

PRC Company Law (Amended) 2330/05.10.27

(Promulgated on October 27 2005 and effective as of January 1 2006.)

PRC President's Order No.42

PART ONE: GENERAL PROVISIONS

Article 1: This Law is formulated in order to regulate the organization and activities of companies, to protect the lawful rights and interests of companies, shareholders and creditors, to safeguard the social and economic order, and to promote the development of the socialist market economy.

Article 2: For the purposes of this Law, the term 'companies' shall mean limited liability companies and companies limited by shares established pursuant to this Law within China.

Article 3: A company is an enterprise with legal personality, has independent legal person property and enjoys the right to such property. A company shall be liable for its debts to the extent of all of its property.

The shareholders of a limited liability company shall be liable to the company to the extent of the capital contribution for which they subscribed, and the shareholders of a company limited by shares shall be liable to the company to the extent of the company's shares for which they subscribed.

Article 4: The shareholders of a company shall, by law, enjoy such rights as obtaining returns on assets, participation in major decisions and selection of managers, etc.

Article 5: In its business activities, a company must comply with laws and administrative regulations, observe social morals and commercial ethics, act in an honest and trustworthy manner, subject itself to the supervision of the government and the public and assume social responsibility.

The lawful rights and interests of companies shall be protected by the law and not subject to infringement.

Article 6: When establishing a company, an application for registration of the establishment of the company shall be made to the company registry in accordance with the law. If a company satisfies the conditions for establishment set forth in this Law, it shall be registered by the company registry either as a limited liability company or a company limited by shares. If a company does not satisfy the conditions for establishment set forth in this Law, it may not be registered as a limited liability company or a company limited by shares.

If laws or administrative regulations specify that the establishment of a company is subject to approval, the approval procedures shall be carried out, in accordance with the law, before registration of the company.

Members of the public may apply to the company registry for a search of the registered particulars of companies, and the company registry shall provide such company search services.

Article 7: The company registry shall issue business licences to companies that are established in accordance with the law. The date of issue of a company's business licence shall be the date of establishment of such company.

The business licence of a company shall state the company's name, domicile, registered capital, paid-in capital, scope of business, the name of its legal representative, and other such particulars.

In the event of a change in the particulars recorded on a company's licence, the company shall carry out the procedures for the amendment of its registration in accordance with the law, and the company registry shall issue it a new business licence.

Article 8: A limited liability company established in accordance with this Law must carry the words "淮梨"¹ or "蠶"² in its name.

A company limited by shares established in accordance with this Law must carry the words "蠶"³ or "蠶"⁴ in its name.

Article 9: If a limited liability company is to be converted into a company limited by shares, it shall satisfy the conditions for a company limited by shares set forth in this Law. If a company limited by shares is to be converted into a limited liability company, it shall satisfy the conditions for a limited liability company set forth in this Law.

If a limited liability company is converted into a company limited by shares, or vice versa, the claims and debts of the company existing prior to the conversion shall be succeeded to by the post-conversion company.

Article 10: The domicile of a company shall be the place where its main administrative organization is located.

Article 11: To establish a company, articles of association must be formulated in accordance with the law. A company's articles of association shall be binding upon the company, shareholders, directors, supervisors and senior officers.

Article 12: The scope of business of a company shall be specified in its articles of association and registered in accordance with the law. A company may amend its articles of association and change its scope of business, provided that it carries out the procedures for the amendment of its registration.

If (an) item(s) in the scope of business of a company require(s) approval in accordance with laws or administrative regulations, it/they shall be subject to approval in accordance with the law.

Article 13: The chairman of the board of directors, the executive director or the manager of a company shall serve as its legal representative as specified in the

company's articles of association, and he or she shall be registered in accordance with the law. If the legal representative of a company is replaced, the procedures for the amendment of registration shall be carried out.

Article 14: A company may establish branches. When establishing a branch, an application for registration shall be made to, and a business licence obtained from, the company registry. A branch shall not have legal personality and its civil liability shall be borne by the company.

A company may establish subsidiaries. A subsidiary shall have legal personality and shall independently bear civil liability in accordance with the law.

Article 15: A company may invest in other enterprises, but, unless otherwise provided in law, may not become an investor that bears joint and several liability for the debts of the enterprises in which it has invested.

Article 16: The investment in another enterprise or the provision of security for a third party by a company shall require a resolution of the board of directors, shareholders' meeting or shareholders' general meeting in accordance with the company's articles of association. If the company's articles of association place a limit on the total amount that may be invested or put up as security or on the amount of any single investment or provided security, such limit may not be exceeded.

The provision of security by a company for a shareholder or the de facto controller of the company shall require a resolution of the shareholders' meeting or shareholders' general meeting.

The shareholder specified in the preceding paragraph or the shareholder under the control of the de facto controller of the company as specified in the preceding paragraph may not participate in the vote on the matter specified in the preceding paragraph. The vote on such matter shall require a majority of the voting rights held by the other shareholders present at the meeting for adoption.

Article 17: A company must protect the lawful rights and interests of its staff and workers, execute employment contracts with its staff and workers in accordance with the law, enrol in social insurance, strengthen labour protection and achieve work safety.

A company shall adopt a variety of methods to strengthen the professional education and vocational training of its staff and workers so as to improve their quality.

Article 18: The staff and workers of a company shall organize a labour union in accordance with the *PRC Labour Union Law* to conduct labour union activities and to protect their lawful rights and interests. A company shall provide its labour union with the necessary conditions for its activities. The labour union of a company shall represent the staff and workers in executing, in accordance with the law, a collective contract with the company in respect of the employment remuneration, working hours, benefits, insurance, work safety and hygiene, etc. of the staff and workers.

A company shall implement democratic management in accordance with the Constitution and relevant laws through the staff and workers' congress or otherwise.

When considering and deciding on a change in its structure or materials issues relating to its operations, or formulating important rules and regulations, a company shall listen to the opinions of its labour union and, through the congress of staff and workers or otherwise, listen to the opinions and suggestions of its staff and workers.

Article 19: For the establishment of an organization of the Communist Party of China and the carrying out of party activities in a company in accordance with the charter of the Communist Party of China, a company shall provide the necessary conditions for the activities of the party organization.

Article 20: A company shareholder shall comply with laws, administrative regulations and the company's articles of association, exercise his or her shareholder rights in accordance with the law and may not abuse his or her shareholder rights to harm the interests of the company or those of other shareholders, or abuse the independent legal person status of the company or the shareholder's limited liability to harm the interests of the company's creditors.

If a company shareholder abuses his or her shareholder rights, thereby causing the company or other shareholders to incur a loss, he or she shall bear liability for damages in accordance with the law.

If a company shareholder abuses the company's independent legal person status or his or her limited liability as a shareholder to evade and repudiate debts, thereby seriously harming the interests of the company's creditors, he or she shall bear joint and several liability for the debts of the company.

Article 21: A company's controlling shareholder, de facto controller, director, supervisor or senior officer may not use his or her affiliated relationship to harm the interests of the company.

If such a person violates the preceding paragraph, thereby causing the company to incur a loss, he or she shall be liable for damages.

Article 22: A resolution of the shareholders' meeting, shareholders' general meeting or board of directors of a company that violates laws or administrative regulations shall be invalid.

If the procedure for convening or the method of voting at a shareholders' meeting, shareholders' general meeting or meeting of the board of directors violates laws, administrative regulations or the company's articles of association, or if the substance of a resolution breaches the company's articles of association, a shareholder may file a petition with a people's court to revoke the same within 60 days of the date the resolution was adopted.

If a shareholder institutes a lawsuit in accordance with the preceding paragraph, the people's court may, at the request of the company, require that the shareholder provide commensurate security.

If a company has carried out the procedures for the amendment of registration pursuant to a resolution of its shareholders' meeting, shareholders' general meeting or board of

directors and the people's court declares such resolution invalid or revokes such resolution, the company shall apply to the company registry to revoke the amendment of its registration.

PART TWO: ESTABLISHMENT AND ORGANIZATIONAL STRUCTURE OF LIMITED LIABILITY COMPANIES

Section One: Establishment

Article 23: The following conditions must be fulfilled for the establishment of a limited liability company:

- (1) the number of shareholders conforms to the statutory number;
- (2) the capital contributions of the shareholders reach the statutory minimum amount of capital;
- (3) the shareholders have jointly formulated the company's articles of association;
- (4) the company has a name and an organizational structure established in conformity with the requirements for limited liability companies; and
- (5) the company has a domicile.

Article 24: A limited liability company shall be invested in and established by not more than 50 shareholders.

Article 25: The articles of association of limited liability companies shall specify the following particulars:

- (1) the name and domicile of the company;
- (2) the scope of business of the company;
- (3) the registered capital of the company;
- (4) the names of shareholders;
- (5) the methods, amount and time of capital contributions by the shareholders;
- (6) the organization of the company and its methods of appointment, functions and powers, and rules of procedure;
- (7) the legal representative of the company; and
- (8) other matters that a shareholders' meeting deems necessary to be specified.

Shareholders shall sign and affix their seals to the company's articles of association.

Article 26: The registered capital of a limited liability company shall be the capital contributions subscribed for by all the shareholders as registered with the company registry. The initial contribution of capital by all of the shareholders of the company may not be less than 20% of the registered capital nor may it be lower than the minimum statutory registered capital. The remainder shall be paid in full by the shareholders within two years of the date of establishment of the company. In the case of an investment company, it may make payment in full within five years.

The minimum registered capital of a limited liability company shall be Rmb30,000. If laws or administrative regulations provide for a higher minimum registered capital for a limited liability company, such provisions shall prevail.

Article 27: A shareholder may make his or her capital contribution in cash or in the form, at a certain value, of such non-monetary property as physical objects, intellectual property, leaseholds, etc. whose monetary value can be appraised and that may be transferred in accordance with the law. However, property that laws or administrative regulations specify may not be used as a capital contribution may not be so used.

Non-monetary property contributed as capital shall be appraised and valued, and such property verified. Such contributions may not be over-valued or under-valued. Where laws or administrative regulations provide for the appraisal and valuation of such property, such provisions shall prevail.

The cash capital contributions of all the shareholders may not be less than 30% of the registered capital of a limited liability company.

Article 28: Each shareholder shall on schedule make in full the capital contribution set forth in the company's articles of association for which it has subscribed. If a shareholder makes its capital contribution in cash, it shall deposit the full amount of such capital contribution in cash in the bank account opened by the limited liability company. If capital is contributed in the form of non-monetary property, the transfer procedures for the property rights therein shall be handled according to law.

Shareholders that fail to make the capital contributions in accordance with the preceding paragraph shall, in addition to making in full the contributions to the company, be liable for breach of contract toward the shareholders that have made their capital contributions in full on schedule.

