

Interim Regulations on Private Enterprises

(Passed at the 65th Executive Meeting of the GAC on December 29, 1950, and promulgated on December 30, 1950)

Chapter 1: General Provisions

Article 1

In accordance with the economic policy stipulated in the common program of the Chinese People's Political Consultative Conference, and under the leadership of state-owned economy, these regulations are formulated to encourage and support private enterprises beneficial to the national economy and people's livelihood.

Article 2

In these regulations, "private enterprise" (referred to as "enterprise" hereafter) refers to various economic activities operated for profit through private investment.

Article 3

The organizational forms of enterprises are as follows:

A. Sole Proprietorship and Partnership:

1. Sole Proprietorship – Individual investment with unlimited joint and several liability for debt repayment.
2. Partnership – Two or more individuals invest with joint and several liability for debt repayment.

B. Corporations:

1. Unlimited Liability Company – Organized by two or more shareholders with joint and several liability for company debts.
2. Limited Liability Company – Organized by two or more shareholders with liability limited to their contributions.
3. Limited and Unlimited Liability Company – Organized by unlimited liability shareholders and limited liability shareholders with joint and several liability for company debts by unlimited liability shareholders and liability limited to contributions by limited liability shareholders.
4. Joint-Stock Limited Company – Organized by five or more shareholders with shares representing a fixed amount of capital, and shareholders are liable only for the amount of their subscribed shares.
5. Joint-Stock Limited and Unlimited Liability Company – Organized by unlimited liability shareholders and limited liability shareholders with joint and several liability for company debts by unlimited liability shareholders and liability limited to contributions by limited liability shareholders.

The company name should indicate its type. Those who are not organizing a company cannot use a company name.

Article 4

Partners and company shareholders may contribute assets or rights other than cash.

Article 5

In the same industry or industries with production or business connections, based on the principles of autonomy and voluntariness, entities with existing organizational structures may voluntarily join forces to operate part or parts of their businesses. They should formulate joint venture articles, submit them for approval by the local competent authority, and state-owned and mixed-ownership enterprises can also participate in joint ventures. Once approved, joint ventures are protected by law, and state-owned economic activities can assist joint ventures.

In the same industry or industries with production or business connections, based on the principles of autonomy and voluntariness, entities may, with the cancellation of their original organizations engaged in joint ventures, establish new enterprises and apply for approval and registration.

Article 6

To overcome blind production, adjust production and sales relationships, and gradually move towards a planned economy, the government may, when necessary, formulate production and sales plans for certain important commodities, and both state and private enterprises must comply with them.

Article 7

Enterprises must effectively implement all relevant labor laws and regulations issued by the government.

Article 8

The property and operations of enterprises are fully protected, and the right to operate and manage belongs to the investors. However, matters related to the interests of both labor and management should be resolved through labor-management conferences or negotiations between labor and management.

Article 9

For business operations that are urgently needed by the state or require significant technological improvements or inventions, and are unable to be profitable in the short term, enterprises may, upon approval by the Financial and Economic Committee of the GAC, enjoy tax reductions or exemptions for a specified period.

Article 10

When founding or increasing capital for enterprises or when cash is needed due to mergers or business transitions, with the approval of the local competent authority and the consent of the People's Bank of China, gold and foreign exchange may be used to convert into Chinese currency and offset against payment.

Chapter 2: Approval and Registration

Article 11

To coordinate with planned production, protect the interests of investors, and avoid blind development, newly established enterprises must obtain approval from the local competent authority in accordance with laws and regulations before they can proceed with establishment. If the business scope extends nationwide due to its nature or national production and sales plans, it should

be submitted to the central competent business department for approval. Enterprises are not allowed to engage in business beyond the approved scope.

Article 12

Enterprises that have obtained approval to operate must apply for registration upon completion of establishment.

For sole proprietorships or partnerships, registration applications should be submitted to the local industrial and commercial administrative authority where they are located. However, if the nature of the business or national production and sales plans requires nationwide coverage, it should be filed with the central private enterprise bureau for the record by the local industrial and commercial administrative authority.

Enterprises organized as corporations should be registered through the local industrial and commercial administrative authority where they are located, transferred to the central private enterprise bureau for registration.

For enterprises that have obtained approval to operate, local industrial and commercial administrative authorities may, at their discretion, allow them to commence business before completing the registration process.

Matters that enterprises are required to register shall not take legal effect until duly registered.

Article 13

For enterprises that were permitted to operate before the promulgation of these regulations, unless otherwise restricted by laws, they may continue to operate. Such enterprises should be registered separately by local or central authorities in accordance with the provisions of the preceding article. However, enterprises that have completed the registration procedures with the local industrial and commercial administrative authority may not be required to go through the registration process again.

Article 14

After registration, enterprises enjoy exclusive rights to their names, limited to a city or county for sole proprietorships and partnerships, and nationwide for companies, within the same business category.

Article 15

Enterprises are permitted to change their business scope, establish branch offices, relocate, change business activities, cease operations, resume operations, suspend operations, or dissolve. However, these changes require approval and must be separately registered.

Article 16

Enterprises organized as joint-stock companies and joint-stock two-partner companies must issue shares only after fully collecting all share capital or the amount specified in the articles of association and completing the registration process. Shares are registered, and they can be freely transferred. Previously issued non-registered shares should be converted to registered shares before registration.

Companies may entrust banks or investment companies to solicit or underwrite their shares.

Companies are prohibited from repurchasing their own shares or using them as collateral.

