

1360-100 Implementation Regulations for the Law of the People's Republic of China on Sino-foreign Equity Joint Venture Enterprises

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Chapter I — General Principles

Article 1. These Regulations are formulated in order to facilitate the implementation of the *Law of the People's Republic of China on Sino-foreign Equity Joint Ventures* (hereinafter referred to as the *Law on Sino-foreign Joint Ventures*).

Article 2. Sino-foreign equity joint ventures (hereinafter referred to as joint ventures) established within China's territory in accordance with the *Law on Sino-foreign Joint Ventures* are Chinese legal persons and are subject to the jurisdiction and protection of the Chinese law.

Article 3. Joint ventures established within China's territory must be able to promote the development of China's economy and the improvement of the science and technology for the benefit of socialist modernisation.

Businesses and industries in which the establishment of joint ventures is encouraged, prohibited or restricted by the State shall be decided in accordance with provisions of the *State in the Regulations on Foreign Investment Guidelines and the Guideline Catalogue of Foreign Investment Industries*.

Article 4. Applications to establish joint ventures shall not be granted approval if the project involves any of the following conditions:

- (1) Detriment to China's sovereignty;
- (2) Violation of the Chinese law;
- (3) Nonconformity with the requirements of the development of China's national economy;
- (4) Environmental pollution;
- (5) Obvious inequity in the agreements, contracts and articles of association signed, impairing the rights and interests of one party.

Article 5. A joint venture has the right to do business independently within the scope of the provisions of Chinese laws, administrative regulations, and the agreement, contract and articles of association of the joint venture. The relevant departments and authorities concerned shall provide support and assistance.

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Chapter II — Establishment and Registration

Article 6. The establishment of a joint venture in China shall be subject to examination and approval by the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China (hereinafter referred to as MOFTEC). After approval, a certificate of approval shall be issued by MOFTEC.

The State Council shall delegate to the people's governments in provinces, autonomous regions and centrally administered municipalities and relevant departments under the State Council the power to examine and approve the establishment of joint ventures which meet the following conditions:

- (1) The total amount of investment is within the limit of the investment examination and approval power as stipulated by the State Council, and the source of capital of the Chinese parties has been ascertained;
- (2) No additional allocations of raw materials by the State are required and the national balance of fuel, power, transportation and foreign trade export quotas, etc. is not affected.

Joint ventures established in accordance with provisions of the preceding paragraph shall be reported to MOFTEC for the record.

MOFTEC and the State Council authorised people's governments in provinces, autonomous regions and centrally administered municipalities and relevant departments under the State Council shall hereinafter be referred to as the examination and approval authority.

Article 7. When applying for establishing a joint venture, the foreign and Chinese parties shall jointly submit the following documents to the examination and approval authority:

- (1) An application for the establishment of a joint venture;
- (2) The feasibility study report jointly prepared by the parties to the joint venture;
- (3) Joint venture agreement, contract and articles of association signed by representatives authorised by the parties to the venture;
- (4) List of candidates for chairperson, vice-chairperson and directors nominated by the parties to the venture; and
- (5) Other documents required by the examination and approval authority.

The documents listed in the preceding paragraph shall be written in Chinese. Documents (2), (3) and (4) may be written simultaneously in a foreign language agreed upon by the parties to the joint venture. Both versions shall have equal validity.

Where any contents are found to be inappropriate in the submitted documents, the examination and approval authority shall demand an amendment to it within a limited time.

Article 8. Upon receipt of all the documents stipulated in Article 7 of these Regulations, the examination and approval authority shall, within three (3) months, decide whether to approve or disapprove them.

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Article 9. The applicant shall, within one (1) month after receipt of the certificate of approval, carry out registration procedures with the administrative authority of industry and commerce (hereinafter referred to as the registration administration organ). The date on which the business licence of a joint venture is issued shall be regarded as the date of formal establishment of the joint venture.

Article 10. The "joint venture agreement" mentioned in these Regulations refers to a document agreed upon by the parties to the joint venture on some main points and principles governing the establishment of a joint venture; "joint venture contract" refers to a document agreed upon and concluded by the parties to the joint venture on their rights and obligations; "articles of association" refers to a document agreed upon by the parties to the joint venture defining the purposes, organisational principles and method of management of a joint venture in compliance with the principles of the joint venture contract.