Article 29: After a shareholder has made its capital contribution, such contribution must be verified by a lawfully established investment verification institution, which shall issue a certificate.

Article 30: After the initial capital contributions of the shareholders have been verified by a lawfully established investment verification institution, the representative designated by all the shareholders or an agent jointly appointed by them shall apply for registration of establishment to the company registry by submitting the company's registration application, articles of association, the capital verification certificates, etc.

Article 31: If it is discovered, after the establishment of a limited liability company, that the actual value of non-monetary property contributed as capital for the establishment of

the company is markedly lower than the value specified in the company's articles of association, the shareholder that made such contribution shall make up the shortfall. The other shareholders at the time of the company's establishment shall bear joint and several liability for such shortfall.

Article 32: After a limited liability company has been established, it shall issue investment certificates to its shareholders.

Investment certificates shall specify the following particulars:

- (1) the name of the company;
- (2) the date of establishment of the company;
- (3) the registered capital of the company;
- (4) the name of the shareholder and the amount and date of its capital contribution; and
- (5) the serial number and date of issue of the investment certificate.

The company's seal shall be affixed to investment certificates.

Article 33: Limited liability companies shall establish registers of shareholders, in which the following particulars shall be recorded:

- (1) the names and domiciles of the shareholders;
- (2) the amounts of capital contributions of the shareholders; and
- (3) the serial numbers of the investment certificates.

The shareholders recorded in the register of shareholders may exercise their shareholder rights pursuant to such register.

A company shall register the names of its shareholders and their capital contributions with the company registry. In the event of a change in the registered particulars, the procedures for the amendment of registration shall be carried out. Particulars that have not been registered or for which registration amendment procedures have not been carried out may not be used as a defence against a third party.

Article 34: Shareholders shall have the right to review and take copies of the company's articles of association, minutes of shareholders' meetings, board resolutions, resolutions of the supervisory board and financial accounting reports.

A shareholder may ask to review the company's accounting books. If a shareholder wishes to review the company's accounting books, he or she shall submit a written request to the company stating his or her reasons. If the company has a reasonable basis to believe that the shareholder wishes to review the accounting books for other than legitimate reasons that may cause harm to the company's lawful interests, it may refuse to provide them for the shareholder's review and shall give the shareholder a written

response explaining its reason within 15 days of the date of submission of the written request by the shareholder. If the company refuses to provide the accounting books for his or her review, the shareholder may petition a people's court to require the company to provide him or her the accounting books for review.

Article 35: Shareholders shall be entitled to dividends in proportion to their paid-in capital contributions, and when the company increases its capital, they shall have the right to subscribe for capital contributions on a priority basis in proportion to their paid-in capital contributions, unless all of the shareholders decide that dividends will not be shared in proportion to their capital contributions or that the subscription for capital contributions on a priority basis will not be handled in proportion to their capital contributions.

Article 36: After a company is established, the shareholders may not surreptitiously withdraw their capital contributions.

Section Two: Organizational Structure

Article 37: The shareholders' meeting of a limited liability company shall be composed of all the shareholders. The shareholders' meeting shall be the organ of authority of the company and shall exercise its functions and powers pursuant to this Law.

Article 38: The shareholders' meeting shall exercise the following functions and powers:

- (1) to decide on the business policy and investment plans of the company;
- (2) to elect and replace directors and supervisors other than those who are representatives of the staff and workers, and decide on matters relating to their remuneration;
- (3) to consider and approve reports of the board of directors;
- (4) to consider and approve reports of the supervisory board or supervisors;
- (5) to consider and approve the company's proposed annual financial budgets and final accounts;
- (6) to consider and approve the company's profit distribution plans and plans for making up losses;
- (7) to pass resolutions on the increase or reduction of the company's registered capital;
- (8) to pass resolutions on the issue of corporate bonds;
- (9) to pass resolutions on matters such as the merger, division, restructuring, dissolution or liquidation of the company;
- (10) to amend the articles of association of the company; and

(11) other functions and powers specified in the company's articles of association.

If the shareholders indicate their unanimous approval in writing for any of the matters in the preceding paragraph, no meeting of the shareholders need be convened and the decision shall be made directly, and the decision documents shall be signed and sealed by all of the directors.

Article 39: The first shareholders' meeting shall be convened and presided over by the shareholder that made the largest capital contribution, and shall exercise its functions and powers pursuant to this Law.

Article 40: Shareholders' meetings shall be divided into regular meetings and extraordinary meetings.

Regular meetings shall be convened on time in accordance with the company's articles of association. The convening of an extraordinary meeting may be proposed by shareholders representing at least one-tenth of the voting rights, or by at least one-third of the directors, or by the supervisory board or, in the case of a company that has not established a supervisory board, the supervisor(s).

Article 41: If a limited liability company has established a board of directors, shareholders' meetings shall be convened by the board of directors and presided over by the chairman of the board. If the chairman of the board cannot or fails to perform his or her duty, such meeting shall be presided over by the vice chairman(men) of the board. If the vice chairman(men) of the board cannot or fails to perform his or her duty, the meeting shall be presided over by the director jointly elected by a majority of the directors.

If a limited liability company has not established a board of directors, shareholders' meetings shall be convened and presided over by the executive director.

If the board of directors or the executive director cannot or fails to perform its/his/her duty of convening a shareholders' meeting, such meeting shall be convened and presided over by the supervisory board or, in the case of a company that has not established a supervisory board, the supervisor(s). If the supervisory board or supervisor(s) fail(s) to convene and preside over such a meeting, shareholders representing at least 10% of the voting rights may themselves convene and preside over such a meeting.

Article 42: All shareholders shall be notified 15 days prior to the convening of a shareholders' meeting unless otherwise specified in the company's articles of association or agreed by all shareholders.

The shareholders' meeting shall keep minutes of their decisions on the matters under their consideration. The shareholders attending a meeting shall sign the minutes of the meeting.

Article 43: Shareholders shall exercise voting rights at shareholders' meetings in proportion to their capital contributions unless otherwise specified in the company's articles of association.

Article 44: The method of debate and voting procedure of the shareholders' meeting shall be provided for in the company's articles of association, except where provided for by this Law.

Resolutions of a shareholders' meeting on the amendment of the company's articles of association, the increase or reduction of the registered capital, or the merger, division, dissolution or restructuring of the company, must be adopted by shareholders representing at least two-thirds of the voting rights.

Article 45: If a limited liability company has a board of directors, it shall be composed of 3 to 13 members, unless otherwise specified in Article 51 hereof.

The members of the board of directors of a limited liability company invested in and established by at least two state-owned enterprises or at least two other state-owned investment entities, shall include representatives of the staff and workers of the company. The members of the board of directors of other limited liability companies may also include representatives of the staff and workers of the company. The staff and workers' representatives on the board of directors shall be democratically elected by the staff and workers of the company through the congress of the staff and workers, the staff and workers' meeting or otherwise.

The board of directors shall have a chairman of the board, and may have vice chairmen of the board. The method of appointment of the chairman and vice chairman(men) of the board shall be specified in the company's articles of association.

Article 46: The term of service of the directors shall be specified in the company's articles of association, but each term may not exceed three years. At the expiration of his or her term of service, a director may serve consecutive terms if re-elected.

If the number of members of the board of directors falls below the quorum due to a failure to timely elect a director upon the expiration of a director's term of service or due to the resignation by a director during his or her term of service, the incumbent director shall continue to perform his or her duties as director in accordance with laws, administrative regulations and the company's articles of association until such time as a replacement is elected and takes up his or her position.

Article 47: The board of directors shall be accountable to the shareholders' meeting and shall exercise the following functions and powers:

- (1) to convene shareholders' meetings and to report on its work to the shareholders' meeting;
- (2) to implement the resolutions of the shareholders' meeting;
- (3) to decide on the business plans and investment plans of the company;
- (4) to formulate the proposed annual financial budgets and final accounts of the company;

- (5) to formulate the profit distribution plans and plans for making up losses of the company;
- (6) to formulate plans for the increase or reduction of the registered capital of the company and for issue of corporate bonds;
- (7) to formulate plans for the merger, division, restructuring and dissolution of the company;
- (8) to decide on the establishment of the company's internal management organization;
- (9) to decide on the engagement or dismissal of the manager of the company and matters relating to his or her remuneration, and decide on the engagement or dismissal of the deputy manager(s) and the financial officer of the company as proposed by the manager, and matters relating to their remuneration;
- (10) to formulate the basic management system of the company; and
- (11) other functions and powers specified in the company's articles of association.

Article 48: Meetings of the board of directors shall be convened and presided over by the chairman of the board. If the chairman of the board is unable or fails to perform his or her duty, the vice chairman(men) of the board shall convene and preside over the meeting. If the vice chairman(men) of the board is unable or fails to perform his or her duty, a director jointly selected by a majority of the directors shall convene and preside over the meeting.

Article 49: The method of debate and voting procedure of the board of directors shall be provided for in the company's articles of association, except where provided by this Law.

The board of directors shall keep minutes of its decisions on the matters under its consideration. The directors attending a meeting shall sign the minutes of the meeting.

When casting votes on board resolutions, each director shall have one vote.

Article 50: A limited liability company may have a manager, who shall be engaged or dismissed by the decision of the board of directors. The manager shall be accountable to the board of directors and shall exercise the following functions and powers:

- (1) to be in charge of the production, operation and management of the company, and to organize the implementation of the resolutions of the board of directors;
- (2) to organize the implementation of the company's annual business plans and investment plans;
- (3) to draft the plan for establishment of the company's internal management organization;
- (4) to draft the company's basic management system;

- (5) to formulate the specific rules and regulations of the company;
- (6) to request the engagement or dismissal of the company's deputy manager(s) and financial officer;
- (7) to decide on the engagement or dismissal of management personnel other than those to be engaged or dismissed by the decision of the board of directors; and
- (8) other functions and powers granted by the board of directors.

Where the company's articles of association provide otherwise in respect of the functions and powers of the manager, such provisions shall prevail.

The manager shall attend meetings of the board of directors as a non-voting attendee.

Article 51: Limited liability companies with a relatively small number of shareholders or that are relatively small in scale may have an executive director, without establishing a board of directors. The executive director may concurrently serve as manager.

The functions and powers of an executive director shall be provided for in the company's articles of association.

Article 52: If a limited liability company has a supervisory board, it shall have no fewer than three members. Limited liability companies with a relatively small number of shareholders or that are relatively small in scale may have one to two supervisors, without establishing a supervisory board.

The supervisory board shall be composed of shareholders' representatives and an appropriate proportion of representatives of the company's staff and workers, which shall not be less than one third. The specific proportion shall be specified in the company's articles of association. The representatives of the staff and workers on the supervisory board shall be democratically elected by the staff and workers of the company through the congress of the staff and workers, the staff and workers' meeting or otherwise.

