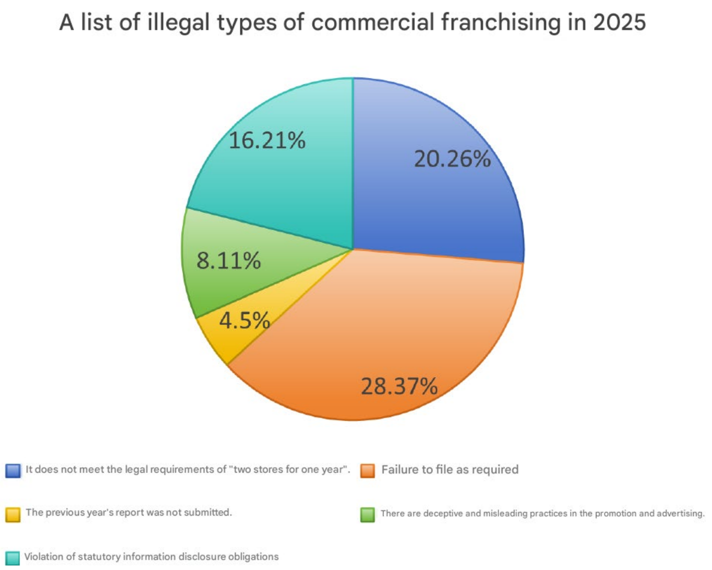
Introduction

The recent Starbucks – Boyu Capital joint venture offers a timely reminder that China's commercial franchising rules remain highly relevant to major international brands. The deal closed on April 2, 2026, with Boyu holding 60% of Starbucks' China retail operations and Starbucks retaining 40%, while Starbucks continues to own and license the Starbucks brand and IP. Although the transaction is structured as a joint venture, Starbucks' continued brand licensing underscores a broader compliance point: where brand resources are licensed for commercial operation in China, franchising-related issues such as operating qualification, trademark continuity, filing and disclosure obligations should be carefully assessed.

China's legal enforcement for commercial franchising has undergone significant changes over the past year. China's regulation of commercial franchising is primarily governed by the Administrative Regulations on Commercial Franchise Operations (the **"Regulations"**), which set out rules on franchisor qualifications, filing and information disclosure, franchise contracts, annual reporting, and legal liabilities. These regulations are supplemented by the Administrative Measures for the Filing of Commercial Franchising (2023 Amendment) (the "**Filing Measures**") and the Administrative Measures for Information Disclosure in Commercial Franchising (2012 Revision) (the "**Disclosure Measures**"), which further refine the rules on filing, information disclosure, supervision, and penalties.

Although in the year 2025, there were no major amendments to the foregoing laws and regulations, enforcement by PRC commerce authorities and market regulation authorities in the commercial franchising sector showed a clear shift from "formal review" toward "substantive look-through review." Throughout 2025, administrative penalty cases involving commercial franchising were geographically concentrated in major cities such as Beijing, Shanghai, and Hangzhou, with violations concerning franchisor qualifications, filing obligations, and information disclosure accounting for the vast majority of cases (see the chart below).



The severity of penalties also increased significantly. In certain cases, the total amount of confiscated illegal gains and fines reached approximately USD 1.3 million, setting a record for a single case. Judging from the enforcement trends in 2025, administrative authorities have developed a logically coherent assessment framework and a clear gradation of discretion for identifying violations in commercial franchising. Based on administrative penalty cases in 2025, each level of violation, from franchisor qualification violations to procedural compliance omissions—corresponds to a differentiated level of enforcement intensity.

1. Franchisor Qualification

1.1 Engaging in Franchising without Satisfying Statutory Requirements may Result in Substantial Penalties

According to Article 7(2) and Article 24 (1) of the Regulations, a franchisor must own at least two direct operating stores (the "**Directly Operating Stores**") that have been operating for more than one year before engaging in franchise offering and operation in China (the "**Two Stores and One Year**"). If engaging in franchise without satisfying such qualification requirement, a franchisor may be subject to a fine of up to around USD 70,000 and confiscation of illegal gains. [1] On March 26, 2025, Dongfang Moshang Chatian (Beijing) Catering Management Co., Ltd. (the **"Dongfang"**) was found to engage in franchising activities before satisfying the Two Stores and One Year requirement and ultimately imposed a fine of around USD 60,000 and confiscated illegal gains of approximately USD 300,000.. [2]Additionally, on April 21, its affiliate Moshang Chatian (Beijing) Catering Management Co., Ltd. (the "**Moshang**") was posed into penalties regarding the non-compliant use of trademark. Specifically, from February to May 2024, before obtaining legal authorization of the trademark (Appl No. 65889857 and 65884778) licensing 42 operators to use the trademark by entering into service contracts and collected substantial trademark licensing fees and service fees. Beijing Administration of Market Regulation (the "**Beijing AMR**"), as the regulatory authority, determined that the party had engaged in franchising activities without satisfying the franchisor qualification requirement, failed to complete filing with the Ministry of Commerce within the prescribed period, and failed to fulfill its statutory information disclosure obligations. Moshang was ultimately fined approximately USD 66,000 and had illegal gains of approximately USD 950,000 confiscated. [3]

The above two penalty decisions constitute benchmark cases in the commercial franchising sector in 2025, both in terms of the amount involved and the severity of penalties imposed. The combined amount of confiscated illegal gains and fines in these two cases alone reached approximately USD 1.3 million.

