

PRC Wholly Foreign-owned Enterprise Law
(Revised)

(Passed on 12 April 1986 by the 4th Session of the 6th NPC, revised in the Amendment to the PRC, Wholly Foreign-owned Enterprise Law> Decision on 31 October 2000 by the Standing Committee of the 18th Session of the 9th NPC)

Article 1: In order to expand foreign economic co-operation and technological exchange and to promote the development of the Chinese national economy, the People's Republic of China shall permit foreign enterprises and other economic organizations or individuals (hereafter "foreign investors") to establish wholly foreign-owned enterprises within Chinese territory, and shall protect the lawful rights and interests of such enterprises.

Article 2: The term "wholly foreign-owned enterprises" as used in this Law shall refer to those enterprises established within Chinese territory, in accordance with the relevant Chinese laws, with capital provided solely by the foreign investor. It does not include branches established in China by foreign enterprises or other economic organizations.

Article 3: Wholly foreign-owned enterprises must benefit the development of the China's national economy. The State shall encourage the establishment of wholly foreign-owned enterprises that export commodities or that are technologically advanced.

The State Council shall stipulate industries in which the establishment of wholly foreign-owned enterprises is prohibited or restricted.

Article 4: The investments, profits and other legitimate rights and interests of foreign investors in China shall be protected by Chinese law.

Foreign investors must obey Chinese laws and regulations, and shall not harm the social public interest of China.

Article 5: The State shall not nationalize or expropriate wholly foreign-owned enterprises. In special circumstances, where necessary for the public interest, a wholly foreign-owned enterprise may be expropriated in accordance with legal procedures, and appropriate compensation paid.

Article 6: An application for establishment of wholly foreign-owned enterprises shall be submitted for examination and approval by the State Council department in charge of foreign economic relations and trade or an organization authorized by the State Council. The examination and approval authority shall, within 90 days of receipt of the application, make a decision whether or not to approve the application.

Article 7: After approval of an application for establishment of a wholly foreign-owned enterprise, the foreign investor shall, within 30 days of receipt of the approval certificate, apply for registration with the administrative authorities for industry and commerce and obtain a business license. The date of issue of the business license of an enterprise with

the sole foreign investment is the date of establishment of the enterprise.

Article 8: A wholly foreign-owned enterprise that meets the conditions for legal personality under the relevant Chinese laws shall obtain such status in accordance with the law.

Article 9: A wholly foreign-owned enterprise shall invest in China within the time limit approved by the examination and approval authority. Where it fails to invest within the required time, the administrative authorities for industry and commerce shall have the right to revoke its business license.

The administrative authorities for industry and commerce shall carry out inspection and supervision of the investment status of wholly foreign-owned enterprises.

Article 10: In the event of division, merger or other major changes, a wholly foreign-owned enterprise shall report for approval by the examination and approval authority and carry out procedures for registration of such changes with the administrative authorities for industry and commerce.

Article 11: A wholly foreign-owned enterprise shall carry out its operation and management in accordance with the approved articles of association of the enterprise and free from interference.

Article 12: A wholly foreign-owned enterprise employing Chinese staff and workers shall sign contracts in accordance with the law. The contracts shall clearly stipulate such matters as employment, dismissal, remuneration, welfare, labor protection and labor insurance.

Article 13: The staff and workers of a wholly foreign-owned enterprise may, in accordance with the law, establish a labor union organization which may undertake labor union activities and protect the legitimate rights and interests of the staff and workers.
A wholly foreign-owned enterprise shall provide the prerequisites for the organization of activities by the labor union of the enterprise.

Article 14: A wholly foreign-owned enterprise must set up accounting books in China, conduct independent auditing and, in accordance with regulations, submit its accounting statements to and accept the supervision of the financial and taxation authorities.
Should a wholly foreign-owned enterprise refuse to maintain books of account in China, penalties may be imposed by the financial and taxation authorities, and the administrative authorities for industry and commerce may order the enterprise to cease operation or may revoke its business license.

Article 15: The raw materials, fuel and other materials required by a wholly foreign-owned enterprise and which come within its authorized scope of business may be purchased on the domestic market or the international market according to the principles of fairness and reasonableness.

Article 16: The various types of insurance required by a wholly foreign-owned enterprise shall be taken out with insurance companies in China.

Article 17: A wholly foreign-owned enterprise shall pay tax in accordance with the relevant stipulations of State tax regulations and may enjoy preferential tax exemption or reduction. Where a wholly foreign-owned enterprise reinvests its profits in China after payment of tax, it may, in accordance with the relevant stipulations of the State regulations, apply for reimbursement of the income tax already paid on the reinvested amount.

Article 18: Matters relating to the foreign exchange of a wholly foreign-owned enterprise shall be handled in accordance with the State stipulations governing foreign exchange control.

A wholly foreign-owned enterprise shall open a bank account with the Bank of China or a bank designated by the State Administration of Exchange Control.

Article 19: The foreign investor may remit abroad lawful profits earned from a wholly foreign-owned enterprise, other lawful income and funds obtained after liquidation of the enterprise.

Wages and other lawful income of foreign staff and workers of a wholly foreign-owned enterprise may be remitted abroad after payment of individual income tax in accordance with the law.

Article 20: The term of operation of a wholly foreign-owned enterprise shall be approved, following application by the foreign investor, by the examination and approval authority. Where extension of the term of operation is required upon expiry, an application shall be made to the examining and approving authorities 180 days prior to the expiry of the original term of operation. The examining and approving authorities shall, within 30 days of receipt of the application, make a decision on whether or not the application will be granted.

Article 21: On termination of a wholly foreign-owned enterprise, prompt notification shall be given and liquidation carried out in accordance with the procedures stipulated by law. Pending completion of liquidation, the foreign investor shall not dispose of the assets of the enterprise, except for the purposes of carrying out the liquidation.

Article 22: Upon termination of an enterprise with sole foreign investment, procedures shall be completed with the administrative authorities for industry and commerce for cancellation of registration and handing in and cancellation of the business licence.

Article 23: Detailed regulations for the implementation of this Law will be formulated by the State Council department in charge of foreign economic relations and trade and shall come into effect following submission to and approval by the State Council.

Article 24: This Law shall be effective as of the date of promulgation.