

**Implementing Regulations of the Law of the People's  
Republic of China on Chinese-foreign Equity Joint Ventures**

**Chapter 1 General Principles**

**Article 1**

The Implementing Regulations of the Law of the People's Republic of China on Chinese-foreign Equity Joint Ventures are hereby enacted in order to facilitate the smooth implementation of the Law of the People's Republic of China on Chinese-foreign Equity Joint Ventures (hereinafter referred to as the "Law on Chinese-foreign Equity Joint Ventures).

**Article 2**

Chinese-foreign equity joint ventures (hereinafter referred to as "equity joint ventures") incorporated within the territory of the People's Republic of China in accordance with the Law on Chinese-foreign Equity Joint Ventures are legal persons of China, and are governed and protected by the Chinese law.

**Article 3**

Equity joint ventures established within the territory of this country shall boost the development of economy and raising of scientific and technological level of this country for the benefit construction of socialist modernization.

The trades in which the state encourages, allows, limits, or prohibits the establishment of equity joint venture shall be based on provisions of the state on guiding foreign investment directions and guiding catalogue of foreign investment industries.

**Article 4**

Any application for establishing an equity joint venture shall not be approved if it falls into one of the following circumstances:

- (1)Impairing the Chinese sovereignty;
- (2)Violating the Chinese law;
- (3)Not conforming to requirements on the development of Chinese national economy;
- (4)Causing environmental pollution; or
- (5)Agreements, contracts, and articles of company signed by the applicant are obviously unfair, damaging interests of the other party to the equity joint venture.

**Article 5**

Equity joint ventures shall have the right to conduct autonomous operations and management within the scope as provided for by Chinese laws and regulations, agreements, contracts, and articles of companies of equity joint ventures. The relevant authorities shall support and help them.

**Chapter 2 Establishment and Registration**

**Article 6**

Establishment of any equity joint venture within the territory of this country must be examined and approved by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China (hereinafter referred to as the "MOFTEC"). Upon approval, MOFTEC shall issue the certificate of approval.

The establishment of an equity joint venture shall be examined and approved by the people's government of a province, autonomous region, or municipality directly under the Central People's Government authorized by the State Council or the relevant department of the State Council if it complies with the following conditions:

- (1) If the total amount of investment is within the authority of investment examination and approval as prescribed by the State Council, and the funding resources of the Chinese parties have been ascertained;
- (2) If additional raw materials allocated by the state are not needed, and national balance of fuel, power, transportation, foreign trade export quota, and so on shall not be affected.

Equity joint venture established pursuant to the preceding Paragraph shall be reported to MOFTEC for records.

MOFTEC and the people's government of a province, autonomous region, or municipality directly under the Central People's Government authorized by the State Council or the relevant department of the State Council shall be referred to as examining and approving authorities hereinafter.

**Article 7**

In respect of an application for establishing a Chinese-foreign equity joint venture, the Chinese and foreign parties shall submit the following documents to the examining and approving authority:

- (1) Application for establishment of an equity joint venture;
- (2) Feasibility research report compiled by all parties to the equity joint venture;
- (3) Agreements, contracts, and articles of association of the equity joint venture signed by the representative authorized by all parties to the equity joint venture;
- (4) List of candidates for board chairman, vice chairmen, and directors of the equity joint venture nominated by all parties to this joint venture; and
- (5) Other documents as required by the examining and approving authority.

Documents as listed in the preceding Paragraph must be written in Chinese, and Item (2), Item (3), and Item (4) documents may be written in a foreign language as determined by all parties to the equity joint venture simultaneously.. Documents in the Chinese and the foreign language shall be valid equally When finding any inappropriate part in submitted documents, the examining and approving authority shall require the parties concerned to make revision within a specified time limit.

**Article 8**

Any examining and approving authority shall, within three months as of the date of receipt of all documents as required by Article 7 herein, decide whether to approve an application or disapprove them.

#### **Article 9**

Applicants shall, within one month upon the receipt of the certificate of approval, register with administrations for industry and commerce (hereinafter referred to as the "administrative departments in charge of registration") according to the relevant provisions of this country. The date of issuance of business license of the equity joint venture shall be its establishment date.