1.2 Look-Through Review of Equity Control in Identifying Directly Operating Stores

When identifying the Directly Operating Stores, administrative authorities have moved beyond a narrow perspective to a look-through review based on equity control and management substance. In the case of Beijing AMR Penalty Decision [2025] No. 76, as Beijing Jidu Catering Management Co., Ltd (the "**Jidu**") held 70% equity of Beijing NYF Catering Management Co., Ltd, and that the two companies shared the same legal representative, Beijing AMR held that all stores of Jidu could be regarded as NYF's Directly Operating Stores. [4]Here, Beijing AMR applied the principle of "equity control and substantive management" and determined that Directly Operating Stores

[1] Article 7(2) and Article 24 (1) of Administrative Regulations on Commercial Franchise Operations
[2] Beijing AMR Penalty Decision [2025] No. 94
[3] Beijing AMR Penalty Decision [2025] No. 64
[4] Beijing AMR Penalty Decision [2025] No. 76

held by a parent company could be regarded as the Directly Operating Stores of its subsidiary.

1.3 Operating Period Starts When the Business Resources are Obtained

In practice, the commencement date of the operating period is determined by the date on which the relevant business resources are obtained, rather than merely by the store's opening date. In the same case mentioned in Section 1.2, although the stores had been established earlier, the key business resource -- the NYF trademark registration was not obtained until 1 January 2024. Beijing AMR held that business activities conducted before obtaining the brand resource could not be counted toward the franchisor qualification. Therefore, the compliant operating period for that directly operated store could only commence on 1 January 2024.

In addition, the date for signing the first contract is regarded as the cut-off point for calculating the operating period. In the case of Anhui Anli Ideal Enterprise Management Co., Ltd., the franchisor had two Directly Operating Stores when it signed the cooperation agreement with the franchisee. However, one of the stores had not been in continuous operation for 365 days as of the signing date By comparing store operation records against the signing date, the local AMR found a violation of the Two Stores and One Year requirement. That is to say, if, at the moment of signing the first franchise contract, any one Directly Operating Store does not meet the one-year operating period, an administrative violation is established. [5]

2. Filing and Information Disclosure Obligations

2.1 Continuous Monitoring of Commercial Franchising Filing

Most franchisors tend to focus on the initial filing to government or disclosure to franchisee, but overlook the close linkage between the continuing validity of the filing and core operating resources such as trademarks and patents. According to Article 23 of the Regulations and Article 8 of the Filing Measures, the loss of operating resources (e.g., trademarks) may render the filing invalid and create a "vacuum period" of unlawful operation, where the continuous monitoring of filing and disclosure information cannot be ignored as those information is dynamic in nature.[6]

The case of Guangxi Chazhidu Catering Management Co., Ltd. (the "**Cha**"), penalized by the Nanning AMR, provides a highly cautionary example. In that case, Cha originally had a valid filing. However, when its registered trademark became subject to revocation review, the party failed to truthfully report this key change to the regulatory authority, which ultimately led the Ministry of Commerce to revoke its filing. Nevertheless, after its filing had been revoked, the party continued, as a matter of course, to enter contracts with seven franchisees. As the revocation of the filing placed the party in the same position as being unfiled, and that its franchise recruitment activities during this unfiled period violated Article 25 of the Regulations. .[7] In the case of Beijing AMR Penalty Decision [2025] No. 101, the franchisor's filing information was revoked

[5] Hefei AMR Penalty Decision 2025 No. 84
[6] Article 3 of the Administrative Regulations on Commercial Franchise Operations; Article 8 of the Measures for the Administration of the Filing of Commercial Franchise Operations (2023 Revision)
[7] Nanning AMR Penalty Decision [2025] No. 306

which constituted a material change to the "basic information on franchising activities," but the franchisor failed to notify its existing franchisees in a timely manner, resulting in an administrative penalty.[8]

2.2 Information Disclosure Standard: Truthfulness and Consistency

According to Article 23 of the Regulations, the information provided by the franchisor must be truthful, accurate, and complete, which means that the disclosed information must be truthful and consistent with the licensed rights. [9]Any concealment of defects in rights may lead to severe sanctions. In the case of Beijing AMR Penalty Decision [2025] No. 14, the trademark licensed by the franchisor to the franchisee was not the legally registered trademark for which the franchisor had obtained authorization, breaching the truthfulness as the disclosure standard, resulting in the imposition of an administrative penalty.[10]

This case reveals the regulator's refined scrutiny of the "truthfulness" of disclosed information: the trademark numbers, authorization periods, and rights chain stated in the disclosure materials must match the registration status recorded with the China National Intellectual Property Administration (the "**CNIPA**").

