Partnership Enterprise Law of the People’s Republic of China

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Chapter I — General Provisions

Article 1 — This Law is enacted in accordance with the Constitution of the People’s Republic of China for the purposes of regulating the conduct of partnership enterprises, protecting the lawful rights and interests of partnership enterprises and their partners and creditors, safeguarding the order of the socialist market

economy, and promoting the development of the socialist market economy.

Article 2 — The term “partnership enterprise” as used in this Law refers to a general partnership enterprise or a limited partnership enterprise established by natural persons, legal persons and other organizations within the territory of the People’s Republic of China in accordance with this Law. A general partnership enterprise is composed of general partners who bear unlimited joint and several liability for the debts of the partnership enterprise. Where this Law provides otherwise for the liability of general partners, such provisions shall prevail. A limited partnership enterprise is composed of general partners and limited partners. The general partners bear unlimited joint and several liability for the debts of the partnership enterprise, while the limited partners bear liability for the debts of the partnership enterprise to the extent of the capital contributions they have subscribed.

Article 3 — A wholly state-owned company, a state-owned enterprise, a listed company, or a public welfare institution or public organization shall not become a general partner.

Article 4 — A partnership agreement shall be concluded in writing in accordance with the law by all partners through consensus reached through consultation.

Article 5 — The principles of voluntariness, equality, fairness and good faith shall be observed in the conclusion of a partnership agreement and the establishment of a partnership enterprise.

Article 6 — A partnership enterprise shall pay income tax in accordance with this Law. The partners shall separately pay income tax on the income derived from the partnership enterprise.

Article 7 — A partnership enterprise and its partners shall comply with laws and administrative regulations, observe social morality and commercial ethics, and assume social responsibility.

Article 8 — A partnership enterprise and its partners shall not impair the lawful rights and interests of the creditors of the partnership enterprise and the public interests.

Article 9 — The application for registration of the establishment of a partnership enterprise shall be filed with the enterprise registration authority, and the required documents shall be submitted. Where the documents are complete and conform to the statutory form, the enterprise registration authority shall register the enterprise and issue a business license. Where the documents are incomplete or do not conform to the statutory form, the enterprise registration authority shall register the enterprise only if corrections are made within the prescribed time limit. Before registration, no entity or individual shall carry on business in the name of a partnership enterprise.

Article 10 — Where the registered items of a partnership enterprise are changed, the partners or persons entrusted with the execution of partnership affairs shall apply for change registration with the enterprise registration authority in accordance with the law.

Article 11 — The partners of a partnership enterprise shall complete tax registration in accordance with the law. The partners shall be the taxpayers of the income tax of the partnership enterprise.

Chapter II — Establishment of General Partnerships

Article 12 — To establish a general partnership enterprise, the following conditions shall be met: (1) there are two or more partners; (2) there is a written partnership agreement; (3) the partners have subscribed to or actually paid capital contributions; (4) there is a name and domicile for the partnership enterprise; and (5) other conditions prescribed by laws or administrative regulations.

Article 13 — Where all partners are natural persons, they shall have full civil capacity.

Article 14 — The partnership agreement shall specify the following items: (1) the name and domicile of the partnership enterprise; (2) the purpose and business scope of the partnership; (3) the names or titles and domiciles of the partners; (4) the method, amount and time limit for capital contributions by partners; (5) the

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method of profit distribution and allocation of losses; (6) the method for the execution of partnership affairs; (7) the procedures for admission and withdrawal of partners; (8) the method for dispute resolution; (9) the procedures for dissolution and liquidation of the partnership enterprise; and (10) the liability for breach of contract.

Article 15 — The partnership agreement shall take effect upon the signatures or seals of all partners. The partners shall enjoy rights and assume obligations in accordance with the partnership agreement. The amendment or supplementation of a partnership agreement shall be subject to the unanimous consent of all partners, unless otherwise agreed in the partnership agreement. Where the partnership agreement does not provide for or clearly provides for a matter, the matter shall be decided by the partners through consultation. Where no agreement can be reached through consultation, the matter shall be handled in accordance with this Law or other relevant laws or administrative regulations.