#### **Article 10**

The "agreement of an equity joint venture" as referred to herein means the document concluded based on unanimous views of all parties to an equity joint venture on some key points and principles on the establishment of the equity joint venture. The "contract of an equity joint venture" as referred to herein means the document concluded based on unanimous views of all parties to an equity joint venture on mutual rights and obligations on the establishment of the equity joint venture. The "articles of an equity joint venture" as referred to herein means the document agreed upon by all parties to the equity joint venture unanimously specifying tenets, organizing principles, and methods of business operation and management, etc. of the equity joint venture in accordance with principles as stipulated by the contract of the equity joint venture.

Where the agreement of an equity joint venture contradicts the contract of the equity joint venture, the contract shall prevail.

Upon consent of all parties to the equity joint venture, a contract of the equity joint venture and articles of association thereof may be concluded without entering into the agreement of the equity joint venture by the parties.

#### **Article 11**

A contract of an equity joint venture shall include the following main items:

- (1) Names, registry countries, legal addresses, names, titles, and nationalities of legal representatives;
- (2) The name, legal address, tenet, business scope, and scale of the equity joint venture;
- (3) Total amount of investment and registered capital of the equity joint venture, capital subscription, capital subscription proportion, capital subscription means, time limit for payment of capital subscription of all parties to the equity joint venture, and rules on under-payment of subscribed capital and transfer of shares;
- (4) Proportion of profit distribution and deficit sharing to all parties to the equity joint venture;
- (5) The constitution of the board of director of the equity joint venture, the allotments of quota of directors, obligations, limits of authority, and employment measures for the general manager, the vice general manager, and other high-position management personnel;

(6) Main manufactures equipment; manufacture technology and their resources to be adopted;

(7) Means of purchase of raw materials and sales of products;

(8) Processing principles of finance, accounting, and audits;

(9) Rules on labor management, salary, welfare, and labor insurance, etc.;

(10) The time limit, dissolution, and liquidation procedures for the equity joint venture;

(11) Obligations for breach of contract;

(12) Means and procedures to settle disputes among all parties to the equity joint venture; and

(13) Languages to write the contract and conditions of the contract's taking effect.

Appendixes to the contract of the equity joint venture shall have the equal legal effect to the contract.

#### **Article 12**

Conclusion, effect, interpretation, enforcement, and settlement of disputes hereof of the contract of an equity joint venture shall be governed by Chinese laws.

Articles of an equity joint venture shall include the following main items:

(1) The name and legal address of the equity joint venture;

(2) The tenet, business scope, and time limit of the equity joint venture;

(3) Names, registry countries, legal addresses, names, titles, and nationalities of legal representatives;

(4) Total amount of investment and registered capital of the equity joint venture, capital subscription, capital subscription proportion, capital subscription means, time limit for payment of capital subscription of all parties to the equity joint venture, and rules on incomplete capital and transfer of shares; proportion of profit distribution and deficit to be borne by all parties to the equity joint venture;

(5) Composition, duties and power, and rules of procedure of the board of directors, tenure of directors, and responsibilities of the board chairman and the vice chairman of board;

(6) Setup of management organs, rules on handling affairs, responsibilities and measures on appointment and removal of the general manager, the vice general manager, and other high-position management personnel;

(7) Principles of the financial, accounting, and auditing system;

(8) Dissolution and liquidation; and

(9) Procedures for revision of articles of the equity joint venture.

**Article 14**

The agreement, contract, and articles of an equity joint venture shall take effect upon approval of the examining and approving authority, so shall the revision hereof.

**Article 15**

Examining and approving authorities and the administrative departments in charge of registration shall have the obligation to supervise and examine enforcement of contracts, agreements, and articles of equity joint ventures.

**Chapter 3 Organizational Framework and Registered Capital**

**Article 16**

Equity joint ventures and companies with limited liabilities.

Liabilities of all parties to an equity joint venture shall be limited to their respective subscribed capital to the equity joint venture.

**Article 17**

The total amount of investment (including loans) of an equity joint venture means the total sum of basic construction funds and fixed manufacture funds invested in accordance with the production scale as stipulated by the contract and articles of the equity joint venture.

**Article 18**

The registered capital of an equity joint venture means that the total registered capital with the administrative department in charge of registration for the establishment of the equity joint venture shall be the total sum of capital subscribed by all parties to the equity joint venture.

The registered capital of an equity joint venture shall be figured by the Renminbi in general, or may be figured by a foreign currency as agreed by all parties to the equity joint venture.

**Article 19**

Any equity joint venture shall not reduce its registered capital during the joint venture. The reduction of registered capital, if necessary due to changes of total amount of investment and production and operation scale, shall be approved by the examining and approving authority.