The supervisory board shall have a chairman who shall be elected by a majority of all the supervisors. The chairman of the supervisory board shall convene and preside over meetings of the supervisory board. If the chairman of the supervisory board is unable or fails to perform his or her duty, a supervisor jointly selected by a majority of the supervisors shall convene and preside over the meeting.

Directors and senior officers may not concurrently serve as supervisors.

Article 53: The term of service of a supervisor shall be three years. At the expiration of his or her term of service, a supervisor may serve consecutive terms if re-elected.

If the number of members of the supervisory board falls below the quorum due to a failure to timely elect a supervisor upon the expiration of a supervisor's term of service or due to the resignation by a supervisor during his or her term of service, the incumbent supervisor shall continue to perform his or her duties as supervisor in accordance with

laws, administrative regulations and the company's articles of association until such time as a replacement is elected and takes up his or her position.

Article 54: The supervisory board or, in the case of a company that has not established a supervisory board, the supervisor(s) shall exercise the following functions and powers:

- (1) to examine the company's financial affairs;
- (2) to supervise the directors and senior officers in the performance of their company duties and to propose the dismissal of directors or senior officers who violate laws or administrative regulations or breach the company's articles of association or resolutions of the shareholders' meeting;
- (3) if an act of a director or senior officer is detrimental to the interests of the company, to require him or her to rectify such act;
- (4) to propose the holding of extraordinary shareholders' meetings and, in the event that the board of directors fails to perform its duty of convening and presiding over a shareholders' meeting, to convene and preside over such a meeting;
- (5) to submit motions to a shareholders' meeting;
- (6) to institute legal proceedings in a people's court against a director or senior officer in accordance with Article 152 hereof; and
- (7) other functions and powers specified in the company's articles of association.

Article 55: Supervisors may attend meetings of the board of directors as non-voting attendees and raise questions and make suggestions in respect of matters that are the subject of board resolutions.

If the supervisory board or, in the case of a company that has not established a supervisory board, a supervisor discovers irregularities in the company's operations, it/he/she may conduct an investigation and, if necessary, engage, at the expense of the company, an accounting firm, etc. to assist in its/his/her work.

Article 56: Meetings of the supervisory board shall be convened at least once a year and supervisors may propose the convening of an extraordinary meeting of the supervisory board.

The method of debate and the voting procedure of the supervisory board shall be specified in the company's articles of association, except where provided for in this Law.

Resolutions of the supervisory board shall require a majority of the supervisors for adoption.

Minutes shall be kept of the decisions made on the matters under consideration at a meeting of the supervisory board and shall be signed by the supervisors who attended the meeting.

Article 57: The expenses required by the supervisory board or, in the case of a company that has not established a supervisory board, the supervisor(s) in the exercise of its/his/her/their functions and powers shall be borne by the company.

Section Three: Special Provisions Governing One Person Limited Liability Companies

Article 58: The provisions of this Section shall apply to the establishment and organizational structure of one person limited liability companies. For any matters not covered in this Section, the provisions of Sections One and Two of this Part shall apply.

For the purposes of this Law, the term "one person limited liability company" means a limited liability company with only one natural person shareholder or one legal person shareholder.

Article 59: The minimum registered capital of a one person limited liability company shall be Rmb100,000. The shareholder shall make his or her capital contribution specified in the company's articles of association in full in one lump sum.

A natural person may invest in and establish only one one person limited liability company. Such one person limited liability company may not invest in and establish a new one person limited liability company.

Article 60: The registration of a one person limited liability company shall specify that the company is wholly-owned by a natural person or a legal person, and the same shall be specified on the company's business licence.

Article 61: The articles of association of a one person limited liability company shall be formulated by the shareholder.

Article 62: A one person limited liability company shall not have a shareholders' meeting. When the shareholder makes a decision on any of the matters specified in the first paragraph of Article 38 hereof, he or she shall do so in writing, and after signing the same he or she shall deposit it with the company.

Article 63: A one person limited liability company shall prepare a financial accounting report at the end of each accounting year that shall be audited by an accounting firm.

Article 64: If the shareholder of a one person limited liability company is unable to prove that the company's property is independent from his or her own personal property, he or she shall bear joint and several liability for the company's debts.

Section Four: Special Provisions Governing Wholly State-owned Companies

Article 65: The provisions of this Section shall apply to the establishment and organizational structure of wholly state-owned companies. For any matters not covered in this Section, the provisions of Sections One and Two of this Part shall apply.

For the purposes of this Law, the term "wholly state-owned company" means a limited liability company in which the state is the only investor and the duties as investor of

which are performed by the state-owned asset supervision and administration authority of the people's government at the same level as the State Council or the local people's government by whom it was appointed.

Article 66: The articles of association of wholly state-owned companies shall be formulated by the state-owned asset supervision and administration authority, or formulated by the board of directors and submitted to the state-owned asset supervision and administration authority for approval.

Article 67: A wholly state-owned company shall not have a shareholders' meeting. The state-owned asset supervision and administration authority shall exercise the functions and powers of a shareholders' meeting. The state-owned asset supervision and administration authority may authorize the company's board of directors to exercise part of the functions and powers of a shareholders' meeting and to decide on the major matters of the company. However, the merger, division, dissolution, increase or decrease of registered capital, and the issue of corporate bonds of and by the company must be decided on by the state-owned asset supervision and administration authority. Mergers, division, dissolution and applications for bankruptcy of important wholly state-owned companies shall be examined by the state-owned asset supervision and administration authority and submitted to the people's government of the same level for approval.

"Important wholly state-owned companies" referred to in the preceding paragraph shall be determined in accordance with State Council provisions.

Article 68: A wholly state-owned company shall have a board of directors, which shall exercise its functions and powers in accordance with Articles 47 and 67 hereof. Directors shall serve a term not exceeding three years. The board of directors shall include representatives of the company's staff and workers.

The members of the board of directors shall be appointed by the state-owned asset supervision and administration authority. However, the representatives of the staff and workers on the board of directors shall be elected by the congress of the company's staff and workers.

The board of directors shall have a chairman of the board, and may have vice chairmen of the board. The chairman of the board and the vice chairman(men) of the board shall be designated by the state-owned asset supervision and administration authority from among the members of the board of directors.

Article 69: A wholly state-owned company shall have a manager, who shall be engaged or dismissed by the board of directors. The manager shall exercise functions and powers in accordance with Article 50 hereof.

Subject to approval by the state-owned asset supervision and administration authority, a member of the board of directors may concurrently serve as manager.

Article 70: The chairman of the board, vice chairman(men) of the board, directors or senior officers of a wholly state-owned company may not concurrently hold a position in another limited liability company, company limited by shares or economic

organization without the approval of the state-owned asset supervision and administration authority.

Article 71: The supervisory board of a wholly state-owned company shall have no fewer than five members, among whom not less than one-third shall be representatives of the staff and workers. The specific percentage shall be specified in the company's articles of association.

The members of the supervisory board shall be appointed by the state-owned asset supervision and administration authority. However, the representatives of the staff and workers on the supervisory board shall be elected by the congress of the company's staff and workers. The chairman of the supervisory board shall be designated by the state-owned asset supervision and administration authority from among the members of the supervisory board.

The supervisory board shall exercise the functions and powers specified in Items (1) to (3) of Article 54 hereof and other functions and powers specified by the State Council.

PART THREE: TRANSFER OF THE EQUITY OF LIMITED LIABILITY COMPANIES

Article 72: The shareholders of a limited liability company may transfer all or part of the company's equity among themselves.

A shareholder wishing to transfer his or her equity to a party other than another shareholder shall require the consent of a majority of the other shareholders. The shareholder shall notify the other shareholders of the particulars of his or her equity transfer in writing and solicit their consent. If the other shareholders fail to reply within 30 days of the date of receipt of the written notice, they shall be deemed to consent to the transfer. If a majority of the other shareholders does not consent to the transfer, those shareholders who withheld their consent shall purchase the equity to be transferred. If a shareholder fails to make the purchase, he or she shall be deemed to have consented to the transfer.

All things being equal, the other shareholders shall have a pre-emptive right of purchasing the equity whose transfer they have consented to. If two or more shareholders assert their pre-emptive right of purchase, they shall hold consultations to determine the respective percentages that they will purchase. If the consultations are unsuccessful, they shall exercise their right of pre-emptive purchase in proportion to their respective capital contributions at the time of the transfer.

If the company's articles of association provide otherwise in respect of equity transfers, such provisions shall prevail.

Article 73: If a people's court imposes an equity transfer on a shareholder in accordance with the enforcement procedures specified in laws, it shall notify the company and all its shareholders thereof and, all things being equal, the other shareholders shall have a pre-emptive right of purchase. If a shareholder fails to exercise his or her pre-emptive right of purchase within 20 days of the date of the notice from the people's court, he or she shall be deemed to have relinquished his or her pre-emptive right of purchase.

Article 74: After an equity transfer has been effected in accordance with Article 72 or 73 hereof, the company shall cancel the original shareholder's investment certificate, issue an investment certificate to the new shareholder and amend the provisions of the company's articles of association and the register of shareholders concerning the relevant shareholders and their capital contributions accordingly. Such amendment of the company's articles of association shall not require a vote of the shareholders' meeting.

Article 75: A shareholder who votes against a relevant resolution at a meeting of the shareholders may request that the company purchase his or her equity at a reasonable price if:

- (1) the company has not distributed profits to the shareholder for five consecutive years where the company has been profitable during those five years and the shareholder satisfies the conditions for the distribution of profits specified in this Law;
- (2) the company merges, is divided, or transfers its main property; or
- (3) the term of operation specified in the company's articles of association expires or other grounds for dissolution as specified in the articles of association arise and the shareholders' meeting resolves to amend the articles of association to extend the life of the company.

If the shareholder and the company fail to reach an agreement on the purchase of the shareholder's equity within 60 days of the date on which the shareholders' meeting adopted the resolution, the shareholder may institute legal proceedings in a people's court within 90 days of the date on which the shareholders' meeting adopted the resolution.

Article 76: Upon the death of a natural person shareholder, his or her lawful successor may succeed to his or her qualifications as shareholder, unless otherwise specified in the company's articles of association.

PART FOUR: ESTABLISHMENT AND ORGANIZATIONAL STRUCTURE OF COMPANIES LIMITED BY SHARES

Section One: Establishment

Article 77: The following conditions must be fulfilled for the establishment of a company limited by shares:

- (1) the number of promoters conforms to the statutory number;
- (2) the share capital subscribed for by the promoters and raised reaches the statutory minimum amount of capital;
- (3) the share issue and preparation matters conform to laws;

(4) if the company is established through a share offer, the company's articles of association have been formulated by the promoters and adopted at the inaugural meeting;

(5) the company has a name, and an organizational structure established in accordance with the requirements for companies limited by shares; and

(6) the company has a domicile.