If the joint venture agreement conflicts with the contract, the contract shall prevail.

If the parties to the joint venture agree to sign only a contract and articles of association, the agreement may be omitted.

Article 11. The joint venture contract shall include the following main items:

- (1) The names, the countries of registration, the legal addresses of parties to the joint venture, and the names, professions and nationalities of the legal representatives thereof;
- (2) Name of the joint venture, its legal address, purpose and the scope and scale of business;
- (3) Total amount of investment and registered capital of the joint venture, investment contributed by the parties to the joint venture, each party's investment proportion, forms of investment, the time limit for contributing investment, stipulations concerning incomplete contributions, and assignment of investment;
- (4) The ratio of profit distribution and losses to be borne by each party;
- (5) The composition of the board of directors, the distribution of the number of directors, and the responsibilities, powers and means of employment of the general manager, deputy general manager and other senior management personnel;
- (6) The main production equipment and technology to be adopted and their source of supply;
- (7) The ways and means of purchasing raw materials and selling finished products;
- (8) Principles governing the handling of finance, accounting and auditing;
- (9) Stipulations concerning labour management, wages, welfare and labour insurance;
- (10) The duration of the joint venture, its dissolution and the procedure for liquidation;
- (11) The liabilities for breach of contract;
- (12) Ways and procedures for settling disputes between the parties to the joint venture;
- (13) The language used for the contract and the conditions for putting the contract into effect.

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The annex to the contract of a joint venture shall have equal validity with the contract itself.

Article 12. The formation of a joint venture contract, its validity, interpretation, execution and the settlement of disputes under it shall be governed by the Chinese law.

Article 13. Articles of association shall include the following main items:

- (1) The name of the joint venture and its legal address;
- (2) The purpose, business scope and duration of the joint venture;
- (3) The names, the countries of registration and the legal addresses of parties to the joint venture, and the names, professions and nationalities of the legal representatives thereof;
- (4) Total amount of investment and registered capital of the joint venture, investment contributed by the parties to the joint venture, each party's investment proportion, stipulations concerning the assignment of investment, the ratio of profit distribution and losses to be borne by parties to the joint venture;
- (5) The composition of the board of directors, its responsibilities, powers and rules of procedure, the term of office of the directors, and the responsibilities of its chairperson and vice-chairperson;
- (6) The setting up of management organisations, rules for handling routine affairs, the responsibilities of the general manager, deputy general manager and other senior management personnel, and the method of their appointment and dismissal;
- (7) Principles governing finance, accounting and auditing;
- (8) Dissolution and liquidation;
- (9) Procedures for amendment of the articles of association.

Article 14. The agreement, contract and articles of association shall come into force after being approved by the examination and approval authority. The same applies in the event of amendments.

Article 15. The examination and approval authority and the registration and administration office are responsible for supervising and inspecting the execution of the joint venture contracts and articles of association.

Chapter III — Form of Organisation and Registered Capital

Article 16. A joint venture is a limited liability company.

Each party to the joint venture assumes the liability of the joint venture within the limits of the capital subscribed by the party.

Article 17. The total amount of investment (including loans) of a joint venture refers to the sum of capital construction funds and the circulating funds needed for the joint venture's production scale as stipulated in the contract and the articles of association of the joint venture.

Article 18. The registered capital of a joint venture is the total capital registered at the registration and administration office for the establishment of the joint venture. It shall be the capital subscribed by all parties to the joint venture.

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The registered capital shall generally be expressed in Renminbi, or may be in a foreign currency agreed upon by the parties to the joint venture.

Article 19. A joint venture shall not reduce its registered capital during the term of the joint venture. Where there is a real need for reduction of the registered capital due to changes in the total amount of investment, the scale of production and operation or other circumstances, the reduction shall be approved by the examination and approval authority.

Article 20. If one party to the joint venture intends to assign all or part of his investment subscribed to a third party, consent shall be obtained from the other parties to the joint venture, and approval from the examination and approval authority is required.