2.3 Continuous Monitoring of Trademark Status

For international brands as the franchisor, the core operating resources consist precisely of the exclusive rights to use the series of registered trademarks in China. The stability of these trademarks directly determines whether the global headquarters can maintain the continuing validity of its filing.

Mature brands often maintain extensive trademark portfolios in China, and the large number of trademarks creates greater compliance risks. According to Article 39 and Article 40 of PRC Trademark Law, a registered trademark is valid for ten years, and renewal may be completed within twelve months before the expiry date. If renewal is delayed due to internal management oversight and is not completed within the six-month grace period, the trademark will be cancelled. Moreover, cancellation applications based on non-use for three consecutive years. If unable to prove valid use of certain trademarks in specific classes of goods or services, those trademarks may face partial cancellation.[11] Once any change occurs that may affect the stability of operating resources, such as a third party filing a non-use cancellation application against a trademark, franchisor should report the matter to the competent authority and, at the same time, notify the franchisee in a timely manner, or there may be break in the chain of trademark licensing as core operating resources.

Risk response clauses should also be built into the franchise agreement. In the master franchise agreement, the parties should clearly agree on how their rights and obligations will be adjusted if franchisor' core trademarks in China are cancelled, invalidated, or not renewed upon expiry, resulting in the invalidation of the franchising filing. For example, the agreement may specify whether the collection of franchise fees should be

[8] Beijing AMR Penalty Decision [2025] No. 101
[9] Article 23 of the Administrative Regulations on Commercial Franchise Operations
[10] Beijing AMR Penalty Decision [2025] No. 14
[11] Article 39 and Article 40 of PRC Trademark Law

suspended, whether transitional arrangements should be activated, and whether the franchisee may continue to use the trademarks in existing products for a certain period.

3. Calculation of "Illegal Gains"

3.1 All-inclusive Approach to Identify Illegal Gains

According to Article 24 of the Regulations, breach of the Regulation will lead a fine up to approximately USD 70,000 together with the illegal gains (the "**Illegal Gains**") confiscated. [12]Here, administrative authorities have adopted an all-inclusive approach to identifying illegal gains. In the Dongfang case as mentioned in Section 1, Dongfang entered into contracts with 12 franchisees in May 2024 and collected a total amount exceeding USD 300,000. In this case, all monetary proceeds arising from the franchise relationship, regardless of whether they were defined as trademark licensing fees, consulting service fees, site selection fees, design fees, technical training fees, or equipment and materials fees, were treated as components of illegal gains.[13]

3.2 The Deduction of Reasonable Costs is Allowed with Evidence-based Approach

The enforcement authority allowed the deduction of reasonable costs actually incurred by the franchisor in its operations, but applied a strict evidence-based approach imposing burden of proof on the franchisor. In addition, the deductible scope was limited to costs directly related to the franchisee's operating, such as the original purchase price and related tax of equipment and materials procured from third parties.

In the above-mentioned Dongfang case in Section 1, Dongfang argued that its income included around USD 160,000 in service fees paid to third parties and requested a corresponding deduction. However, Beijing AMR rejected the claim as Dongfang failed to provide evidence proving the relevance of those expenses to the franchising activities and the authenticity of the payments, which directly resulted in a total amount of confiscation and fines of approximately USD 350,000.

[12] Article 24 of the Administrative Regulations on Commercial Franchise Operations
[13] Beijing AMR Penalty Decision [2025] No. 64

Key Takeaways

We recommend franchisors pay close attention to the following:

Dynamically verify the franchisor qualification and establish a supporting evidence chain. Before launching franchising activities, franchisors should conduct rigorous self-checks to ensure a deep alignment between the identity of their Directly Operating Stores, their operating period, and the underlying brand resources. If affiliated companies are used as directly operated resources, evidence of equity look-through or actual control must be retained, and the store operating period must be calculated strictly from the date on which operating resources, such as trademark authorization and brand registration, were obtained.

Comply with procedural deadlines. Filing and disclosure are not "one-off actions," but ongoing legal responsibilities throughout the full lifecycle of the franchising contract. Enterprises should establish a contract-signing alert mechanism to ensure that filing with the Ministry of Commerce is completed within 15 days after the signing of the first franchise contract since subsequent remedial filing will not exempt them from administrative liability.

Implement dynamic information disclosure. Once there is any change in trademark rights, revocation of filing, material adjustment to the business model, or change in the franchisor's entity information, the franchisor shall provide written disclosure to all existing franchisees within the statutory period and retain evidence of delivery, to respond to any dynamic retrospective review of procedural compliance by administrative authorities.

Optimize the financial accounting structure to address the risk of all-inclusive penalty calculation. In response to the strict enforcement trend under which administrative authorities identify "illegal gains" on an all-inclusive basis, franchisors should adjust their financial account classification and cost accounting logic. Operationally, it is recommended that the fees charged to franchisees for equipment, materials correspond with original purchase contracts, invoices and Fapiao from third-party suppliers, so that a rigorous evidence chain can be provided during an administrative investigation to support the deduction of reasonable costs actually incurred. In addition, franchisors should establish compliant exit and dispute resolution mechanisms.