**Article 20**

Where one party to an equity joint venture transfers its total or partial equity to a third party, it must be agreed by other parties to the equity joint venture, and shall report such transfer of equity to the examining and approving authority for approval, and apply to the administrative department in charge of registration for modifying the registration.

When one party to an equity joint venture transfers its total or partial equity , other parties to the equity joint venture shall have the preemption.

Conditions for transfer of equity by one party to an equity joint venture to a third part shall not be more preferential than those for transfer of equity to other parties to the equity joint venture.

Where a party violates the aforesaid provisions, its transfer of equity shall be invalid.

#### **Article 21**

Increase or reduction of registered capital of an equity joint venture shall be adopted by the meeting of the board of directors, shall be reported to the examining and approving authority for approval, and procedures of modifying registration shall be registered with the administrative department in charge of registration for modifying the registration.

### **Chapter 4 Means of Capital Subscription**

#### **Article 22**

All parties to an equity joint venture may subscribe capital with currencies, or with evaluation of buildings, factory buildings, machinery equipment, other materials, industrial property right, know-how, and right to the use of sites, etc. Where buildings, factory buildings, machinery equipment, other materials, industrial property right, and know-how are subscribed as capital, the evaluated prices hereof shall be determined by all parties to the equity joint venture in accordance with the principle of fairness and reasonableness, or may be assessed by a third party agreed by all parties to the equity joint venture.

#### **Article 23**

Foreign currencies subscribed by foreign parties to an equity joint venture shall be converted into Renminbi or cross-converted into agreed foreign currency according to base exchange rate as published by the People's Bank of China on the date of payment.

Cash in Renminbi subscribed by Chinese parties to the equity joint venture that need to be converted into foreign currencies shall be converted according to base exchange rate as published by the People's Bank of China on the date of payment."

#### **Article 24**

Machinery equipment or other materials as capital subscription of foreign parties to an equity joint venture shall be indispensable for the equity joint venture.

Evaluation of machinery equipment or other materials as referred to in the preceding Paragraph shall not be higher than current international market price of similar machinery equipment or other materials.

#### **Article 25**

Industrial property right and know-how capital subscribed by any foreign party to an equity joint venture must conform to one of the following conditions:

(1) They may improve the performance and quality of current products, and may improve the production efficiency obviously; or

(2) They may save raw materials, fuels, or power obviously.

#### **Article 26**

Where any foreign party to an equity joint venture subscribes capital in the form of industrial property right or know-how, it shall provide the relevant materials for such industrial property right or know-how, including duplicate of the patent certificate or the registered trademark certificate, its effective conditions and technical characters, practical value, basis for calculation of its evaluation, evaluation agreement signed with Chinese parties to the equity joint venture, and other relevant documents, as attachments to the contract of joint venture.

#### **Article 27**

Capital subscription in the form of machinery equipment or other materials by foreign parties to an equity joint venture shall be reported to the examining and approving authority for approval.

#### **Article 28**

All parties to an equity joint venture shall pay up their respective capital subscription within the time limit as specified by the contract. Whoever does not pay it or does not pay it in full within the specified time limit shall pay the overdue interest or make corresponding compensation in compliance with the contract.

#### **Article 29**

After all parties to an equity joint venture subscribe their capital amount in full, Chinese certified public accountants shall assess such subscribed capital, issue the capital assessment report, and the equity joint venture thereafter issue the certificate of capital subscription. The certificate of capital subscription shall cover the following items: the name of the equity joint venture, date of establishment of the equity joint venture, name of the party to the equity joint venture and its capital subscription, and dates of its capital subscription, issuance date of the certificate.

### **Chapter 5 The Board of Directors and Business Operation and Management Organs**

#### **Article 30**

The board of directors is the highest authority in an equity joint venture, and decides on all important issues of the equity joint venture.

#### **Article 31**

Members of the board of directors of an equity joint venture shall not be less than three. Allotment of quota of directors shall be determined by all parties to the equity joint venture with reference to their respective capital subscription.

The tenure for directors is four years, and may be extended upon continuous appointment of all parties to the equity joint.

#### **Article 32**

The board meeting shall be convened once a year at least, and the board chairman shall be responsible for convening and presiding over the meeting. Where the board

chairman is incapable to convene the meeting, he may entrust the vice board chairman or any other director to be responsible for convening and presiding over the meeting. Upon proposal of more than 1/3 of all directors, the board chairman may convene a temporary board meeting.

The board meeting shall not be convened unless 2/3 of all directors are present. Where directors are incapable to be present, he may entrust others to be present and vote on their behalf with the power of attorney.