When one party assigns all or part of his investment to a third party, the other parties shall have a priority purchase right.

When one party assigns his investment subscribed to a third party, the conditions given shall not be more favourable than those given to the other parties to the joint venture.

No assignment shall have effect should there be any violation of the above stipulations.

Article 21. Any increase or reduction of the registered capital of a joint venture shall be approved by a meeting of the board of directors and submitted to the examination and approval authority for approval. Registration procedures for changes shall be undertaken with the original registration and administration office.

Chapter IV — Methods of Contributing Investment

Article 22. Each party to a joint venture may contribute cash or buildings, factory premises, machinery, equipment or other materials, industrial property, proprietary technologies, or site use rights as investment, the value of which shall be ascertained. If the investment is in the form of buildings, factory premises, machinery, equipment or other materials, industrial property or proprietary technologies, the value shall be assessed through consultation by the parties to the joint venture on the basis of fairness and reasonableness, or shall be assessed by a third party agreed upon by parties to the joint venture.

Article 23. The foreign exchange contributed by the foreign party shall be converted into Renminbi according to the standard exchange rate announced by the People's Bank of China on the day of its submission or be cross exchanged into a predetermined foreign currency.

Where the cash Renminbi contributed by the Chinese party is converted into foreign currency, it shall be converted according to the standard exchange rate announced by the People's Bank of China on the day of the submission of the funds.

Article 24. The machinery, equipment and other materials contributed by the foreign party shall be those necessary for the production of the joint venture.

The price of the machinery, equipment and other materials referred in the preceding paragraph shall not be higher than the current international market price for similar equipment or materials.

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Article 25. The industrial property or proprietary technologies contributed by the foreign party as investment shall meet one of the following conditions:

- (1) Capable of improving markedly the performance and quality of existing products and raising productivity;
- (2) Capable of notable savings in raw materials, fuel or power.

Article 26. Foreign parties who contribute industrial property or proprietary technologies as investment shall present relevant documentation on the industrial property or proprietary technologies, including photocopies of the patent certificates or trademark registration certificates, statements of validity, their technical characteristics, practical value, the basis for calculating the price and the price agreement signed with the Chinese partners. All these shall serve as an annex to the contract.

Article 27. The machinery, equipment or other materials, industrial property or proprietary technologies contributed by foreign parties as investment shall be subject to the examination and approval authority for approval.

Article 28. The parties to the joint venture shall pay in full the investment subscribed according to the time limit stipulated in the contract. Delay in payment or partial delay in payment shall be subject to a payment of interest in arrears or a compensation for the loss as defined in the contract.

Article 29. After the investment is paid up by the parties to the joint venture, a Chinese registered accountant shall verify it and provide a certificate of verification, based on which the joint venture shall issue an investment certificate. An investment certificate shall include the following items: name of the joint venture; date, month and year of the establishment of the joint venture; names of the parties and the investment contributed; date, month and year of the contribution of the investment; and date, month and year of issuance of the investment certificate.

Chapter V — Board of Directors and Management Office

Article 30. The highest authority of the joint venture shall be its board of directors. It shall decide all major issues concerning the joint venture.

Article 31. The board of directors shall consist of no less than three (3) members. The distribution of the number of directors shall be ascertained through consultation by the parties to the joint venture with reference to the proportion of investment contributed.

The term of office for the directors is four (4) years. Their term of office may be renewed with the consent of the parties to the joint venture.

Article 32. The board of directors shall convene at least once every year. The meeting shall be called and presided over by the chairperson of the board.

Where the chairperson is unable to call the meeting, he/she shall authorise the vice-chairperson or other director to call and preside over the meeting. The chairperson may convene an interim meeting based on a proposal made by more than one-third of the directors.

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A board meeting requires a quorum of over two-thirds of the directors. Where the director is unable to attend, he/she shall present a proxy authorising someone else to represent him/her and vote for him/her.

A board meeting shall generally be held at the location of the joint venture's legal address.

Article 33. Decisions on the following matters shall be made only after being unanimously agreed upon by the directors present at the board meeting:

- (1) Amendment of the articles of association of the joint venture;
- (2) Termination and dissolution of the joint venture;
- (3) Increase or reduction of the registered capital of the joint venture;
- (4) Merger or division of the joint venture.