Article 78: Companies limited by shares may be established by means of promotion or by means of share offer.

The term "establishment by means of promotion" means establishment of a company by means of subscription by the promoters for all the shares to be issued by the company.

The term "establishment by means of share offer" means establishment of a company by means of subscription by the promoters for a portion of the shares to be issued by the company, and offer of the balance to the public or specific subscribers.

Article 79: For the establishment of a company limited by shares, there shall be at least 2 but less than 200 promoters, of which at least half shall have their domiciles in China.

Article 80: The promoters of a company limited by shares shall undertake the matters associated with the preparation for the establishment of the company.

The promoters shall execute a promoters' agreement, specifying their respective rights and obligations in the process of establishing the company.

Article 81: If a company limited by shares is established by promotion, its registered capital shall be the total share capital subscribed for by all of the promoters and registered with the company registry. The initial contribution of capital by all of the company's promoters may not be less than 20% of the registered capital. The remainder shall be paid in full by the promoters within two years of the date of establishment of the company. In the case of an investment company, it may make payment in full within five years. No share offer may be made to others until the registered capital has been paid in full.

If a company limited by shares is established by way of a share offer, its registered capital shall be the total paid-in share capital as registered with the company registry.

The minimum registered capital of a company limited by shares shall be Rmb5 million. If laws or administrative regulations provide for a higher minimum registered capital for a company limited by shares, such provisions shall prevail.

Article 82: The articles of association of a company limited by shares shall specify the following matters:

(1) the name and domicile of the company;

(2) the scope of business of the company;

- (3) the method of establishment of the company;
- (4) the total number of shares of the company, the amount of each share and the registered capital;
- (5) the names of, the number of shares subscribed for by, and the methods and time of capital contributions by, the promoters;
- (6) the composition, functions, powers, term and rules of procedure of the board of directors;
- (7) the legal representative of the company;
- (8) the composition, functions, powers, term and rules of procedure of the supervisory board;
- (9) the method of distribution of company profit;
- (10) the reasons for dissolution of the company and method of liquidation;
- (11) methods for notices and announcements of the company; and
- (12) other matters that a shareholders' meeting considers necessary to be specified.

Article 83: Article 27 hereof shall apply to the method of capital contribution by the promoters.

Article 84: If a company limited by shares is established through promotion, the promoters shall subscribe in full in writing for the shares that they are to subscribe for as specified in the company's articles of association. If a capital contribution is to be made in one lump sum, the entire amount shall be paid in promptly. If a capital contribution is to be paid in instalments, the first instalment shall be paid in promptly. If a capital contribution is to be made in the form of non-monetary property, the procedures for the transfer of title thereto shall be carried out in accordance with the law.

If a promoter fails to make its capital contribution in accordance with the preceding paragraph, it shall bear liability for breach of contract in accordance with the promoters' agreement.

Once the promoters have made their initial capital contributions, the board of directors and supervisory board shall be elected and the board of directors shall apply for registration of establishment by submitting to the company registry the company's articles of association, the investment certificates issued by a lawfully established investment verification institution and the other documents specified in laws and administrative regulations.

Article 85: If a company limited by shares is established by means of share offer, the promoters may not subscribe for less than 35% of the total number of company shares,

unless otherwise provided by laws or administrative regulations, in which case such provisions shall prevail.

Article 86: When the promoters offer shares to the public, they must publish the share prospectus and prepare subscription forms. The subscription forms shall specify the particulars listed in Article 87 hereof. The subscribers shall enter the number of shares subscribed for, the amount therefor and their domiciles on the forms, and shall sign and seal the same. Subscribers shall pay the subscription monies based on the number of shares they subscribed for.

Article 87: A share prospectus shall have the company's articles of association formulated by the promoters attached, and shall specify the following:

- (1) the number of shares subscribed for by the promoters;
- (2) the face value and issue price of each share;
- (3) the total number of bearer shares issued;
- (4) the purpose for which the funds raised will be used;
- (5) the rights and obligations of subscribers; and
- (6) the term of the share offer and a statement to the effect that subscribers may withdraw their share subscriptions if not all the shares are taken up within the time limit.

Article 88: When promoters offer shares to the public, the shares shall be distributed by a lawfully established securities house, with which a distribution agreement shall be executed.

Article 89: If promoters are to offer shares to the public, they shall conclude an agreement with a bank on the collection of subscription monies on behalf of the company.

The bank accepting subscription monies on behalf of the company shall accept and keep the subscription monies on behalf of the company in accordance with the agreement, and issue receipts to subscribers paying their subscription monies. In addition, the bank shall bear an obligation to issue certification of receipt of subscription monies to the relevant authority.

Article 90: After payment in full of the subscription monies for a share issue, investment verification shall be carried out by a lawfully established investment verification organization, which shall issue certificates. The promoters shall convene and preside over the inaugural meeting of the company within 30 days. The inaugural meeting shall be composed of subscribers.

If the shares issued are not fully taken up by the cut off time specified in the share prospectus or if the promoters fail to convene the inaugural meeting within 30 days after payment in full of the subscription monies for the share issue, the subscribers may claim

a refund from the promoters according to the subscription monies paid plus bank deposit interest calculated for the same period.

Article 91: The promoters shall notify all subscribers or make an announcement 15 days prior to convening the inaugural meeting. The inaugural meeting may be held only if attended by subscribers representing more than half of the total number of shares.

The following functions and powers shall be exercised at an inaugural meeting:

- (1) to consider the promoters' report concerning preparation of the establishment of the company;
- (2) to approve the articles of association of the company;
- (3) to elect the members of the board of directors;
- (4) to elect the members of the supervisory board;
- (5) to examine and approve the establishment expenses of the company;
- (6) to examine and approve the value at which promoters substituted property for subscription monies; and
- (7) if an event of *force majeure* or a major change in business conditions occurs, directly affecting the establishment of the company, a resolution not to establish the company may be passed.

For the inaugural meeting to pass resolutions concerning the matters listed in the preceding paragraph, they must be adopted by more than half of the voting rights held by the subscribers in attendance.

Article 92: After promoters and subscribers pay their subscription monies or make their capital contributions as substitutes for subscription monies, they may not withdraw their share capital, except where the shares are not fully taken up on time, the promoters fail to convene the inaugural meeting on time, or a resolution not to establish the company is adopted at the inaugural meeting.

Article 93: The board of directors shall, within 30 days after the end of the inaugural meeting, submit the following documents and apply for registration of establishment to the company registry:

- (1) the application for company registration;
- (2) the minutes of the inaugural meeting;
- (3) the articles of association of the company;
- (4) the investment verification certificates;

- (5) the appointment documents and proofs of identity of the legal representative, directors and supervisors;
- (6) the proof of the legal person or natural person status of the promoter; and
- (7) the proof of domicile of the company.

If a company limited by shares is established by means of share offer and is to offer shares to the public, it shall also submit the verification document from the State Council securities regulatory authority to the company registry.

Article 94: If a promoter fails to pay in full its capital contribution in accordance with the company's articles of association after the establishment of the company limited by shares, it shall make up the shortfall. The other promoters shall bear joint and several liability for such shortfall.

If it is discovered, after the establishment of a company limited by shares, that the actual value of non-monetary property contributed as capital for the establishment of the company is markedly lower than the value specified in the company's articles of association, the promoter that made such contribution shall make up the shortfall. The other promoters shall bear joint and several liability for such shortfall.

Article 95: The promoters of a company limited by shares shall bear the following liabilities:

- (1) if the company cannot be established, joint and several liability for the debts and expenses occasioned by the establishment activities;
- (2) if the company cannot be established, joint and several liability for refunding the subscription monies already paid by subscribers plus bank deposit interest calculated for the same period; and
- (3) if during the course of establishment of the company, the company's interests are harmed due to the fault of the promoters, liability toward the company for compensation.

Article 96: If a limited liability company is to be converted into a company limited by shares, the translated total paid-in share capital may not be greater than the company's net assets. If a limited liability company is to be converted into a company limited by shares and a public share offer is to be made to increase its capital, such share offer shall be carried out in accordance with the law.

Article 97: A company limited by shares shall keep at its office the company's articles of association, register of shareholders, corporate bond counterfoils, minutes of shareholders' general meetings and of meetings of the board of directors and the supervisory board, and financial accounting reports.

Article 98: Shareholders shall have the right to review the company's articles of association, register of shareholders, corporate bond counterfoils, minutes of shareholders' general meetings, resolutions of the board of directors and the supervisory

board, and financial accounting reports, and to make suggestions or pose questions about the company's operations.

Section Two: Shareholders' General Meeting

Article 99: The shareholders' general meeting of a company limited by shares shall be formed by all the shareholders, which shall be the organ of authority of the company and shall exercise its functions and powers in accordance with this Law.

Article 100: The provisions of the first paragraph of Article 38 hereof concerning the functions and powers of the shareholders' meeting of limited liability companies shall apply to shareholders' general meetings of companies limited by shares.

Article 101: The annual meeting of the shareholders' general meeting shall be held once every year. An extraordinary shareholders' general meeting shall be convened within two months of the occurrence of any of the following circumstances:

- (1) the number of directors is less than the number provided for in this Law or less than two-thirds of the number prescribed in the articles of association of the company;
- (2) the losses of the company that have not been made up reach one-third of the total paid-in share capital;
- (3) it is requested by a shareholder alone or shareholders together who hold shares accounting for at least 10% of the company's shares;
- (4) the board of directors considers it necessary;
- (5) the supervisory board proposes that such a meeting be held; or
- (6) other circumstances as specified in the company's articles of association.

Article 102: Shareholders' general meetings shall be convened and presided over by the chairman of the board. If the chairman of the board is unable or fails to perform his or her duty, the meeting shall be presided over by the vice chairman(men) of the board. If the vice chairman(men) of the board is unable or fails to perform his or her duty, the director jointly selected by a majority of the directors shall preside over the meeting.

If the board of directors is unable or fails to perform its duty of convening a shareholders' general meeting, the meeting shall promptly be convened and presided over by the supervisory board. If the supervisory board fails to convene and preside over the meeting, a shareholder alone or shareholders together who have held shares accounting for at least 10% of the company's shares for at least 90 days in succession may himself/herself/themselves convene and preside over such a meeting.

Article 103: All of the shareholders shall be notified of the time and place of and the matters to be considered at a shareholders' general meeting 20 days before such meeting is convened. All of the shareholders shall be notified 15 days in advance of an extraordinary shareholders' general meeting. If the company has issued bearer shares,

the time and place of and the matters to be considered at the shareholders' general meeting shall be publicly announced 30 days before such meeting is convened.