Article 16 — Partners may make capital contributions in currency, in kind, with intellectual property rights, land use rights or other property rights, or by providing labor services. Where a partner makes a capital contribution in the form of in-kind property, intellectual property rights, land use rights or other property rights that requires an appraisal, the appraisal may be determined by all partners through consultation, or an appraisal may be entrusted to a legally established appraisal institution. Where a partner makes a capital contribution in the form of labor services, the appraisal method shall be determined by all partners through consultation and shall be specified in the partnership agreement.

Article 17 — Partners shall fulfill their capital contribution obligations in accordance with the method, amount and time limit for capital contributions stipulated in the partnership agreement. Where a partner makes a capital contribution with non-monetary property, the formalities for the transfer of property rights shall be completed in accordance with the law where required by laws or administrative regulations.

Article 18 — The name of a partnership enterprise shall include the words “general partnership.”

Chapter III — Property of Partnerships

Article 19 — The capital contributions made by partners, the proceeds obtained in the name of the partnership and other property acquired in accordance with the law shall be the property of the partnership enterprise.

Article 20 — Before the liquidation of a partnership enterprise, no partner may request the division of the property of the partnership enterprise, unless otherwise provided in this Law. Where a partner transfers all or part of his or her share of property in the partnership enterprise to a person other than a partner before the liquidation of the partnership enterprise, the unanimous consent of all other partners shall be obtained, unless otherwise agreed in the partnership agreement. Where a partner transfers his or her share of property in the partnership enterprise among partners, the other partners shall be notified.

Article 21 — Where a partner transfers his or her share of property in the partnership enterprise to a person other than a partner, the other partners shall have a preemptive right to purchase such share under the same conditions, unless otherwise agreed in the partnership agreement.

Article 22 — No partner may dispose of the property of the partnership enterprise by pledging or otherwise without the consent of all other partners, unless otherwise agreed in the partnership agreement. Where a partner, in the absence of lawful authority or in excess of authority, disposes of the property of a partnership enterprise, and where the third party was acting in good faith at the time of the disposition, the partnership enterprise shall not assert the invalidity of the disposition against such third party.

Chapter IV — Execution of Partnership Affairs

Article 23 — The partners shall enjoy equal rights to the execution of partnership affairs. One or more partners may be entrusted, in accordance with the partnership agreement or a decision of all partners, to

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execute partnership affairs on behalf of the partnership enterprise. Where the partnership affairs are executed by one or more partners, the other partners shall no longer execute partnership affairs. Where the partnership affairs are executed by one or more partners, the partners who do not execute partnership affairs shall have the right to supervise the execution.

Article 24 — Where a partner executes partnership affairs on behalf of the partnership enterprise, he or she shall periodically report to the other partners on the state of the execution of partnership affairs, the business operations, and the financial status of the partnership enterprise. The proceeds derived by the partner executing partnership affairs from the execution of partnership affairs shall belong to the partnership enterprise, and the expenses incurred and losses suffered shall be borne by the partnership enterprise. The partners shall have the right to inspect the accounting books and other financial information of the partnership enterprise.

Article 25 — Where the partners have different opinions on the execution of partnership affairs, the matter shall be resolved in accordance with the provisions of the partnership agreement or a decision of all partners. Where the partnership agreement does not provide for or clearly provides for the voting method, the method of one person, one vote may be adopted, and the matter shall be decided by a majority of all partners. Change of the principal matters of the partnership enterprise, disposition of the real property of the partnership enterprise, changing the name of the partnership enterprise, providing a guarantee externally, appointing a non-partner as the manager of the partnership enterprise, and other matters stipulated in the partnership agreement shall be subject to the unanimous consent of all partners, unless otherwise agreed in the partnership agreement.

Article 26 — No partner may, on his or her own behalf or on behalf of another person, engage in business competing with the partnership enterprise, unless otherwise agreed in the partnership agreement. No partner may enter into a transaction with the partnership enterprise, unless otherwise agreed in the partnership agreement or the consent of all partners is obtained.

Article 27 — The profits and losses of a partnership enterprise shall be distributed and allocated among the partners in accordance with the proportions stipulated in the partnership agreement. Where the partnership agreement does not stipulate the proportions, the profits and losses shall be distributed and allocated equally among the partners. The partnership agreement shall not stipulate that all profits be distributed to some of the partners or that all losses be borne by some of the partners.