Decisions on other matters shall be made according to the rules of procedure stipulated in the articles of association.

Article 34. The chairperson of the board is the legal representative of the joint venture. Where the chairperson is unable to exercise his/her responsibilities, he/she shall authorise the vice-chairperson of the board or other director to represent the joint venture.

Article 35. A joint venture shall establish a business management office which shall be responsible for daily business management. The business management office shall have a general manager and several deputy general managers who shall assist the general manager in his/her work.

Article 36. The general manager shall carry out the decisions of the board meeting, organise and be responsible for the daily management of the joint venture. The general manager shall, within his/her authority empowered by the board, represent the joint venture externally, and shall have the right to appoint and dismiss his/her subordinates, and exercise other responsibilities and power as authorised by the board within the joint venture.

Article 37. The general manager and deputy general managers shall be appointed by the board of directors of the joint venture. These positions may be held either by Chinese citizens or foreign citizens.

At the invitation of the board of directors, the chairperson, vice-chairperson or other directors of the board may concurrently be the general manager, deputy general managers or other senior management personnel of the joint venture.

In handling major issues, the general manager shall consult with the deputy general managers.

The general manager or deputy general managers shall not hold posts concurrently as general manager or deputy general managers of other economic organisations. They shall not have any connections with other economic organisations in commercial competition with their own joint venture.

Article 38. Where the general manager, deputy general managers or other senior management personnel practise favouritism or seriously abuse their power, the board of directors shall have the power to dismiss them at any time.

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Article 39. Where a joint venture needs to establish branch offices (including sales offices) outside China or in Hong Kong or Macao, it must report to the Ministry of Foreign Trade and Economic Cooperation for approval.

Chapter VI — Introduction of Technology

Article 40. The introduction of technology mentioned in this chapter refers to the necessary technology obtained by the joint venture by means of technology transfer from a third party or parties to the joint venture.

Article 41. The technology acquired by the joint venture shall be appropriate and advanced and enable the venture's products to display conspicuous social and economic results domestically or to be competitive on the international market.

Article 42. The right of the joint venture to do business independently shall be maintained when making technology transfer agreements, and relevant documentation shall be provided by the technology exporting party in accordance with the provisions of Article 26 of these Regulations.

Article 43. The technology transfer agreements signed by a joint venture shall be submitted for approval to the examination and approval authority.

Technology transfer agreements shall comply with the following stipulations:

- (1) The fees for use of technology shall be fair and reasonable;
- (2) Unless otherwise agreed upon by both parties, the technology exporting party shall not put any restrictions on the quantity, price or region of sale of the products that are to be exported by the technology importing party;
- (3) The term for a technology transfer agreement is generally no longer than ten years;
- (4) After the expiry of a technology transfer agreement, the technology importing party shall have the right to use the technology continuously;
- (5) Conditions for mutual exchange of information on the improvement of technology by both parties of the technology transfer agreement shall be reciprocal;
- (6) The technology importing party shall have the right to buy the equipment, parts and raw materials needed from sources they deem suitable;
- (7) No unreasonably restrictive clauses prohibited by the Chinese law and regulations shall be included.

Chapter VII — Right to the Use of Site and its Fee

Article 44. Joint ventures shall implement the principle of efficiency in the use of land. Any joint venture requiring the use of a site shall file an application with local departments of the municipal (county) government in charge of land and obtain the right to use a site only after securing approval and signing a contract. The size, location, purpose and contract period and fee for the right to use a site (hereinafter referred to as site use fee), rights and obligations of the parties to a joint venture and fines for breach of contract should be stipulated in explicit terms in the contract.

Article 45. If the Chinese party already has the right to the use of site for the joint venture, the Chinese party may use it as part of its investment. The monetary equivalent

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of this investment should be the same as the site use fee otherwise paid for acquiring such site.