A shareholder alone or shareholders together accounting for at least 3% of the company's shares may bring up an extempore motion and submit it to the board of directors 10 days prior to the convening of a shareholders' general meeting. The board of directors shall notify the other shareholders thereof within two days of receipt of such motion and submit the same to the shareholders' general meeting for consideration. The subject of an extempore motion shall fall within the purview of the shareholders' general meeting and shall contain an explicit subject of discussion and specific matters for resolution.

The shareholders' general meeting may not pass resolutions on matters not specified in the notices described in the preceding two paragraphs.

If holders of bearer shares attend a shareholders' general meeting, they shall deposit their share certificates with the company for a period commencing five days before the meeting is held until the meeting is adjourned.

Article 104: Shareholders attending a shareholders' general meeting shall have one vote for each share that they hold. However, no voting rights shall attach to the company's shares held by the company itself.

Resolutions of a shareholders' general meeting shall require a majority of the voting rights held by the shareholders in attendance for adoption. However, resolutions of a shareholders' general meeting concerning the amendment of the company's articles of association, the increase or reduction of registered capital, the merger, division, dissolution or restructuring of the company shall require at least two-thirds of the voting rights held by the shareholders in attendance for adoption.

Article 105: If this Law or the company's articles of association specifies/specify that such matters as the transfer or acquisition of major assets by the company, the provision of security for a third party, etc. requires a resolution of the shareholders' general meeting, the board of directors shall promptly convene a shareholders' general meeting for a vote on the aforementioned matters.

Article 106: When electing directors or supervisors, the shareholders' general meeting may implement a cumulative voting system pursuant to the company's articles of association or a resolution of the shareholders' general meeting.

For the purposes of this Law, the term 'cumulative voting system' means a system wherein each share, when a vote is taken to elect directors or supervisors at a shareholders' general meeting, carries a number of voting rights equivalent to the number of directors or supervisors to be elected, and a shareholder may cluster his or her votes.

Article 107: A shareholder may commission a proxy to attend a shareholders' general meeting on his or her behalf. The proxy shall submit the shareholder's power of attorney to the company and shall exercise voting rights within the scope of authorization.

Article 108: Minutes shall be kept of the decisions made on the matters under consideration at a shareholders' general meeting, and the person presiding over the meeting and the directors in attendance shall sign such minutes. Minutes of meetings shall be preserved together with the sign-in book for attending shareholders and the powers of attorney of attending proxies.

Section Three: Board of Directors, and Manager

Article 109: A company limited by shares shall have a board of directors of 5 to 19 members.

Representatives of the company's staff and workers may be included among the members of the board of directors. Representatives of the staff and workers on the board of directors shall be democratically elected by the staff and workers of the company through the congress of the staff and workers, the staff and workers' meeting or otherwise.

The provisions of Article 46 hereof concerning the term of service of a director of a limited liability company shall apply to a director of a company limited by shares.

The provisions of Article 47 hereof concerning the functions and powers of the board of directors of a limited liability company shall apply to the board of directors of a company limited by shares.

Article 110: A board of directors shall have a chairman of the board, and may have vice chairmen of the board. The chairman of the board and vice chairman(men) of the board shall be elected by the affirmative vote of more than half of all the directors.

The chairman of the board shall convene and preside over meetings of the board of directors and examine the implementation of board resolutions. The vice chairman(men) of the board shall assist the chairman of the board in his or her work and when the chairman of the board is unable or fails to perform his or her duties, the vice chairman(men) of the board shall perform such duties. If the vice chairman(men) of the board is unable or fails to perform such duties, they shall be performed by the director jointly selected by a majority of the directors.

Article 111: Meetings of the board of directors shall be held at least twice a year and all of the directors and supervisors shall be notified 10 days before each meeting is held.

An extraordinary meeting of the board of directors may be convened if proposed by shareholders representing at least one-tenth of the voting rights or by at least one-third of the directors or by the supervisory board. The chairman of the board shall convene and preside over such a meeting within 10 days of receipt of the proposal.

A different method of giving notification for the convening of an extraordinary meeting of the board of directors and the time limit for such notice may be determined.

Article 112: Meetings of the board of directors may be held only if half or more of the directors attend. Resolutions of the board of directors must be adopted by the affirmative vote of more than half of all the directors.

When casting votes on board resolutions, each director shall have one vote.

Article 113: Meetings of the board of directors shall be attended by the directors in person. If a director for any reason cannot attend, he or she may commission another director in writing with attending the board meeting on his or her behalf. Such a power of attorney shall specify the scope of authorization.

The board of directors shall keep minutes of its decisions on the matters under its consideration. The directors attending a meeting shall sign the minutes of the meeting.

Directors shall bear liability for the resolutions of the board of directors. If a resolution of the board of directors violates laws, administrative regulations, the company's articles of association or the resolutions of the shareholders' general meeting, causing the company to incur serious losses, the directors who took part in such resolution shall be liable to the company for damages. However, if a director is proved to have expressed his or her opposition to such resolution when it was put to the vote, and such opposition is recorded in the minutes of the meeting, such director may be released from such liability.

Article 114: A company limited by shares shall have a manager, who shall be engaged or dismissed by the decision of the board of directors.

The provisions of Article 50 hereof concerning the functions and powers of the manager of a limited liability company shall apply to the manager of a company limited by shares.

Article 115: The board of directors of a company may decide that a member of the board of directors shall serve concurrently as the manager.

Article 116: A company may not provide loans to its directors, supervisors or senior officers either directly or through a subsidiary.

Article 117: A company shall regularly disclose to its shareholders details of the remuneration obtained from the company by its directors, supervisors and senior officers.

Section Four: Supervisory Board

Article 118: A company limited by shares shall have a supervisory board of not less than three members.

The supervisory board shall be composed of shareholders' representatives and an appropriate proportion of representatives of the company's staff and workers, which shall not be less than one-third. The specific proportion shall be provided for in the company's articles of association. The staff and workers' representatives on the supervisory board shall be democratically elected by the staff and workers of the company through the congress of the staff and workers, the staff and workers' meeting or otherwise.

The supervisory board shall have a chairman, and may have vice chairmen, who shall be elected by a majority of all the supervisors. The chairman of the supervisory board shall convene and preside over meetings of the supervisory board. If the chairman of the supervisory board is unable or fails to perform his or her duty, the vice chairman(men) shall convene and preside over such meeting. If the vice chairman(men) of the supervisory board is unable or fails to perform his or her duty, a supervisor jointly selected by a majority of the supervisors shall convene and preside over such meeting.

Directors and senior officers may not concurrently serve as supervisors.

The provisions of Article 53 hereof concerning the term of service of a supervisor of a limited liability company shall apply to a supervisor of a company limited by shares.

Article 119: The provisions of Articles 54 and 55 hereof concerning the functions and powers of the supervisory board of a limited liability company shall apply to the supervisory board of a company limited by shares.

The expenses required by the supervisory board in exercising its functions and powers shall be borne by the company.

Article 120: Meetings of the supervisory board shall be held at least once each six months. Supervisors may propose that an extraordinary meeting of the supervisory board be convened.

The method of debate and the voting procedure of the supervisory board shall be specified in the company's articles of association, except where provided for in this Law.

Resolutions of the supervisory board shall require a majority of the supervisors for adoption.

Minutes shall be kept of the decisions made on the matters under consideration at a meeting of the supervisory board, and the supervisors in attendance shall sign such minutes.

Section Five: Special Provisions Governing the Organizational Structure of Listed Companies

Article 121: For the purposes of this Law, the term 'listed company' means a company limited by shares whose shares are listed and traded on a stock exchange.

Article 122: If a listed company is to purchase or sell major assets in one year or if the amount of security provided for third parties is to exceed 30% of the company's total assets, a resolution of the shareholders' general meeting shall be required, which resolution shall require at least two-thirds of the voting rights held by the shareholders in attendance for adoption.

Article 123: Listed companies shall have independent directors. The specific measures therefor shall be specified by the State Council.

Article 124: Listed companies shall have a secretary to the board of directors who shall be responsible for such matters as the preparations for shareholders' general meetings and meetings of the board of directors, the safekeeping of documents, management of the information of the company's shareholders, the handling of information disclosures, etc.

Article 125: If a director of a listed company has an affiliated relationship with an enterprise that is the subject of a resolution at a meeting of the board of directors, he or she may not cast a vote on such matter nor may he or she cast a vote on such matter as a proxy for another director. Such a board meeting may be held if attended by more than half of the non-affiliated directors and the resolutions at such meeting shall require a majority of the non-affiliated directors for adoption. If less than three non-affiliated directors attend such a meeting of the board of directors, the matter shall be submitted to the shareholders' general meeting of the listed company for consideration.

PART FIVE: ISSUE AND TRANSFER OF SHARES OF COMPANIES LIMITED BY SHARES

Section One: Issue of Shares

Article 126: The capital of companies limited by shares shall be divided into shares of equal amount.

The shares of companies shall take the form of share certificates. Share certificates shall be the vouchers issued by companies evidencing the shares held by their shareholders.

Article 127: Shares shall be issued in accordance with the principles of equitability and fairness. Each share of the same class shall carry the same rights and the same benefits.

Shares of the same class and same issue shall be issued on the same conditions and at the same price. The same price shall be payable for each of the shares subscribed for by any work unit or individual.

Article 128: Shares may be issued at or above par but not below par.

Article 129: Share certificates shall be of paper or in such other form as determined by the State Council securities regulatory authority.

The following main particulars shall be clearly stated on a share certificate:

- (1) the name of the company;
- (2) the date of establishment of the company;
- (3) the class and face value of the share certificate and the number of shares it represents; and
- (4) the serial number of the share certificate.

Share certificates shall be signed by the legal representative and sealed by the company.

The words 'promoters' share certificate' shall be clearly indicated on share certificates of promoters.

Article 130: The shares issued by a company may be registered shares or bearer shares.

The shares issued by a company to a promoter or a legal person shall be registered shares and shall bear the name of such promoter or legal person. No separate account with a different name may be opened for such shares, nor may such shares be registered in the name of a representative.

Article 131: Companies that issue registered shares shall establish share registers, in which the following particulars shall be recorded:

- (1) the names and domiciles of the shareholders;
- (2) the number of shares held by each shareholder;
- (3) the serial numbers of the share certificates held by each shareholder; and
- (4) the date on which each shareholder obtained his or her shares.

Companies that issue bearer shares shall record the number, serial numbers and issue date of the share certificates.

Article 132: The State Council may formulate separate provisions for the issue by companies of shares of types other than those provided for in this Law.

Article 133: Companies limited by shares shall formally deliver the share certificates to their shareholders immediately upon establishment. Companies may not deliver share certificates to their shareholders prior to establishment.