Chapter 3: Internal and External Relations of Enterprises

Article 17

Regarding internal and external relations, enterprises, whether partnerships following their contracts or companies following their articles of association, must operate within the scope of policies and laws without contradiction.

Article 18

For enterprises organized as companies, the shareholder meeting serves as the highest authority. However, in two-partner companies and joint-stock two-partner companies, the consent of unlimited liability shareholders is required for resolutions.

Shareholder meetings must be held at least once a year.

The methods for adopting resolutions at shareholder meetings and the calculation of voting rights must be clearly defined in the company's articles of association.

Article 19

The person in charge of an enterprise is the investor in a sole proprietorship, a partner or shareholder who conducts business in a partnership, an unlimited liability shareholder or director in a limited company, and a director in a joint-stock company. In two-partner companies and joint-stock two-partner companies, it is the unlimited liability shareholder who conducts business.

The appointed manager or factory director in an enterprise must follow the instructions of the person in charge.

Article 20

The supervisory power in an enterprise lies with partners or shareholders who do not conduct business in partnerships or unlimited companies, with non-business conducting shareholders or supervisors in limited companies, and with unlimited liability shareholders and limited liability shareholders who do not conduct business in two-partner companies. In joint-stock companies, it lies with supervisors.

Article 21

Directors or business-conducting shareholders may hold joint meetings with supervisors to resolve significant business issues in the company. However, they remain individually responsible for their respective duties.

Article 22

The appointment of directors in joint-stock companies requires the consent of more than half of the voting rights present at the shareholder meeting. If a director intends to transfer their shares, it cannot exceed half of the shares they hold. The same applies to limited companies with directors.

The appointment of supervisors in joint-stock companies requires the consent of more than half of the voting rights present at the shareholder meeting. The same applies to limited companies with supervisors.

The appointment of supervisors in joint-stock two-partner companies requires the consent of more than half of the voting rights of limited liability shareholders present at the shareholder meeting.

Article 23

The person in charge of business or their authorized representative (manager, factory director, etc.) in an enterprise, if found to have violated government laws and regulations, partnership agreements, company articles of association, or shareholder meeting resolutions, leading to losses or bankruptcy of the enterprise or causing losses to third parties exceeding one-third of the capital without reporting to the shareholder meeting (for existing enterprises, based on the capital revaluation and adjustment), shall bear legal responsibilities.

When partnership agreements, company articles of association, or shareholder meeting resolutions conflict with existing laws and regulations, the person in charge or their authorized representative may refuse to implement them and request a reconsideration.

Article 24

Enterprises must establish sound accounting systems and maintain necessary account books, forms, and vouchers (in Renminbi as the accounting unit, and in local currency for Northeast China, Inner Mongolia, and Xinjiang). An annual settlement must be conducted at least once a year.

Article 25

For profit distribution in sole proprietorships and partnerships, unless otherwise specified by laws, it is carried out in accordance with contracts or industry practices.

Article 26

For enterprises organized as companies, after annual settlement, if there is a surplus, in addition to paying income tax and making up for losses, at least 10% shall be set aside as reserves for expanding the business and safeguarding against losses. The remaining balance after setting aside reserves may be distributed as dividends to shareholders, with dividends not exceeding 8% per annum. In the case of no surplus or losses, the dividends that should be paid may be supplemented at the discretion of the enterprise after making up for losses in years with a surplus. After setting aside reserves and distributing dividends, the remaining balance may be allocated as follows:

1. Dividends to shareholders, remuneration for directors (or business-conducting shareholders), supervisors, managers, factory directors, etc. (generally not less than 60%).
2. Fund for improving safety and health equipment (generally not less than 15%) in industrial and mining enterprises.
3. Employee welfare funds, employee incentive funds, etc. (generally not less than 15%).
4. Others.

The percentages of the above items shall be determined by the shareholder meeting. The distribution of the second and third items shall be decided by the labor-management negotiation conference or the agreement between labor and management.

Profit distribution should adhere to the principle of not affecting normal production and business operations.

Article 27

For enterprises organized as companies that, after registration, require more than two years of preparation before commencing operations and, without affecting the financial plans of the enterprise, are approved by the central private enterprise bureau, the articles of association may specify the distribution of dividends to shareholders before commencing operations.

Article 28

At the end of the operating year, the person in charge of the enterprise should report the business situation for the year to all investors or the shareholder meeting, submit financial statements, propose a surplus distribution plan, and request approval for the business plan for the next year.

Article 29

Enterprises organized as companies may not invest in other enterprises as unlimited liability shareholders. If they become limited liability shareholders of other enterprises, and the investment exceeds one-third of the subscribed capital of this enterprise (for existing enterprises, based on the capital revaluation and adjustment as stipulated), approval must be obtained from the central private enterprise bureau.

Article 30

When a company needs funds for expanding production, it may issue corporate bonds with the approval of the central private enterprise bureau, through consultations with relevant authorities.

The use of corporate bonds cannot be changed without approval.

Corporate bonds can be freely transferred, and banks or investment companies may be entrusted to solicit or underwrite them.

If the purchasers of corporate bonds need to use gold or foreign exchange to offset the debt, the provisions of Article 10 shall apply.

Article 31

For matters not specified in the regulations or for any matters requiring clarification, general practices or consultations among related parties shall be followed within the scope of policies, without contradiction.

Chapter 4: Supplementary Provisions

Article 32

The implementation measures of these regulations shall be separately formulated by the GAC's finance and economic committee.

Article 33

These regulations shall be implemented and revised after being passed by the GAC's executive meeting.