The board meeting shall be held in the legal sites of an equity joint venture.

### **Article 33**

Decisions may be made on the following issues upon unanimous adoption of all directors who attend the board meeting:

- (1) Revision of articles of the equity joint venture;
- (2) Dissolution or termination of the equity joint venture;
- (3) Increase or reduction of registered capital of the equity joint venture; and
- (4) Merger or division of the equity joint venture.

Decisions on other issues may be made in accordance with rules of procedures as specified by articles of the equity joint venture.

### **Article 34**

The board chairman shall be the legal representative of an equity joint venture. When the board chairman is incapable to fulfill his responsibilities, he shall authorize the vice board chairman or other directors to represent the equity joint venture.

### **Article 35**

An equity joint venture shall set up a business operation and management organ, which is responsible for routine business operation and management of the equity joint venture. The business operation and management organ consists of one general manager and several vice general managers. Vice general managers assists the general manager.

### **Article 36**

The general manager shall execute all decisions of the board meeting, and organize and lead the routine business operation and management of the equity joint venture. Within the limits of authorization of the board of directors, the general manager represents the equity joint venture externally, appoint and dismiss subordinates internally, and exercise other authorities awarded by the board of directors.

### **Article 37**

The general manager and vice general managers shall be engaged by the board of directors of an equity joint venture, may be assumed by Chinese citizens or foreign citizens.

Upon engagement of the board of directors, the board chairman the vice board



chairman, and directors may hold the general manager, vice general managers, or other high-position management posts of the equity joint venture concurrently.

When handling important issues, the general manager shall consult with vice general managers.

The general manager or vice general managers shall not hold office of the general manager or vice general managers of other economic entities concurrently, and shall not participate in other economic entities' competition against this equity joint venture.

#### **Article 38**

The general manager, vice general managers, and other high-position management personnel who have jobbery acts or serious breaches of duties may be disengaged at any time upon the decision-making of the board of directors of an equity joint venture.

#### **Article 39**

The establishment of branches (including sales agencies) of in foreign countries or regions, Hong Kong, or Macao of an equity joint venture shall be reported to MOFTEC for approval.

### **Chapter 6 Introduction of Technology**

#### **Article 40**

The introduction of technology as referred to herein means the technology needed and obtained by an equity joint venture from a third party or parties to the equity joint venture by means of technological transfer.

#### **Article 41**

The technology introduced by an equity joint venture shall be applied and advanced, so that its products may have instinct social and economic benefits or strong competitive power in the international market.

#### **Article 42**

When concluding an agreement for technological transfer, an equity joint venture shall maintain the right of the equity joint venture to operate and manage independently, and require the technological transferor to provide relevant materials in accordance with Article 26 herein.

#### **Article 43**

The agreement for technological transfer concluded by an equity joint venture shall be submitted to the examining and approving authority for approval.

The agreement for technological transfer shall conform to the following requirements:

(1) The royalty shall be fair and reasonable;

(2) Unless provided by both parties otherwise, the technological transferor shall not restrict regions, quantity, and prices of sale of its products that is to be exported by

the technological transferee;

(3) In general, the time limit of the agreement for technological transfer shall not exceed 10 years;

(4) Upon expiration of the time limit of the agreement for technological transfer, the technological transferee shall have the right to use such technology continuously;

(5) Conditions for mutual exchange and improvement of technology between both parties concluding the agreement for technological transfer shall be quit;

(6) The technological transferee shall have the right to purchase indispensable machinery equipment, parts, components, and raw materials from appropriate sources in its opinion; and

(7) Unreasonable restrictive clauses prohibited by Chinese laws and regulations shall not be contained in the agreement.

## **Chapter 7 The Right to Use Site and Corresponding Expenses**

### **Article 44**

An equity joint venture's use of sites shall be subject to the principle of economized land use. The equity joint venture shall apply to the administrative department in charge of land of the local municipality or county for a needed site. Upon approval of the administrative department, the equity joint venture may obtain the right to use the site by concluding a contract. The contract shall cover the area, place, and purpose of this site, the time limit for the contract, expenses of the right to use the site (hereinafter referred to as the "site use expenses"), obligations and rights of both parties, and penalties for breaches of contract, etc.

### **Article 45**

Where the right to use a site needed by an equity joint venture is owned by a Chinese party to the joint venture, the Chinese party may take the site as its capital subscription to the equity joint venture, the evaluated amount shall be same as payable expenses to obtain the right to use the similar site.