Chapter V — Relations between Partnerships and Third Parties

Article 28 — Where restrictions are imposed on the authority of a partner executing partnership affairs or a manager of a partnership enterprise, the partnership enterprise shall not assert such restrictions against a third party acting in good faith.

Article 29 — A partnership enterprise shall be liable for its debts to the extent of all of its property. Where the property of the partnership enterprise is insufficient to pay its debts, the partners shall bear unlimited joint and several liability. Where a partner, after paying off the debts of the partnership enterprise in excess of the proportion of the losses he or she should bear, shall have the right to recover from the other partners.

Article 30 — A creditor of a partner shall not offset his or her claim against the partner with the debt he or she owes to the partnership enterprise. The creditor of a partner shall not exercise the rights of the partner in respect of the partnership enterprise by means of subrogation. However, where the partner is entitled to claim for distribution of the proceeds from the partnership enterprise, the creditor may apply to the people’s court for enforcement against the partner’s share of property in the partnership enterprise.

Chapter VI — Admission and Withdrawal of Partners

Article 31 — The admission of a new partner shall be subject to the unanimous consent of all partners, and a written admission agreement shall be concluded in accordance with the law. At the time of concluding the admission agreement, the original partners shall truthfully inform the new partner of the business operations and financial status of the original partnership enterprise.

Article 32 — A new partner shall enjoy the same rights and assume the same obligations as the original partners, unless otherwise agreed in the admission agreement. A new partner shall be jointly and severally liable for the debts of the partnership enterprise incurred prior to his or her admission as a partner.

Article 33 — Under any of the following circumstances, a partner may withdraw from the partnership: (1) the cause for withdrawal stipulated in the partnership agreement arises; (2) the withdrawal is approved by the unanimous consent of all partners; (3) causes that make it difficult for the partner to continue participating in the partnership enterprise arise; or (4) other partners have seriously breached their obligations under the partnership agreement.

Article 34 — Where a partner withdraws from the partnership, the other partners shall settle accounts with the withdrawing partner in accordance with the status of property of the partnership enterprise at the time of withdrawal and return the share of property of the withdrawing partner. The method for returning the share of property of the withdrawing partner shall be stipulated in the partnership agreement or decided by all partners, and may be by way of refund in currency or in kind. The withdrawing partner shall be jointly and severally liable for the debts of the partnership enterprise that arose prior to his or her withdrawal.

Article 35 — Where a partner withdraws from the partnership and causes loss to the partnership enterprise as a result, the partner shall be liable for compensation. Where a partner withdraws from the partnership without justifiable reasons, the partner shall be liable for compensation for any loss caused to the partnership enterprise.

Chapter VII — Dissolution and Liquidation of Partnerships

Article 36 — A partnership enterprise shall be dissolved under any of the following circumstances: (1) the term of the partnership expires as stipulated in the partnership agreement and the partners decide not to continue the partnership; (2) the cause for dissolution stipulated in the partnership agreement arises; (3) all partners decide to dissolve the partnership; (4) the number of partners does not meet the statutory requirement for 30 days; (5) the purpose of the partnership stipulated in the partnership agreement has been achieved or cannot be achieved; (6) the business license of the partnership enterprise is revoked, or the partnership enterprise is ordered to close down or is dissolved in accordance with the law; or (7) other reasons provided by laws or administrative regulations.

Article 37 — Where a partnership enterprise is dissolved, a liquidator shall be appointed to carry out the liquidation. The liquidator may be appointed from among all partners, or one or more partners or a third party may be appointed, or a liquidator may be appointed by a people’s court. The liquidator shall perform the following duties during the liquidation period: (1) sorting out the property of the partnership enterprise and preparing a balance sheet and a property inventory; (2) handling the outstanding businesses of the partnership enterprise relevant to the liquidation; (3) paying off the tax arrears of the partnership enterprise; (4) settling the claims and debts of the partnership enterprise; (5) disposing of the residual property of the partnership enterprise after the debts are paid off; and (6) participating in civil lawsuits or arbitration proceedings on behalf of the partnership enterprise.

Article 38 — After a partnership enterprise is dissolved, the original partners shall remain jointly and severally liable for the debts of the partnership enterprise during the period of existence of the partnership enterprise. However, where a creditor fails to assert a claim against the debtor within five years, such liability shall be extinguished.