Article 46. The standard for a site use fee shall be stipulated by the people's government of a province, autonomous region or centrally administered municipality where the joint venture is located according to such factors as the purpose of use, geographic and environmental conditions, expenses for requisition, demolishing and resettlement and the joint venture's requirements with regard to infrastructure, and shall be filed with the Ministry of Foreign Trade and Economic Cooperation and the state department responsible for land administration.

Article 47. Joint ventures engaged in agriculture and animal husbandry may, with the consent of the people's government of the local province, autonomous region or centrally administered municipality, pay a percentage of the joint venture's business income as site use fees to the local department responsible for land administration.

Projects of a developmental nature in economically undeveloped areas may receive special preferential treatment in respect of site use fees with the consent of the local people's government.

Article 48. The rates for site use fees shall not be subject to adjustment in the first five (5) years beginning from the day the land is used. After that the interval of adjustment shall not be less than three (3) years according to the development and changes in geographic and environmental conditions.

Site use fees as part of the investment by the Chinese party shall not be subject to adjustment during the contract period.

Article 49. The fee for the right to the use of site obtained by a joint venture according to Article 44 of these Regulations shall be paid annually from the day to begin use of the land stipulated in the contract. For the first calendar year, the venture shall pay a half-year fee if it has used the land for over six months; if less than six months, the site use fee shall be exempt. During the contract period, if the rates of site use fees are adjusted, the joint venture shall pay it according to the new rates from the year of adjustment.

Article 50. Joint ventures, in addition to obtaining site use right according to the provisions of this chapter, may also acquire site use right in accordance with relevant provisions of the State.

Chapter VIII — Purchasing and Selling

Article 51. In its purchase of required machinery, equipment, raw materials, fuel, parts, means of transport and items for office use, etc. (hereinafter referred to as materials), a joint venture has the right to decide whether to buy them in China or from abroad.

Article 52. The amount of materials needed for office and daily life for joint ventures purchased in China is not subject to restriction.

Article 53. The Chinese Government encourages joint ventures to sell their products on the international market.

Article 54. A joint venture has the right to export its products by itself or entrust sales agencies of the foreign party or Chinese foreign trade corporations with sales on a commission or distribution basis.

Article 55. Within the scope of operations stipulated in the contract, a joint venture may import machinery, equipment, parts, raw materials and fuel needed for its production. A joint venture shall make a plan every year for items for which import licences are required by state regulations, and apply for them every six months. For machinery, equipment and other objects which a foreign party has contributed as part of its investment, the foreign party can apply directly for import licences with documents approved by the examination and approval authority. For materials to be imported exceeding the stipulated scope of the contracts, separate application for import licences according to state regulations is required.

A joint venture has the right to export its products by itself; for those products for which export licences are required by state regulations, the joint venture shall apply for them every six months on the basis of its annual export plan.

Article 56. With respect to prices for materials in China and fees charged for services such as water, electricity, gas, heat, transportation of goods, labour, engineering design, consultation, advertisements, joint ventures shall be treated equally with other domestic enterprises.

Article 57. A joint venture and other Chinese economic organisations shall, in their economic exchanges, undertake economic responsibilities and settle disputes over contracts in accordance with the relevant laws and the contract concluded between both parties.

Article 58. A joint venture shall provide statistic data and submit statistic forms in accordance with the *Law of the People's Republic of China on Statistics* and other state provisions on the statistics collection in relation to the utilisation of foreign investment.

Chapter IX — Taxes

Article 59. Joint ventures shall pay taxes according to the stipulations of relevant laws of the People's Republic of China.

Article 60. Staff members and workers employed by joint ventures shall pay individual income tax according to the *Individual Income Tax Law of the People's Republic of China*.

Article 61. Taxes on the following imports by a joint venture shall be reduced or exempted in accordance with the relevant provisions of the Chinese tax law:

- (1) Machinery, equipment, parts and other materials ("other materials" here and hereinafter mean required materials for the joint venture's construction on the factory site and for the installation and reinforcement of machines,) which are part of the foreign party's share of investment according to the provisions of contract;
- (2) Machinery, equipment, parts and other materials imported with funds which are part of the joint venture's total investment;

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- (3) Machinery, equipment, parts and other materials imported by the joint venture with additional capital under the approval of the examination and approval authority, and for which China cannot guarantee production and supply;
- (4) Raw materials, auxiliary materials, components, parts and packaging materials imported by the joint venture for production of export goods.