### **Article 46**

The site use expenses shall be determined by the people's governments of provinces, autonomous regions, and municipalities directly under the Central People's Government in which sites are to be located in accordance with purposes, geographic conditions of such sites, land requisition and relocation expenses, and requirements of equity joint ventures to infrastructures, and shall be registered with MOFTEC and the administrative department in charge of land of this country for records.

### **Article 47**

Equity joint ventures that engage in the agriculture or animal husbandry may pay the site use expenses to the local administrative departments in charge of land according to the percentage of business revenues of these equity joint ventures upon consent of the people's governments of local provinces, autonomous regions, and municipalities directly under the Central People's Government.

Equity joint ventures that engage in development projects in underdeveloped regions may enjoy special preferential treatments on the site use expenses upon consent of the local people's governments.

**Article 48**

The site use expenses shall not be regulated within five years as of commencement of the land use. The interval between two regulations of the site use expenses, if necessary with the economic development, changes of supply and demand, and changes of geographic conditions shall not be less than three years.

The site use expenses, as investment of Chinese parties to an equity joint venture shall not be regulated within the contracted time limit.

**Article 49**

The site use expenses for the right to use a site as obtained by an equity joint venture according to Article 44 herein shall be paid annually from the commence of the land use as stipulated by the contract. During the first calendar year, the payment time shall be half a year if the land use time exceeds half a year, and the site use expenses may be exempted if the land use time is less than half a year. During the contracted time limit, if the site use expenses are regulated, the equity joint venture shall pay them according to the new standard as of the year when they are regulated.

**Article 50**

An equity joint venture may not only obtain the site use right according to this Chapter, but also obtain the site use right according to the relevant provisions of this country.

**Chapter 8 Purchases and Sales**

**Article 51**

An equity joint venture shall have the right to decide whether to purchase needed machinery equipment, raw materials, fuels, parts, components, means of transportation, and office supplies (hereinafter referred to as "materials") in China or in foreign countries.

**Article 52**

Office supplies and living goods that are needed and purchased by an equity joint venture in China may be purchased according to its demand, without any restriction.

**Article 53**

The Chinese government shall encourage equity joint ventures to sell their products to the international market.

**Article 54**

Equity joint ventures shall have the right to export their products of own accord, or may consign sales agencies of foreign parties to these equity joint ventures or Chinese foreign trade companies to sell on a commission basis or distribute their products.

**Article 55**

When an equity joint venture, within the business scope as stipulated by the contract of

joint venture, imports its needed machinery equipment, parts, components, raw materials, and fuels under the system of import license of this country, it shall compile a plan one a year and draw the license once half a year. The import of machines and other materials that foreign joint ventures make part of its investment may be allowed after directly issue of import license on the strength of approved documents from examining and approving authorities. For the materials the import of which is beyond the scope specified in the contract and needs import license according to the state provisions, separate application shall be required.

An equity joint venture may export products manufactured by it independently. Where the export license should be drawn for import of products manufactured by it according to the relevant provisions of this country, the equity joint venture shall apply to draw such license once half a year in accordance with the annual export plan of its own.

**Article 56**

An equity joint venture shall enjoy equal treatments to other enterprises in this country in respect of price of materials purchased in this country, and payment of expenses for water, power, gas, heat, cargo transportation, labor service, engineering design, consultation, advertising, and other service.

**Article 57**

An equity joint venture shall bear economic liabilities for economic communication with another Chinese economic entity, and settle contract disputes in accordance with relevant laws and the contract concluded by both parties.

**Article 58**

An equity joint venture shall provide statistical materials and submit statistical statements according to the Law of the People's Republic of China on Statistics and provisions on statistical system of China's use of foreign investment.

**Chapter 9 Taxation**

**Article 59**

Equity joint ventures shall pay various payable taxes in accordance with the relevant laws of the People's Republic of China.

**Article 60**

Employees of equity joint ventures shall pay their individual income taxes in accordance with the Law of the People's Republic of China on the Individual Income Tax.

**Article 61**

Duties for an equity joint venture, when importing the following materials may be reduced or exempted according to the laws on taxation:

(1) Machinery equipment, parts, components, and other materials (other materials refer to materials needed by the equity joint venture to build factories or premises, or to install or reinforce machines, hereinafter inclusive) as capital subscription of foreign parties to the equity joint venture according to the contract;

- (2) Machinery equipment, parts, components, and other materials imported with funds covered in the total amount of investment to the equity joint venture;
- (3) Machinery equipment, parts, components, and other materials that are imported by increased capital of the equity joint venture and whose manufacture and supply cannot be guaranteed by China upon approval of the examining and approving authority; and
- (4) Raw materials, auxiliary materials, elements, parts, components, and packing materials imported from foreign countries by the equity joint venture to manufacture products for the import purpose.