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Chapter VIII — Limited Partnerships

Article 39 — A limited partnership enterprise shall be established by two or more but 50 or fewer partners, unless otherwise provided by law. A limited partnership enterprise shall have at least one general partner.

Article 40 — A limited partner shall not execute partnership affairs and shall not represent the limited partnership enterprise externally. The following acts of a limited partner shall not be deemed as the execution of partnership affairs: (1) participating in the decision on the admission or withdrawal of a general partner; (2) making suggestions on the business management of the enterprise; (3) participating in the selection of the accounting firm to undertake the audit of the partnership enterprise; (4) obtaining the audited financial and accounting reports of the partnership enterprise; (5) inspecting the accounting books and other financial information of the partnership enterprise where his or her own interests are involved; (6) claiming the rights against the liable partners when the interests of the partnership enterprise are impaired; and (7) filing a lawsuit or applying for arbitration in accordance with the law.

Article 41 — Where a limited partner executes partnership affairs in violation of the provisions and causes loss to the partnership enterprise or other partners, the limited partner shall be liable for compensation. Where a third party has reasonable grounds to believe that a limited partner is a general partner and deals with the limited partner accordingly, the limited partner shall assume the same liability as a general partner for such transaction.

Article 42 — A limited partner may conduct business in competition with the limited partnership enterprise, unless otherwise agreed in the partnership agreement. A limited partner may enter into transactions with the limited partnership enterprise, unless otherwise agreed in the partnership agreement. A limited partner may pledge his or her share of property in the limited partnership enterprise, unless otherwise agreed in the partnership agreement.

Article 43 — A limited partner may transfer his or her share of property in the limited partnership enterprise to a person other than a partner in accordance with the partnership agreement, provided that the other partners are notified 30 days in advance.

Article 44 — Where a general partner is converted into a limited partner or a limited partner is converted into a general partner, the consent of all partners shall be obtained, unless otherwise agreed in the partnership agreement. Where a limited partner is converted into a general partner, the limited partner shall bear unlimited joint and several liability for the debts incurred by the limited partnership enterprise during the period when it was a limited partner. Where a general partner is converted into a limited partner, the general partner shall bear unlimited joint and several liability for the debts incurred by the partnership enterprise during the period when it was a general partner.

Chapter IX — Legal Liability

Article 45 — Where a partner or a person entrusted with the execution of partnership affairs submits false documents or takes other fraudulent means to obtain the registration of the partnership enterprise, the enterprise registration authority shall order it to make corrections and impose a fine of not less than RMB 5,000 but not more than RMB 50,000. Where the circumstances are serious, the enterprise registration authority shall revoke the registration of the partnership enterprise and impose a fine of not less than RMB 50,000 but not more than RMB 200,000.

Article 46 — Where a partnership enterprise fails to undergo change registration in accordance with the law, the enterprise registration authority shall order it to register the change within a specified time limit. Where it fails to register within the time limit, a fine of not less than RMB 2,000 but not more than RMB 20,000 shall be imposed.

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Article 47 — Where a partner who executes partnership affairs causes loss to the partnership enterprise, other partners or the creditors of the partnership enterprise by abusing his or her authority or taking bribes or other illegal income, the partner shall be liable for compensation in accordance with the law.

Article 48 — Where a partner of a general partnership enterprise or a general partner of a limited partnership enterprise causes loss to the partnership enterprise as a result of engaging in business competing with the partnership enterprise, the partner shall be liable for compensation in accordance with the law.

Article 49 — Where a liquidator conceals or transfers the property of the partnership enterprise, or makes false entries in the balance sheet or property inventory, or distributes the property of the partnership enterprise before paying off the debts, he or she shall be liable for compensation in accordance with the law. Where the liquidation is carried out in violation of the provisions of this Law and the liquidation report conceals important facts or contains material omissions, the liquidator shall be liable for compensation in accordance with the law.

Chapter X — Supplementary Provisions

Article 50 — This Law shall apply to the establishment of a partnership enterprise by a foreign investor within the territory of the People's Republic of China, unless otherwise provided by law.

Article 51 — The specific measures for the registration of partnership enterprises shall be formulated by the State Council.

Article 52 — This Law shall come into force on June 1, 2007. The Partnership Enterprise Law of the People's Republic of China adopted on February 23, 1997 shall be repealed simultaneously.

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