Taxes shall be paid or added according to regulations when the above-mentioned duty-free materials are approved for sale inside China or used for the production of items to be sold on the Chinese domestic market.

Article 62. Except for those export items restricted by the State, taxes on export products of a joint venture shall be reduced, exempted or refunded in accordance with the relevant provisions of the Chinese tax law.

Chapter X — Foreign Exchange Control

Article 63. All matters concerning foreign exchange for joint ventures shall be handled according to the *Rules of the People's Republic of China on Foreign Exchange Control* and relevant provisions of administrative measures.

Article 64. With a business licence, a joint venture may open foreign exchange accounts and Renminbi accounts with banks inside China. The bank handling the accounts of the joint venture shall exercise supervision of receipts and expenditures.

Article 65. A joint venture shall obtain permission from the State Administration of Foreign Exchange or one of its branches to open a foreign exchange deposit account with an overseas bank or one in Hong Kong or Macao, and report to the State Administration of Foreign Exchange or one of its branches its foreign exchange receipts and expenditures, and provide account balance sheets.

Article 66. Branches and divisions set up by a joint venture in foreign countries or in Hong Kong or Macao shall submit its annual statement of assets and liabilities and annual profit report to the State Administration of Foreign Exchange or one of its branches through the joint venture.

Article 67. A joint venture may, in accordance with its operation needs, apply to a financial institution inside China for foreign exchange loans and Renminbi loans. It may also borrow foreign exchange from banks abroad or in Hong Kong or Macao in accordance with the relevant provisions of the State, and carry out procedures for registration or filing for record with the State Administration of Foreign Exchange or one of its branches.

Article 68. After foreign staff and workers and staff and workers from Hong Kong and Macao have paid income tax on their salaries and other legitimate incomes in accordance with the law, they may remit outside China the remaining foreign exchange after deduction of their living expenses in China, in accordance with relevant provisions of the State.

Chapter XI — Financial Affairs and Accounting

Article 69. Procedures for handling financial affairs and accounting of a joint venture shall be formulated in accordance with China's relevant laws and procedures on financial affairs and accounting, and in consideration of the conditions of the joint

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venture, and then be filed with local financial departments and tax authorities for the record.

Article 70. A joint venture shall employ a chief accountant to assist the general manager in handling the financial affairs of the enterprise. If necessary a deputy chief accountant may also be appointed.

Article 71. A joint venture shall (a small venture need not) appoint an auditor to be responsible for checking financial receipts, payments and accounts, and to submit reports to the board of directors and the general manager.

Article 72. The fiscal year of a joint venture shall coincide with the calendar year, i.e. from January 1 to December 31 on the Gregorian calendar.

Article 73. The accounting of a joint venture shall adopt the internationally accepted accrual basis and debit and credit accounting system in their work. All vouchers, account books, statistical statements and reports prepared by the enterprise shall be written in Chinese. A foreign language may also be used concurrently with mutual consent.

Article 74. In principle, a joint venture shall adopt Renminbi as the standard currency. In keeping accounts, however, another currency may also be used through consultation by the parties concerned.

Article 75. In addition to the use of standard currency to record accounts, joint ventures shall record accounts in currencies actually used in payments and receipts, if such currencies in cash, bank deposits, funds of other currencies, creditor's rights, debts, gains, expenses, etc. are inconsistent with the standard currency in recording accounts.

Where foreign currency is used as the standard currency in accounting, the joint venture shall convert the said currency into Renminbi in its financial accounting reports.

Where funds are converted to the currency of a particular account, the difference caused by differing exchange rates shall be recorded as profit or loss on exchange. Recorded fluctuations in exchange rates and the book amounts of the various related foreign currency accounts shall undergo accounting treatment during the year-end closure of accounts in accordance with China's relevant laws and its financial accounting system.