Article 134: When a company issues new shares, resolutions in respect of the following matters shall be adopted by the shareholders' general meeting or the board of directors in accordance with the company's articles of association:

- (1) the class and amount of the new shares;
- (2) the issue price of the new shares;
- (3) the opening and closing dates of the new share issue; and
- (4) the class and amount of new shares issued to existing shareholders.

Article 135: When a company issues new shares to the public upon approval by the State Council securities regulatory authority, it must announce a prospectus for the new shares and financial accounting reports, and prepare subscription forms.

Articles 88 and 89 hereof shall apply to issue of new shares to the public by companies.

Article 136: If a company is to issue new shares, it may determine its pricing plan based on its business position and financial position.

Article 137: After a company has raised the full amount of subscription monies from a new share issue, it must register the change with the company registry and make an announcement.

Section Two: Transfer of Shares

Article 138: Shareholders may transfer their shares according to law.

Article 139: Shareholders shall transfer their shares at lawfully established securities trading places or by such other means as specified by the State Council.

Article 140: A shareholder shall transfer registered shares by endorsing the same or by such other means as specified in laws and administrative regulations. After the transfer, the company shall record the transferee's name and domicile in the register of shareholders.

The changes specified in the preceding paragraph may not be recorded in the register of shareholders within the 20 days prior to a shareholders' general meeting or within the 5 days prior to the reference date decided by the company for the distribution of dividends, unless laws provide otherwise in respect of the recording of changes in the register of shareholders, in which case such provisions shall prevail.

Article 141: A transfer of bearer shares shall become effective immediately upon delivery of the shares by the shareholder to the transferee.

Article 142: The shares of the company held by a promoter may not be transferred for a period of one year from the date of establishment of the company. The shares issued by a company before a public offering of shares may not be transferred for a period of one year from the date on which the company's shares are listed for trading on a stock exchange.

The directors, supervisors and senior officers of a company shall report to the company the shares of the company that they hold and changes in their shareholding. While in the service of a company, a director, supervisor or senior officer may not transfer more than 25% of his or her total holding of the company's shares per year, nor may he or she transfer the shares of the company he or she holds for a period of one year from the date on which the company's shares are listed for trading. When any of the aforementioned persons leaves the company, he or she may not transfer the shares of the company that he or she holds for a period of six months. Other restrictions on the transfer of the company's shares by directors, supervisors and senior officers of the company may be specified in the company's articles of association.

Article 143: A company may not purchase its own shares, except in the following circumstances:

(1) it is reducing its registered capital;

- (2) it is merging with another company that holds shares of the company;
- (3) it will grant the shares as an incentive to its staff and workers; or
- (4) a shareholder who opposes a resolution on the merger or division of the company adopted at a shareholders' general meeting requests that the company purchase his or her shares.

The purchase by a company of its shares for the reasons specified in Items (1) to (3) above shall require the adoption of a resolution by the shareholders' general meeting. If a company purchases its shares for the reason specified in Item (1) above, it shall cancel such shares within 10 days of the date of the purchase. If it purchases its shares for the reason specified in Item (2) or Item (4), it shall transfer or cancel such shares within six months.

The company's shares purchased by a company pursuant to Item (3) of the first paragraph may not exceed 5% of its total outstanding shares and the funds used for the purchase thereof shall be paid from the company's after-tax profit. The purchased shares shall be transferred to the staff and workers within one year.

A company may not accept its own share certificates as the subject matter of a pledge.

Article 144: When a registered share certificate is stolen, lost or destroyed, the shareholder may petition the people's court to declare such certificate void in accordance with the procedure for public invitation to assert claims as specified in the *PRC Civil Procedure Law*. After the people's court has declared the share certificate void, the shareholder may apply to the company for replacement of the share certificate.

Article 145: The shares of a listed company shall be listed and traded in accordance with relevant laws, administrative regulations and the trading rules of the stock exchange.

Article 146: A listed company must disclose its financial position, business position and materials litigation in accordance with laws and administrative regulations and shall publish a financial accounting report once each half year during its accounting year.

PART SIX: QUALIFICATIONS AND OBLIGATIONS OF COMPANY DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

Article 147: A person may not serve as a director, supervisor or senior officer of a company if:

- (1) he or she has no or limited capacity for civil acts;
- (2) he or she has been sentenced to criminal punishment for corruption, bribery, seizing property, misappropriating property or disrupting the order of the socialist market economy, where not more than five years have elapsed since the expiration of the execution period; or has been deprived of his or her political rights for committing a crime, where not more than five years have elapsed since the expiration of the execution period;

(3) he or she has served as a director, factory manager or manager of a company or enterprise that went bankrupt and was liquidated, where he or she bears personal liability for the bankruptcy of the company or enterprise and not more than three years have elapsed since the date of completion of the bankruptcy liquidation;

(4) he or she has served as the legal representative of a company or enterprise that had its business licence revoked and was ordered to close down for a violation of the law, where he or she bears personal liability for such violation and not more than three years have elapsed since the date of revocation of the company's or enterprise's business licence; or

(5) he or she has a comparatively large personal debt that has fallen due but has not been settled.

If a company elects or appoints a director or supervisor, or engages a senior officer in violation of the preceding paragraph, such election, appointment or engagement shall be invalid.

If a director, supervisor or senior officer is characterized by any of the circumstances specified in the first paragraph hereof during his or her term of service, the company shall dismiss him or her from his or her position.

Article 148: Directors, supervisors and senior officers shall comply with laws, administrative regulations and the company's articles of association and shall bear an obligation of loyalty and diligence toward the company.

Directors, supervisors and senior officers may not use their functions and powers to accept bribes or other illegal income, nor may they seize property of the company.

Article 149: A director or senior officer may not:

(1) misappropriate company funds;

(2) deposit company funds in an account opened in his or her or another's name;

(3) breach the company's articles of association by lending company funds to a third party or using company property to provide security for a third party without the consent of the shareholders' meeting, shareholders' general meeting or board of directors;

(4) conclude a contract or carry out transactions with the company in breach of the company's articles of association or without the consent of the shareholders' meeting or shareholders' general meeting;

(5) without the consent of the shareholders' meeting or shareholders' general meeting, utilize the advantages of his or her position to obtain for himself or herself or others commercial opportunities rightly belonging to the company or, for himself or herself or for the benefit of another, engage in business identical to the business of the company in which he or she serves;

(6) accept for himself or herself commissions for transactions between other parties and the company;

(7) disclose company secrets without authorization; or

(8) commit another act that breaches his or her obligation of loyalty to the company.

Any income obtained by a director or senior officer in violation of the preceding paragraph shall belong to the company.

Article 150: If a director, supervisor or senior officer violates laws, administrative regulations or the company's articles of association in the course of performing his or her company duties, thereby causing the company to incur a loss, he or she shall be liable for damages.

Article 151: If the shareholders' meeting or shareholders' general meeting requests that a director, supervisor or senior office attend a meeting as a non-voting attendee, he or she shall attend such meeting and respond to the inquiries addressed to him or her.

Directors shall provide true information and data to the supervisory board or, in the case of a limited liability company that has not established a supervisory board, the supervisor(s), and may not interfere with the supervisory board or supervisor(s) in the performance of its/his/her/their functions and powers.

Article 152: If a director or senior officer has committed a violation as specified in Article 150 hereof, the shareholders of a limited liability company or (a) shareholder(s) of a company limited by shares who alone or jointly has/have held at least 1% of the company's shares for at least 180 days in succession may make a request in writing to the supervisory board, or in the case of a limited liability company that has not established a supervisory board, the supervisor(s) that it/he/she/they institute legal proceedings in a people's court in respect thereof. If a supervisor has committed a violation as specified in Article 150 hereof, the aforementioned shareholders may make a request in writing to the board of directors, or in the case of a limited liability company that has not established a board of directors, the executive director that it/he/she institute legal proceedings in a people's court in respect thereof.

If the supervisory board, supervisor(s) of a limited liability company that has not established a supervisory board, board of directors or executive director refuses to institute legal proceedings after receipt of the written request from the shareholders mentioned in the preceding paragraph, fail(s) to institute legal proceedings within 30 days of the date of receipt of the request or, under urgent circumstances where failure to promptly institute legal proceedings could cause possibly irreparable harm to the company's interests, the shareholders mentioned in the preceding paragraph shall have the right, in the interests of the company, to directly institute proceedings in a people's court in their own name.

If a third party infringes upon the lawful rights and interests of a company, causing the company to incur a loss, the shareholders mentioned in the first paragraph hereof may institute legal proceedings in a people's court in accordance with the provisions of the two preceding paragraphs.

Article 153: If a director, supervisor or senior officer violates laws, administrative regulations or the company's articles of association, thereby harming the interests of a shareholder, the shareholder may institute legal proceedings in a people's court in respect thereof.

PART SEVEN: CORPORATE BONDS

Article 154: For the purposes of this Law, the term 'corporate bonds' shall mean valuable securities issued by a company in accordance with statutory procedure, the principal of which such company agrees to repay, together with interest, within a definite time limit.

Companies issuing corporate bonds shall comply with the conditions for issue provided in the *PRC Securities Law*.

Article 155: Once an application to issue corporate bonds has been approved by the department authorized by the State Council, the method of offering the corporate bonds shall be publicly announced.

The method of offering the corporate bonds shall specify the following main particulars:

- (1) the name of the company;
- (2) the purpose for which the proceeds of the bond offer will be used;
- (3) the total amount and the face value of the bonds;
- (4) the method of determining the coupon rate of the bonds;
- (5) the time limit for and method of repayment of the principal together with the interest thereon;
- (6) information on how the bonds are to be secured;
- (7) the issue price of the bonds and the opening and closing dates of the offer period;
- (8) the amount of the company's net assets;
- (9) the total amount of previously issued corporate bonds that have not yet matured; and
- (10) the distributor of the corporate bonds.

Article 156: If a company issues corporate bonds in the form of physical bond certificates, the bond certificates must record such particulars as the name of the company, the face value of the bonds, the coupon rate, the time limit for repayment, etc. and bear the signature of the legal representative and the seal of the company.

Article 157: Corporate bonds may be registered bonds or bearer bonds.

Article 158: When issuing corporate bonds, a company shall prepare a corporate bond counterfoil book.

In the case of an issue of registered corporate bonds, the following particulars shall be recorded in the corporate bond counterfoil book:

- (1) the names and domiciles of the bondholders;
- (2) the dates on which the bondholders obtained the bonds and the serial numbers of the bonds;
- (3) the total amount of the bonds, the face value and coupon rate of the bonds, and the time limit for and method of repayment of the principal together with the interest thereon; and
- (4) the date of issue of the bonds.

