

## **Law of the People's Republic of China on Foreign-funded Enterprises**

(Adopted at the 4th Meeting of the Sixth National People's Congress on April 12, 1986, amended in accordance with the Decision on Modifying the Law of the People's Republic of China on Foreign-funded Enterprises adopted at 18th Meeting of the Standing Committee of the Ninth National People's Congress on October 31, 2000, and promulgated by Order No. 41 of the President of the People's Republic of China on October 31, 2000)

Article 1. With a view to expanding economic cooperation and technical exchange with foreign countries and promoting the development of China's national economy, the People's Republic of China permits foreign enterprises, other foreign economic organizations and individuals (hereinafter collectively referred to as "foreign investors") to set up foreign-funded enterprises in China and protects the legitimate rights and interests of such enterprises.

Article 2. As mentioned in this Law, "foreign-funded enterprises" refers to those enterprises established in China by foreign investors, exclusively with their own capital, in accordance with relevant Chinese laws. The term does not include branches set up in China by foreign enterprises and other foreign economic organizations.

Article 3. Foreign-funded enterprises shall be established in such a manner as to help the development of China's national economy. The state encourages the establishment of foreign-funded enterprises that export their products or have advanced technologies.

Provisions shall be made by the State Council regarding the lines of business which the state forbids foreign-funded enterprises to engage in or on which it places certain restrictions.

Article 4. The investments of a foreign investor in China, the profits it earns and its other lawful rights and interests are protected by Chinese law.

Foreign-funded enterprises must abide by Chinese laws and regulations and must not engage in any activities detrimental to China's public interest.

Article 5. The state shall not nationalize or requisition any foreign-funded enterprise. Under special circumstances, when public interest requires, foreign-funded enterprises

may be requisitioned by legal procedures and appropriate compensation shall be made.

Article 6. The application to establish a foreign-funded enterprise shall be submitted for examination and approval to the department under the State Council in charge of foreign trade and economic cooperation, or to any other agency authorized by the State Council. The authorities in charge of examination and approval shall, within 90 days from the date it receives such application, decide whether or not to grant approval.

Article 7. After an application for the establishment of a foreign-funded enterprises has been approved, the foreign investor shall, within 30 days from the date of receiving a certificate of approval, apply to the industry and commerce administration authority for registration and obtain a business license. The date of issuance of the business license shall be the date of the establishment of the enterprise.

Article 8. An enterprise with foreign capital which meets the conditions for being considered a legal person under Chinese law shall acquire the status of a Chinese legal person, in accordance with the law.

Article 9. A foreign-funded enterprise shall make investments in China within the period approved by the authorities in charge of examination and approval. If it fails to do so, the industry and commerce administration authority may cancel its business license.

The industry and commerce administration authority shall inspect and supervise the investment situation of a foreign-funded enterprise.

Article 10. In the event of a split, merger or other major change, a foreign-funded enterprise shall report to and seek approval from the authorities in charge of examination and approval, and register the change with the industry and commerce administration authority.

Article 11. Foreign-funded enterprises shall conduct their operations and management in accordance with the approved articles of association, and shall be free from any interference.

Article 12. When employing Chinese workers and staff, a foreign-funded enterprise shall conclude contracts with them according to law, in which matters concerning employment, dismissal, remuneration, welfare benefits, labor protection and labor

insurance shall be clearly prescribed.

Article 13. Workers and staff of a foreign-funded enterprise may organize trade unions in accordance with the law so as to conduct trade union activities and protect their lawful rights and interests.

The enterprises shall provide the necessary conditions for the activities of the trade unions in their respective enterprises.

Article 14. A foreign-funded enterprise must set up account books in China, conduct independent accounting, submit the financial reports and statements as required and accept supervision by the financial and tax authorities.

If a foreign-funded enterprise refuses to keep account books in China, the financial and tax authorities may impose a fine on it, and the industry and commerce administration authority may order it to suspend operations or may revoke its business license.

Article 15. Within the approved scope of the operations, foreign-funded enterprises may, according to the principles of fairness and reason, purchase raw and semi-processed materials, fuels and other materials they need either in China or from the world market.

Article 16. Foreign-funded enterprises shall apply to insurance companies in China for such kinds of insurance coverage as are needed.

Article 17. Foreign-funded enterprises shall pay taxes in accordance with relevant state provisions for tax payment, and may enjoy preferential treatment for reduction of or exemption from taxes.

A foreign-funded enterprise that reinvests in China its profits after paying the income tax, may, in accordance with relevant state provisions, apply for refund of a part of the income tax already paid on the reinvested amount.

Article 18. Foreign-funded enterprises shall handle their foreign exchange transactions in accordance with the state provisions for foreign exchange control.

Foreign-funded enterprises shall open an account with the Bank of China or with a bank designated by the state agency exercising foreign exchange control.

Article 19. Foreign investors may remit abroad profits that are lawfully earned from a foreign-funded enterprise, as well as other lawful earnings and any funds remaining after the enterprise is liquidated.

Wages, salaries and other legitimate income earned by foreign employees in a foreign-funded enterprise may be remitted abroad after the payment of individual income tax in accordance with the law.

Article 20. With respect to the term of operations of a foreign-funded enterprise, the foreign investor shall report to and secure approval from the authorities in charge of examination and approval. For an extension of the term of operations, an application shall be submitted to the said authorities 180 days before the expiration of the period. The authorities in charge of examination and approval shall, within 30 days from the date such application is received, decide whether or not to grant the extension.

Article 21. When terminating its operations, a foreign-funded enterprise shall promptly issue a public notice and proceed with liquidation in accordance with legal procedure.

Pending the completion of liquidation, a foreign investor may not dispose of the assets of the enterprise except for the purpose of liquidation.

Article 22. At the termination of operations, the foreign-funded enterprise shall nullify its registration with the industry and commerce administration authority and hand in its business license for cancellation.

Article 23. The department under the State Council which is in charge of foreign economic relations and trade shall, in accordance with this Law, formulate rules for its implementation, which shall go into effect after being submitted to and approved by the State Council.

Article 24. This Law shall go into effect on the day of its promulgation.