Where the aforesaid imported materials whose duties are reduced or exempted are resold in China or used for products that are sold in China upon approval, duties not paid or underpaid shall be paid according to the relevant regulations.

#### **Article 62**

Export products manufactured by an equity joint venture, excluding products whose import is restricted by the state, shall enjoy the reduction of, exemption from, or drawback of duties and taxes according to taxation laws of China.

### **Chapter 10 Administration of Foreign Exchange**

#### **Article 63**

All matters of an equity joint venture concerning foreign exchange shall be handled in accordance with the Administrative Regulations of the People's Republic of China on Foreign Exchange and other relevant administrative rules.

#### **Article 64**

An equity joint venture may open its foreign currency account and Renminbi account with a domestic bank depending on its business license, and the opening bank shall supervise the corresponding payment and collection.

#### **Article 65**

Where an equity joint venture desires to open foreign currency accounts with foreign banks or banks with Hong Kong, or Macao, it shall be approved by the State Administration of Foreign Exchange (SAFE) or the relevant branch affiliated to the SAFE, and shall provide bank reconciliation statements and report collection and payment information to SAFE or the relevant branch.

#### **Article 66**

Annual statements of assets and liabilities and annual profit statements of branches of an equity joint venture set up in foreign countries, Hong Kong, or Macao shall be submitted to SAFE or the relevant branches affiliated to SAFE via the equity joint venture.

#### **Article 67**

Equity joint ventures may, according to business operation needs, apply to financial organizations in the territory of this country for foreign currency loans and Renminbi loans, or may borrow funds in foreign currencies from banks in foreign countries, Hong Kong, or Macao, and shall register with the State Administration of Foreign Exchange or its relevant branches for records.

**Article 68**

Salary and other lawful earnings to foreign employees and employees from Hong Kong and Macao of an equity joint venture may be remitted out of this country after payment of taxes and expenses in China according to the relevant provisions of this country.

**Chapter 11 Financial and Accounting Affairs****Article 69**

The financial and accounting system of an equity joint venture shall be formulated in accordance with relevant laws and financial and accounting system of this country, combining with practical conditions of the equity joint venture, and shall be reported to the local financial department and taxation authority for records.

**Article 70**

An equity joint venture shall set up a chief accountant to assist the general manager to be responsible for financial and accounting work of this equity joint venture. When necessary, a vice chief accountant may be assigned.

**Article 71**

An equity joint venture may assign auditors (any small equity joint venture may not assign auditors) to examine and audit the financial income and expenses and accounting items of the equity joint venture, and to make reports to the board of directors and the general manager.

**Article 72**

The accounting year of an equity joint venture shall be the calendar year, as of 1st January to 31st December of each year.

**Article 73**

The international accrual accounting and debit-credit methods are adopted by an equity joint venture to keep accounts. All self-made vouchers, accounting books, and statements must be written in Chinese, or may be written in a foreign language as determined by all parties to the equity joint venture simultaneously.

**Article 74**

In principle, an equity joint venture shall adopt the Renminbi as the standard accounting currency, or may adopt a foreign currency and the standard accounting currency upon negotiation of all parties to the equity joint venture.

**Article 75**

Besides accounting items recorded in the standing accounting currency, cash, bank deposits, funds in other currencies creditor's rights, debts, yield, and expenses of the equity joint venture inconsistent with the standard accounting currency shall be recorded with the currencies paid or collected actually.

Foreign currencies in financial and accounting reports compiled by equity joint venture enterprises whose standard currencies are foreign currencies shall be converted into Renminbi.

Difference converted into the standard accounting currency due to discrepancies of the exchange rates shall be listed as exchange profit and loss. Where booking rate changes, the surplus of various foreign currency accounts shall be handled in the course of settlement of accounts at the end of an accounting year in accordance with the relevant laws and financial and accounting system of China.