In the case of an issue of bearer corporate bonds, the following particulars shall be recorded in the corporate bond counterfoil book: the total amount, the coupon rate, the time limit for and method of repayment, the date of issue and the serial number of the bonds.

Article 159: The depository and clearing institution for registered corporate bonds shall establish systems relating to bond registration, deposition, interest payment, redemption, etc.

Article 160: Corporate bonds may be transferred and the transfer price shall be agreed upon between the transferor and the transferee.

Where corporate bonds are listed and traded on a stock exchange, they shall be transferred in accordance with the trading rules of the stock exchange.

Article 161: Registered corporate bonds shall be transferred by means of endorsement by the bondholder or such other means as specified in laws and administrative regulations. After the transfer, the company shall record the name and domicile of the transferee in the corporate bond counterfoil book.

A transfer of bearer corporate bonds shall become effective immediately upon delivery of the bonds by the bondholder to the transferee.

Article 162: Upon adoption of a pertinent resolution by the shareholders' general meeting, listed companies may issue corporate bonds convertible into shares. The specific method of conversion shall be specified in the method of offer of the corporate bonds. A proposed issue of corporate bonds convertible into shares by a listed company shall be submitted to the State Council securities regulatory authority for verification.

When issuing corporate bonds convertible into shares, the words 'convertible corporate bond' shall be clearly indicated on the bonds, and the amount of convertible corporate bonds shall be recorded in the corporate bond counterfoil book.

Article 163: A company that issues corporate bonds convertible into shares shall issue shares in exchange for such bonds to the bondholders in accordance with the conversion method. However, bondholders shall have an option whether or not to convert their bonds into shares.

PART EIGHT: FINANCIAL AFFAIRS AND ACCOUNTING OF COMPANIES

Article 164: Companies shall establish their own financial and accounting systems in accordance with laws, administrative regulations, and regulations of the State Council finance department.

Article 165: Companies shall prepare financial accounting reports at the end of each accounting year. Such reports shall be audited by an accounting firm according to law.

Financial accounting reports shall be prepared in accordance with laws, administrative regulations and provisions of the State Council finance department.

Article 166: Limited liability companies shall deliver their financial accounting reports to each of their shareholders within the time limit specified in their articles of association.

The financial accounting reports of companies limited by shares shall be made available at the company for the perusal of shareholders 20 days before the annual shareholders' general meeting is held. Companies limited by shares that offer shares to the public must announce their financial accounting reports.

Article 167: When companies distribute their after-tax profits for a given year, they shall allocate 10% of profits to their statutory common reserve. Companies shall no longer be required to make allocations to their statutory common reserve once the aggregate amount of such reserve exceeds 50% of their registered capital.

If a company's statutory common reserve is insufficient to make up its losses of previous years, such losses shall be made up from the profit for the current year prior to making allocations to the statutory common reserve pursuant to the preceding paragraph.

Companies may, if so resolved by the shareholders' meeting or shareholders' general meeting, make allocations to the discretionary common reserve from their after-tax profits after making allocations to the statutory common reserve from their after-tax profits.

A company's after-tax profit remaining after it has made up its losses and made allocations to its common reserve shall be distributed, in the case of a limited liability company, in accordance with Article 35 hereof and, in the case of a company limited by shares, in proportion to the shareholdings of its shareholders unless the company's article of association provides that such distribution shall not be made in proportion to the shareholdings of the shareholders.

If the shareholders' meeting, shareholders' general meeting or board of directors violates the preceding paragraph by distributing profits to shareholders before the company has

made up its losses and made allocations to the statutory common reserve, the shareholders must return the profit distributed against provisions to the company.

No profits shall be distributed to a company's shares held by the company itself.

Article 168: Companies shall enter under their capital common reserve the premiums earned from the issue of shares above par and such other revenue as the State Council finance department requires to be entered under the capital common reserve.

Article 169: Companies shall apply their common reserve to making up their losses, increasing their production and business operations, or increasing their capital by means of conversion, but capital common reserve may not be used to make up companies' losses.

When funds from the statutory common reserve are converted to capital, the funds remaining in such reserve shall amount to not less than 25% of the registered capital prior to the conversion.

Article 170: The shareholders' meeting, shareholders' general meeting or board of directors shall decide, in accordance with the company's articles of association, on the engagement and dismissal of the accounting firm that undertakes the auditing for the company.

When the company's shareholders' meeting, shareholders' general meeting or board of directors is to vote on the dismissal of the accounting firm, it shall permit the accounting firm to state its opinions.

Article 171: A company shall provide true and complete accounting vouchers, account books, financial accounting reports and other accounting information to the accounting firm it has engaged, and may not refuse to provide, conceal or fraudulently report the same.

Article 172: Companies may not establish any account books in addition to those required by law.

No accounts may be opened in the name of any individual for deposit of a company's assets.

PART NINE: MERGER, DIVISION, CAPITAL INCREASE AND CAPITAL REDUCTION OF COMPANIES

Article 173: The merger of a company may take the form of a merger by absorption or a merger by new establishment.

The absorption by one company of another company constitutes a merger by absorption, in which case the absorbed company shall be dissolved. The merger of two or more companies and the establishment of a new company constitutes a merger by new establishment, in which case all the parties to the merger shall be dissolved.

Article 174: When companies merge, the parties to the merger shall execute a merger agreement and prepare balance sheets and property lists. The companies shall notify their creditors within 10 days of the date on which the merger resolution is adopted and, within 30 days, announce the merger in newspapers. Creditors may, within 30 days of the date of receipt of the written notice, or within 45 days of the date of the announcement for those who did not receive a written notice, require the relevant company to pay its debts in full or provide a commensurate guarantee.

Article 175: When companies merge, the surviving company or the newly established company shall succeed to the claims and debts of each party to the merger.

Article 176: When a company is divided, its property shall be divided appropriately.

When a company is to be divided, it shall prepare a balance sheet and property list. The company shall notify its creditors within 10 days of the date on which the division resolution was adopted and, within 30 days, announce the division in newspapers.

Article 177: The companies established after a division shall bear joint and several liability for the debts that existed prior to the division of the company, unless otherwise provided in a written agreement on the full payment of debts reached between the pre-merger company and its creditors.

Article 178: When a company needs to reduce its registered capital, it must prepare a balance sheet and property list.

The company shall notify its creditors within 10 days of the date on which the resolution to reduce the registered capital is adopted and, within 30 days, announce the reduction in newspapers. Creditors shall, within 30 days of the date of receipt of the written notice, or within 45 days of the date of the announcement for those who did not receive a written notice, have the right to claim full repayment or provision of a commensurate guarantee from the company.

Following a capital reduction, the amount of a company's registered capital may not be less than the statutory minimum.

Article 179: When a limited liability company increases its registered capital, the capital contributions to the increase in capital subscribed for by its shareholders shall be handled in accordance with the relevant provision of this Law concerning the making of capital contributions in connection with the establishment of a limited liability company.

When a company limited by shares issues new shares to increase its registered capital, shareholders shall subscribe for the new shares in accordance with the relevant provisions of this Law concerning the payment of subscription monies in connection with the establishment of a company limited by shares.

Article 180: When the merger or division of a company involves changes in registered particulars, such changes shall be registered according to law with the company registry. When a company is dissolved, it shall cancel its registration according to law. When a new company is established, its establishment shall be registered according to law.

When a company increases or reduces its registered capital, it shall register the change with the company registry.

PART TEN: DISSOLUTION AND LIQUIDATION OF COMPANIES

Article 181: A company shall be dissolved for the following reasons:

- (1) the term of operation specified in the company's articles of association expires or another reason for dissolution as specified in the company's articles of association arises;
- (2) the shareholders' meeting or shareholders' general meeting resolves to dissolve the company;
- (3) dissolution is necessary due to the merger or division of the company;
- (4) its business licence has been revoked or it has been ordered to close down or it is banned in accordance with the law; or
- (5) a people's court dissolves it in accordance with Article 183 hereof.

Article 182: If a company is characterized by either of the circumstances in Item (1) of Article 181 hereof, it may, by amending its articles of association, continue to exist.

In the case of a limited liability company, if it is to amend its articles of association in accordance with the preceding paragraph, the support of shareholders with at least two-thirds of the voting rights shall be required for adoption or, in the case of a company limited by shares, shall require the support of shareholders with at least two-thirds of the voting rights in attendance at a shareholders' general meeting for adoption.

Article 183: If serious difficulties arise in the operation and management of a company and its continued existence would cause a material loss to the interests of the shareholders and the difficulties cannot be resolved through other means, shareholders holding a least 10% of all shareholder voting rights may petition a people's court to dissolve the company.

Article 184: If a company is to be dissolved pursuant to Item (1), (2), (4) or (5) of Article 181 hereof, a liquidation committee shall be established within 15 days of the date on which the reason for dissolution arose to commence the liquidation procedures. In the case of a limited liability company, the liquidation committee shall be composed of its shareholders and in the case of a company limited by shares the liquidation committee shall be composed of the directors or of the persons determined by the shareholders' general meeting. If the company fails to establish a liquidation committee to carry out the liquidation within the time limit, its creditors may make an application to the people's court to have it designate relevant persons to form a liquidation committee and carry out the liquidation. The people's court shall accept such application and timely form the liquidation committee to carry out the liquidation.

Article 185: A liquidation committee shall exercise the following functions and powers during liquidation:

- (1) to thoroughly examine the property of the company and respectively prepare a balance sheet and property list;
- (2) to notify creditors by notice or announcement;
- (3) to dispose of and liquidate relevant unfinished business of the company;
- (4) to pay all outstanding taxes and taxes incurred in the course of liquidation in full;
- (5) to clear up claims and debts;
- (6) to dispose of the property remaining after full payment of the company's debts; and
- (7) to participate in civil litigation activities on behalf of the company.

Article 186: A liquidation committee shall notify creditors within 10 days of the date of its establishment and, within 60 days, announce the liquidation in newspapers. Creditors shall, within 30 days of the date of receipt of the written notice, or within 45 days of the date of the announcement for those who did not receive a written notice, declare their claims to the liquidation committee.

When declaring claims, creditors shall explain relevant particulars of their claims and provide supporting materials. Claims shall be registered by the liquidation committee.

During the claim declaration period, the liquidation committee may not pay the debts of creditors.

Article 187: After a liquidation committee has thoroughly examined the company's property and prepared a balance sheet and property list, it shall formulate a liquidation plan and submit the same to the shareholders' meeting, shareholders' general meeting or the people's court for confirmation.

The company's property remaining after the payment of: the liquidation expenses; the wages, social insurance premiums and statutory compensation of the staff and workers; taxes owed and all the company's debts shall be distributed to the shareholders in proportion to their capital contributions, in the case of a limited liability company, or in proportion to the shares held by the shareholders, in the case of a company limited by shares.