Article 76. Principles of profit distribution after payment of taxes in accordance with the *Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* are as follows:

- (1) Allocations for reserve funds, bonuses and welfare funds for staff and workers and development funds of the joint venture and the proportion of allocations are decided by the board of directors;
- (2) Reserve funds can be used to make up the losses of the joint venture, and with the consent of the examination and approval authority, can also be used to increase the joint venture's capital for production expansion;
- (3) After the funds described in (1) of this Article have been deducted, if the board of directors decides to distribute the remaining profit, it should be distributed according to the proportion of each party's investment.

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Article 77. Profits cannot be distributed unless the losses of previous years have been made up. Remaining profits from the previous year (or years) can be distributed together with the profit of the current year.

Article 78. A joint venture shall submit quarterly and annual financial reports to the parties to the joint venture, the local tax authority and the financial department.

Article 79. Only after being examined and certified by an accountant registered in China can the following documents, certificates and reports be considered valid:

- (1) Certificates of investment from all parties to a joint venture (lists of assessed value and agreements signed by parties to the joint venture shall be attached, where involving the use of materials, site use rights, industrial property and proprietary technologies as contributions);
- (2) Annual financial reports of the joint venture;
- (3) Financial reports on liquidation of the joint venture.

Chapter XII — Staff and Workers

Article 80. The employment, recruitment, dismissal and resignation of staff and workers of joint ventures, and their salary, welfare benefits, labour insurance, labour protection, labour discipline and other matters shall be handled according to the relevant provisions of the State on labour and social security.

Article 81. Joint ventures shall make efforts to conduct professional and technical training of their staff and workers and establish a strict examination system so that they can meet the requirements of production and managerial skills in a modernised enterprise.

Article 82. The salary and bonus systems of joint ventures shall be in accordance with the principle of distribution to each according to his work, and more pay for more work.

Article 83. Salaries and remuneration of the general manager, deputy general manager(s), chief engineer, deputy chief engineer(s), chief accountant and deputy chief accountant(s), auditor(s) and other senior officials shall be decided upon by the board of directors.

Chapter XIII — Trade Unions

Article 84. Staff and workers of a joint venture have the right to set up a grass-roots trade union and carry on trade union activities in accordance with the *Trade Union Law of the People's Republic of China* (hereinafter referred to as Chinese Trade Union Law) and the *Articles of Association of Chinese Trade Unions*.

Article 85. Trade unions in joint ventures are representatives of the interests of the staff and workers. They have the power to represent the staff and workers to sign labour contracts with joint ventures and supervise the execution of these contracts.

Article 86. The basic tasks of the trade unions in joint ventures are: to protect the democratic rights and material interests of the staff and workers in accordance with the law; to help the joint ventures with the arrangement and rational use of welfare and bonus funds; to organise political, professional, scientific and technical studies, carry out

literary, artistic and sporting activities; and to educate staff workers to observe labour discipline and strive to fulfil the economic tasks of the enterprises.

Article 87. Trade union representatives have the right to attend as non-voting members and to report the opinions and demands of staff and workers to meetings of the board of directors held to discuss important issues such as development plans, production and operational activities of joint ventures.

Trade union representatives have the right to attend as non-voting members meetings of the board of directors held to discuss and decide on awards and penalties to staff and workers, salary systems, welfare benefits, labour protection and labour insurance, etc. The board of directors shall heed the opinions of the trade union and win its co-operation.

Article 88. A joint venture shall actively support the work of the trade union, and, in accordance with stipulations of the *Chinese Trade Union Law*, provide housing and facilities for the trade union's office work, meetings, and welfare, cultural and sports activities. The joint venture shall allot an amount of money totalling two percent of all salaries of the joint venture's staff and workers as trade union's funds, which the trade union of the joint venture shall use according to the relevant managerial rules for trade union funds formulated by the All China Federation of Trade Unions.

Chapter XIV — Duration, Dissolution and Liquidation

Article 89. The duration of a joint venture shall be determined in accordance with the *Provisional Regulations on the Duration of Sino-foreign Equity Joint Enterprises*.

Article 90. A joint venture may be dissolved in the following situations:

- (1) Expiry of duration;
- (2) Inability to continue operations due to heavy losses;
- (3) Inability to continue operations due to the failure of one of the contracting parties to fulfil the obligations prescribed by the agreement, contract or articles of association;
- (4) Inability to continue operations due to heavy losses caused by *force majeure* such as natural calamities and wars, etc.;
- (5) Inability to obtain the desired objectives of the operation and at the same time to see a future for development;
- (6) Occurrence of other reasons for dissolution prescribed by the contract and articles of association.