**Article 76**

The profit distribution principles after payment of income taxes for an equity joint venture shall be as follows in accordance with the Law of the People's Republic of China on Income Taxes for Foreign Investment Enterprises and Foreign Enterprises:

(1) It shall withdraw the reserve funds, funds of awards and welfare for employees, enterprise development funds in accordance with the proportion determined by the board of directors;

(2) The reserve funds shall not only be used to defray deficit of the equity joint venture, but also be used to increase capital of the equity joint venture and to expand production scale; and

(3) Distributable profits after withdrawal of three kinds of funds as provided for by Item (1) of this Article shall be distributed by capital subscription proportion of all parties to the equity joint venture if the board of directors decides to distribute them.

**Article 77**

Profits shall not be distributed unless deficits of last years have been offset. Undistributed profits in last accounting years may be merged into the distributable profits of this accounting year.

**Article 78**

An equity joint venture shall submit quarter and annual accounting statements to all parties to the equity joint venture, local taxation authority and financial department.

**Article 79**

The following documents, certificates, and statements of an equity joint venture shall not be valid unless they are validated by Chinese certified public accountants and for which certificates are issued:

(1) Capital subscription certificates (for those who subscribe capital with materials, the site use right, industrial property right or know-how, property evaluation listing and agreements with signature of all parties to the equity joint venture should be concluded of all parties to the equity joint venture;

(2) Accounting statements of the equity joint venture; and

(3) Accounting statements of liquidation of the equity joint venture.

**Chapter 12 Employees**

**Article 80**

Matters of recruitment, engagement, dismissal, resignation, salary, welfare, labor insurance, labor protection, and labor disciplines of employees of an equity joint

venture shall be handled in accordance with the relevant provisions on the labor and social security.

**Article 81**

An equity joint venture shall strengthen business operation and technical training for its employees, and establish strict examination system, so that its employees may be adapted to requirements on modern enterprises in respect of production or management skills.

**Article 82**

The system of salary and awards of an equity joint venture must be subject to the principle of distribution according to work and more pay for more work.

**Article 83**

Salary treatments for such high-position management personnel as the general manager, vice general managers, general engineer, vice general engineers, chief accountant, vice chief accountant, and auditors of an equity joint venture shall be decided by the board of directors.

**Chapter 13 Labor Union**

**Article 84**

Employees of an equity joint venture shall have the right to establish the grass-root level labor union and develop labor union activities in accordance with the Law of the People's Republic of China on Labor Unions and the Chinese Labor Union Articles.

**Article 85**

The labor union of an equity joint venture shall be the representative of interests of employees in the equity joint venture, and shall have the right to sign labor contracts with the equity joint venture on behalf of all employees, and to supervise the enforcement of such contracts.

**Article 86**

The labor union of an equity joint venture shall possess the basic duties: to maintain democratic rights and material interests of employees according to law, to assist the equity joint venture to arrange and use reasonably funds of welfare and awards, to organize employees to study political, scientific, technical, and business operation knowledge, to develop the cultural and sports activities, and to educate employees to abide by labor disciplines, and to complete various economic assignments of the equity joint venture with their best efforts.

**Article 87**

When the board meeting of an equity joint venture discusses important issues concerning the development planning, production or business operation activities of the equity joint venture, representatives of the labor union shall have the right to attend the meeting as nonvoting delegates and to reflect opinions and requirements of employees.

When the board meeting studies and decides such issues as punishments and awards on employees, the salary system, the living welfare, labor protection, and labor insurance,



etc., the board of directors shall hear opinions of the labor union and obtain cooperation of the labor union.

**Article 88**

An equity joint venture shall support the work of its labor union positively. The equity joint venture shall provide necessary housing and equipment for official affairs, meetings, and conduction of collective welfares for employees, cultural and sports undertakings. The equity joint venture shall allocate the outlay for its labor union according to 2% of the actually total amount of salary to employees monthly, and its labor union shall use it according to the relevant administrative measures on the outlay for labor unions formulated by All-China Federation of Trade Unions.

**Chapter 14 The Time Limit, Dissolution and Liquidation**

**Article 89**

The joint venture time limit for an equity joint venture shall be based on the Interim Rules on Joint Venture Time Limit for Chinese-foreign Equity Joint Venture.

**Article 90**

When falling into one of the following circumstances, an equity joint venture shall be dissolved:

- (1) Where its joint venture time limit expires;
- (2) Where it encounters serious deficit, without capacity to operate continuously;
- (3) Where one party to the joint venture does not fulfill obligations as stipulated by the agreement, contract, and articles of the equity joint venture, so that the equity joint venture is incapable to operate continuously;
- (4) Where it suffers serious losses due to force majeure including natural calamities and war and is incapable to operate continuously;
- (5) Where it does not reach its business purposes, and has no development future; or
- (6) Other causes for dissolution as stipulated by the contract and articles of the equity joint venture occur.