During liquidation, a company shall continue to exist, but may not engage in any business activities unrelated to the liquidation. Company property may not be distributed to the shareholders until it has been applied to the settlement of all the payments mentioned in the preceding paragraph.

Article 188: If a company, having thoroughly examined the company's property and prepared a balance sheet and property list, discovers that the company's property is insufficient to pay its debts in full, it shall apply to the people's court for a declaration of insolvency in accordance with the law.

After the people's court has ruled to declare the company insolvent, the company's liquidation committee shall turn over the liquidation matters to the people's court.

Article 189: Following the completion of liquidation, the liquidation committee shall formulate a liquidation report and submit the same to the shareholders' meeting, shareholders' general meeting or the people's court for confirmation, as well as to the company registry. In addition, the liquidation committee shall apply for cancellation of the company's registration and announce the company's termination.

Article 190: Members of a liquidation committee shall be faithful in the discharge of their duties and perform their liquidation obligations according to law.

Members of a liquidation committee may not use their official powers to accept bribes or other illegal income and may not seize company property.

If members of a liquidation committee wilfully or through gross negligence cause the company or its creditors to suffer loss, they shall be liable for compensation.

Article 191: If a company is declared bankrupt in accordance with the law, it shall be subject to bankruptcy liquidation in accordance with laws on enterprise bankruptcy.

PART ELEVEN: BRANCHES AND SUB-BRANCHES OF FOREIGN COMPANIES

Article 192: For the purposes of this Law, the term 'foreign companies' shall mean companies established outside the China in accordance with a foreign country's law.

Article 193: To establish a branch or sub-branch in the China, a foreign company shall file an application with China's authority in charge and submit relevant documents such as its articles of association, the company registration certificate issued by its country, etc. Upon approval, it shall carry out registration procedures with the company registry according to law and obtain a business licence.

Measures for examination and approval of branches and sub-branches of foreign companies shall be separately determined by the State Council.

Article 194: A foreign company that establishes a branch or sub-branch in China must designate a representative or agent in China to be responsible for such branch or sub-branch and shall allocate an amount of funds to such branch or sub-branch commensurate with the business activities in which it is to engage.

If it is necessary to prescribe a minimum amount of operating funds of branches and sub-branches of foreign companies, such amount shall be separately prescribed by the State Council.

Article 195: The name of a branch or sub-branch of a foreign company shall indicate the nationality and form of liability of such foreign company.

The branch or sub-branch of a foreign company shall keep at its office a copy of such foreign company's articles of association.

Article 196: Branches established in China by foreign companies shall not have Chinese legal personality.

Foreign companies shall be civilly liable for the business activities carried out in China by their branches and sub-branches.

Article 197: The business activities engaged in within China by foreign companies' branches and sub-branches that have been established upon approval must comply with the laws of China and may not harm China's public interest. The lawful rights and interests of such branches and sub-branches shall be protected by the laws of China.

Article 198: When a foreign company closes its branch or sub-branch in China, it must pay its debts in full according to law and carry out liquidation in accordance with the provisions of this Law concerning company liquidation procedure. Such foreign company may not transfer its branch or sub-branch's property out of China prior to full payment of its debts.

PART TWELVE: LEGAL LIABILITY

Article 199: If this Law is violated by obtaining company registration by means of reporting a false amount of registered capital or by submitting false materials or resorting to other fraudulent methods to conceal major facts, the company registry shall order rectification and, in the case of a company that reported a false amount of registered capital, impose a fine of at least 5% but less than 15% of the false amount of registered capital and, in the case of a company that submitted false materials or resorted to other fraudulent methods to conceal major facts, impose a fine of at least Rmb50,000 but less than Rmb500,000. In serious cases, the company's registration shall be cancelled or business licence revoked.

Article 200: If a sponsor or shareholder of a company makes a fraudulent capital contribution or fails to pay or deliver or fails to pay or deliver on time the cash or non-monetary property that is to serve as his/her/its capital contribution, the company registry shall order rectification and impose a fine of at least 5% but less than 15% of the amount of fraudulent capital contribution.

Article 201: If promoters or shareholders of a company surreptitiously withdraw their capital contributions after the company has been established, the company registry shall order rectification and impose a fine of at least 5% but less than 15% of the capital contributions withdrawn surreptitiously.

Article 202: If a company violates this Law by keeping account books in addition to those required by law, the finance department of the people's government at the county level or above shall order rectification and impose a fine of at least Rmb50,000 but less than Rmb500,000.

Article 203: If the financial accounting reports and other such materials provided to the competent departments by a company in accordance with the law contain fraudulent entries or conceal material facts, the competent departments shall fine the person in charge who is directly responsible and other directly responsible persons at least Rmb30,000 but less than Rmb300,000.

Article 204: If a company fails to make allocations to the statutory common reserve in accordance with this Law, the finance department of the people's government at the county level or above shall order it to allocate the full amount to be allocated and may impose a fine of less than Rmb200,000.

Article 205: If a company, when being merged or divided, reducing its registered capital or carrying out liquidation, fails to notify its creditors or to announce the same to its creditors in accordance with this Law, the company registry shall order rectification and impose a fine of at least Rmb10,000 but less than Rmb100,000.

If a company in liquidation conceals property, records false information in its balance sheet or property list or distributes company property prior to full payment of its debts, the company registry shall order rectification and impose a fine of at least 5% but less than 10% of the amount of property concealed or the amount of company property distributed prior to full repayment of its debts. The person in charge who is directly responsible and other directly responsible persons shall be fined at least Rmb10,000 but less than Rmb100,000.

Article 206: If a company, during liquidation, engages in business activities unrelated to the liquidation, it shall be given a warning by the company registry and its illegal income shall be confiscated.

Article 207: If a liquidation committee fails to submit a liquidation report to the company registry in accordance with this Law or if the liquidation report submitted conceals major facts or contains major omissions, the company registry shall order rectification.

If members of a liquidation committee use their official powers to engage in graft, seek illegal income or seize company property, the company registry shall order it to return the company property, confiscate their illegal income and may impose a fine of at least the amount of the illegal income but less than five times the amount of the illegal income.

Article 208: If an institution undertaking asset valuation, investment verification or other verification provides sham materials, the company registry shall confiscate its illegal income, impose a fine of at least the amount of the illegal income but less than five times the amount of the illegal income and the relevant competent departments may lawfully order the institution to cease business, revoke the credentials of the persons directly responsible and revoke the business licence of the institution

If an institution undertaking asset valuation, investment verification or other verification provides a report containing serious omissions due to negligence, the company registry shall order rectification. If the circumstances are relatively serious, the institution shall be fined at least the amount of income obtained but less than five times the amount of income obtained and, in addition, the relevant competent departments may lawfully order the institution to cease business, revoke the credentials of the persons directly responsible and revoke the business licence of the institution.

If an institution undertaking asset valuation, investment verification or other verification causes creditors to incur losses due to its issuance of a spurious valuation result or

investment or verification certificate, it shall be liable for damages to the extent of the spurious amount of the valuation or certificate, unless it can establish that it was not at fault.

Article 209: If a company registry accords registration pursuant to an application for registration that fails to satisfy the conditions set forth in this Law, or fails to accord registration pursuant to an application for registration that satisfies the conditions set forth in this Law, administrative penalties shall be imposed on the person in charge who is directly responsible and on other directly responsible persons in accordance with the law.

Article 210: If departments at a level higher than a company registry coerces the company registry into according registration pursuant to an application for registration that fails to satisfy the conditions set forth in this Law, or to not accord registration pursuant to an application for registration that satisfies the conditions set forth in this Law or if they cover up an illegal registration, administrative penalties shall be imposed on the person in charge who is directly responsible and on other directly responsible persons in accordance with the law.

Article 211: If an entity that has not been registered in accordance with the law as a limited liability company or company limited by shares, or as a branch of a limited liability company or company limited by shares, passes itself off as a limited liability company or company limited by shares, the company registry shall order it to rectify the matter or close it down, and may fine it for less than Rmb100,000.

Article 212: If a company without proper reason fails to commence business within six months following its establishment or, after having commenced business, voluntarily suspends business for six months or more, its business licence may be revoked by the company registry.

If a change occurs in an item of company registration and the relevant change is not registered in accordance with provisions, the company registry shall order registration within a time limit and, if registration procedures are not carried out within such time limit, impose a fine of at least Rmb10,000 but less than Rmb100,000.

Article 213: If a foreign company violates this Law by establishing a branch or sub-branch in China without authorization, the company registry shall order rectification or close down the branch or sub-branch. In addition, a fine of at least Rmb50,000 but less than Rmb200,000 may be imposed.

Article 214: If serious illegal activities that threaten state security or the public interest are engaged in in the name of a company, the business licence of such company shall be revoked.

Article 215: If a company that violates this Law shall assume civil liability for compensation and be fined, and such company's property is insufficient to pay such compensation and fine, then it shall first assume civil liability for compensation.

Article 216: If a violation of this Law constitutes a criminal offence, criminal liability shall be pursued in accordance with the law.

PART THIRTEEN: SUPPLEMENTARY PROVISIONS

Article 217: The following terms in this Law shall have the meanings set forth below:

(1) 'Senior officer' means a company's manager, deputy manager, financial officer, the secretary to the board of directors of a listed company and other persons specified in the company's articles of association.

(2) 'Controlling shareholder' means a shareholder whose capital contribution to a limited liability company accounts for at least 50% of the company's total capital or whose shareholding accounts for at least 50% of the total share capital of a company limited by shares; or a shareholder whose capital contribution or shareholding, although not accounting for 50%, is nonetheless, through the voting rights attaching to his or her capital contribution or his or her shareholding, able to materially affect the resolutions of the shareholders' meeting or shareholders' general meeting.

(3) 'De facto controller' means a person who, although not a shareholder of the company, is nonetheless able to direct the acts of the company by virtue of an investment relationship, agreement or other arrangement.

(4) 'Affiliated relationship' means the relationship between the company's controlling shareholder, de facto controller, director, supervisor or senior officer, on the one hand, and the enterprise he or she directly or indirectly controls, on the other hand, as well as other relationships that could result in the transfer of the company's interests. However, there does not necessarily exist a connected relationship between enterprises in which the state has a controlling interest solely based on the fact that they all are under the control of the state.

Article 218: This Law shall apply to foreign-invested limited liability companies and companies limited by shares, unless otherwise provided in laws on foreign investment, in which case such provisions shall apply.

Article 219: This Law shall be effective as of January 1 2006.

Translator's Notes:

(1) These characters mean 'limited liability company'.

(2) These characters mean 'limited company'.

(3) These characters mean 'company limited by shares'.

(4) These characters mean 'share company'.