In cases described in (2), (4), (5) and (6) of the preceding paragraph, the board of directors shall make an application for dissolution to the examination and approval authority for approval; in situation described in (3), the party that performs the contract shall make an application and report it to the examination and approval authority for approval.

In the situation described in (3) of this article, the party which failed to fulfil the obligations prescribed by the agreement, contract and articles of association shall be liable for compensation for the losses thus caused.

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Article 91. A joint venture announcing its dissolution must undergo liquidation procedures. The joint venture must form a liquidation committee in accordance with the provisions of the *Measures on Liquidation Procedures for Foreign Investment Enterprises*. The liquidation committee is in charge of the liquidation affairs.

Article 92. Members of a liquidation committee are usually selected from among directors of a joint venture. In case the directors cannot serve or are unsuitable to be members of the liquidation committee, the joint venture may appoint accountants and lawyers registered in China to the committee. When the examination and approval authority deems it necessary, it may appoint personnel to supervise the process.

The liquidation expenses and remuneration to members of the liquidation committee shall be paid in priority from the existing assets of the joint venture.

Article 93. The tasks of the liquidation committee are: to conduct a thorough check of the property of the joint venture concerned, its creditors' rights and liabilities; to work out the statement of assets and liabilities and a list of property; to put forward a basis on which property is to be evaluated and calculated; and to formulate a liquidation plan. All these shall be carried out upon approval of the board of directors.

During the process of liquidation, the liquidation committee shall represent the joint venture concerned in litigation.

Article 94. A joint venture shall be liable to its debts with all of its assets. The remaining property after the clearance of debts shall be distributed among parties to the joint venture according to the proportion of each party's investment unless otherwise provided by agreement, contract and articles of association of the joint venture.

At the time when a joint venture is being dissolved, its net assets or the residual amount of the remaining property subtracting the un-distributed profits, various funds and liquidation expenses, that exceeds the actually paid up capital shall be regarded as income derived from liquidation, and income tax shall be levied according to law.

Article 95. On completion of the liquidation of a dissolved joint venture, the liquidation committee shall submit a liquidation report approved by a meeting of the board of directors to the original examination and approval authority, go through formalities for cancelling its registration and hand in its business licence to the original registration authority.

Article 96. After dissolution of a joint venture, its account books and documents shall be left in the care of the Chinese party.

Chapter XV — Settlement of Disputes

Article 97. Disputes arising over the interpretation or execution of the agreement, contract or articles of association between the parties to the joint venture shall, if possible, be settled through friendly consultation or mediation. Disputes that cannot be settled through these means may be settled through arbitration or judicial means.

Article 98. Parties to a joint venture may apply for arbitration in a Chinese arbitration institution or another arbitration institution in accordance with the relevant written arbitration agreement.

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Article 99. If there is no written arbitration agreement between the parties to a joint venture, each side may file a suit with a Chinese people's court.

Article 100. During the process of solving disputes, except for matters in dispute, parties to a joint venture shall continue to carry out other provisions stipulated by the agreement, contract and articles of association of the joint venture.

Chapter XVI — Supplementary Provisions

Article 101. The Chinese office in charge of visas shall give convenient service by simplifying procedures for staff and workers from foreign countries or from Hong Kong and Macao (including their family members) who frequently cross Chinese borders.

Article 102. Chinese staff and workers in a joint venture who go abroad for study tours, business negotiations or training shall carry out procedures for exiting country (border) in accordance with relevant provisions of the State.

Article 103. Staff and workers from foreign countries or from Hong Kong and Macao working for a joint venture may bring in needed means of transport and items for office use. They shall pay taxes in accordance with the relevant provisions of Chinese tax law.

Article 104. Joint ventures set up in the Special Economic Zones shall abide by these provisions, unless laws and administrative regulations stipulate otherwise.

Article 105. These Regulations shall come into force on the day of promulgation.