Where circumstances in Item (2), Item (3), Item (5), or Item (6) of the preceding Paragraph occur, the board of directors shall propose the application for dissolution and submit it to the examining and approving authority for approval; where circumstance in Item (3) hereof occurs, one party fulfilling the contract shall file an application with the examining and approving authority for approval.

Under the circumstance of Item (3) of Paragraph I of this Article, any party that does not fulfill the obligations as stipulated by the contract, agreement, and articles of the equity joint venture shall make compensation for losses to the equity joint venture caused thereof.

**Article 91**

When an equity joint venture declares its dissolution, the liquidation shall be

conducted. An equity joint venture shall set up a liquidation board according to the Measures on Liquidation of Foreign Investment Enterprises who is to be responsible for liquidation matters."

#### **Article 92**

Members of the liquidation board shall be selected from directors of an equity joint venture in general. When directors cannot or are appropriate to serve as members of the liquidation board, the equity joint venture may engage Chinese certified public accountants and lawyers to serve as members of the liquidation board. When deeming it necessary, the examining and approving authority may assign personnel to supervise the liquidation.

Liquidation expenses and remuneration for members of the liquidation board shall be paid from the current properties of the equity joint venture preferentially.

#### **Article 93**

Duties of the liquidation board shall be to check up properties, creditor's rights, and debts of an equity joint venture completely, to compile statements of assets and liabilities and listing of properties, to raise the grounds for evaluation and calculation of properties, to formulate the liquidation scheme, and to enforce the liquidation scheme upon adoption of the board of directors.

During the time of the liquidation, the liquidation board takes legal actions and responds to actions on behalf of the equity joint venture.

#### **Article 94**

An equity joint venture shall bear liabilities for debts to the extent of its total assets. Unless otherwise provided by the agreement, contract, or articles of the equity joint venture, remaining properties of the equity joint venture after liquidation of debts shall be distributed in accordance with capital subscription proportion of all parties to the equity joint venture.

When an equity joint venture is dissolved, the net assets or remaining properties, from which undistributed profit, various funds, and liquidation expenses are to be deducted and a part of which exceeds the paid-in capital if shall be the liquidation income, and the corresponding income taxes shall be paid according to law.

#### **Article 95**

After completion of the liquidation work of an equity joint venture, the liquidation board shall write the liquidation completion report, submit it to the board meeting for adoption, report it to the examining and approving authority upon adoption of the board meeting, apply to the administrative department in charge of registration for writing off the registration, and have the business license collected and destroyed.

#### **Article 96**

After dissolution of an equity joint venture, all accounting books and documents shall be kept by Chinese parties to the equity joint venture.

### **Chapter 15 Settlement of Disputes**

#### **Article 97**

When there are disputes on the agreement, contract, or articles of association of an equity joint venture among parties to the equity joint venture, they shall settle them through amicable negotiation or mediation to the best of their abilities. Where the negotiation or mediation fails, an application for arbitration or judicial settlement may be filed.

**Article 98**

All parties to an equity joint venture may apply to China's arbitration organization for arbitration, or may apply to other arbitration organization for arbitration according to written agreement on arbitration.

**Article 99**

Where there is no any written agreement on arbitration for all parties to an equity joint venture, any party falling into disputes may file a lawsuit in the people's court according to law.

**Article 100**

During the period of settlement of disputes, except items under disputes, all parties to an equity joint venture shall perform other clauses in the agreement, contract, and articles of association the equity joint venture continuously.

**Chapter 16 Supplementary Rules**

**Article 101**

Where foreign employees and employees from Hong Kong and Macao of equity joint ventures and their dependents leave or enter the territory of China often enough, the administrative departments in charge of visa may simplify procedures and provide conveniences for their entry and exit.

**Article 102**

Chinese employees in equity joint ventures who need to go abroad for official purposes of visiting, negotiation on businesses, learning, or training shall complete the exit procedures according to the relevant provisions of this country.

**Article 103**

Foreign employees and employees from Hong Kong and Macao of equity joint ventures may bring necessary means of transportation and office supplies with payment of duties according to the relevant provisions on taxation of this country.

**Article 104**

Where laws or administrative regulations contain provisions on equity joint venture enterprises established in special economic zones otherwise, these provisions shall prevail."

**Article 105**

These Regulations shall take effect as of the promulgation date.