Regulations on the Administration of Commercial Franchise of the PRC

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Contents

Table of Contents 1

Chapter I — General Provisions 1

Chapter II — Franchise Business Activities 2

Chapter III — Information Disclosure 2

Chapter IV — Legal Liability 3

Chapter V — Supplementary Provisions 3

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Table of Contents

- Chapter I — General Provisions
- Chapter II — Franchise Business Activities
- Chapter III — Information Disclosure
- Chapter IV — Legal Liability
- Chapter V — Supplementary Provisions

Chapter I — General Provisions

Article 1 — These Regulations are formulated for the purposes of regulating commercial franchise activities, promoting the healthy and orderly development of the commercial franchise sector, and safeguarding the lawful rights and interests of the parties involved.

Article 2 — Engaging in commercial franchise activities within the territory of the People's Republic of China shall comply with these Regulations. For the purposes of these Regulations, "commercial franchising" means business activities whereby an enterprise that owns registered trademarks, enterprise logos, patents, know-how, and other business resources licenses such business resources to other operators for use by means of a contract, and the franchisee carries out operations under a uniform business model in accordance with the provisions of the contract and pays franchise fees to the franchisor.

Article 3 — The commerce authority of the State Council shall be responsible for the supervision and administration of commercial franchise activities nationwide. The commerce authorities of the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government and the commerce authorities of the people's governments of cities divided into districts shall be responsible for the supervision and administration of commercial franchise activities within their respective administrative

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areas in accordance with the provisions of these Regulations.

Chapter II — Franchise Business Activities

Article 4 — A franchisor engaging in franchise activities shall have a mature business model and the capacity to provide the franchisee with long-term operational guidance and service support. A franchisor engaging in franchise activities shall have at least two directly-operated stores and shall have operated such stores for more than one year.

Article 5 — A franchisor shall, within 15 days from the date of the first conclusion of a franchise contract, file the contract with the commerce authority for the record in accordance with the provisions of these Regulations.

Article 6 — A franchisor shall submit the following documents and materials when filing for record:

Article 6.1 — The business license or enterprise registration certificate of the franchisor;

Article 6.2 — Sample texts of the franchise contract;

Article 6.3 — The franchise operation manual;

Article 6.4 — Relevant certification documents proving that the franchisor meets the conditions specified in Article 4 of these Regulations;

Article 6.5 — Other documents and materials as required by the commerce authority of the State Council.

Article 7 — The term of a franchise contract shall be not less than three years, unless otherwise agreed upon by the franchisee. A franchisor and a franchisee may agree on the renewal conditions of the contract in the franchise contract. Where the term of the franchise contract expires and the franchisee applies for renewal, the franchisor shall grant the franchisee priority in renewing the contract under equal conditions.

Article 8 — A franchisor shall provide the franchisee with continuous services such as operational guidance, technical support, and business training. The franchisee shall operate in accordance with the provisions of the franchise contract and shall pay the franchise fees.

Article 9 — Without the consent of the franchisor, the franchisee shall not transfer the franchise right to others. The franchisee shall not disclose or allow others to use the trade secrets of the franchisor that it has acquired.

Article 10 — A franchisor shall publicize the franchise fees, and the standards and methods of calculation of the franchise fees, at its place of business or by other means.

Article 11 — The prices of goods and services that a franchisor requires the franchisee to purchase shall be fair and reasonable and shall not be higher than the market average price of similar goods and services.

Chapter III — Information Disclosure

Article 12 — A franchisor shall provide the franchisee with the franchisor's basic information, basic information on the franchise activities, information on the franchise fees, the operating resources provided to the franchisee, and other relevant information no later than 30 days prior to the conclusion of the franchise contract. The franchisor shall be responsible for the truthfulness, accuracy, and completeness of the information disclosed.

Article 13 — The information disclosed by the franchisor shall include:

Article 13.1 — The name, domicile, legal representative, registered capital, business scope, and scale of the franchisor;

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Article 13.2 — The registration of the franchisor's registered trademarks, enterprise logos, patents, know-how, and other business resources;

Article 13.3 — The number, distribution, addresses, and operating status of the franchisor's directly-operated stores;

Article 13.4 — The number, distribution, addresses, and operating status of the existing franchisees;

Article 13.5 — Litigation, arbitration, or other significant disputes involving the franchisor that may affect the franchisee and their resolution;

Article 13.6 — The administrative penalties imposed on the franchisor and their impact on the franchisee.

Article 14 — During the period of the franchise contract, the franchisor shall promptly provide the franchisee with updated information on the franchise system and business plans. Where the information previously disclosed by the franchisor changes significantly, the franchisee shall be notified in a timely manner.

Chapter IV — Legal Liability

Article 15 — Where a franchisor fails to file or handle filing in accordance with the regulations, the commerce authority shall order it to make corrections within a specified time limit and impose a fine of not less than RMB 10,000 and not more than RMB 50,000. Where the case is serious, a fine of not less than RMB 50,000 and not more than RMB 100,000 shall be imposed and a public announcement shall be made.

Article 16 — Where a franchisor provides false information or conceals important information when disclosing information, the franchisee may rescind the franchise contract. The commerce authority shall order the franchisor to make corrections and impose a fine of not less than RMB 30,000 and not more than RMB 100,000. Where the case is serious, a fine of not less than RMB 100,000 and not more than RMB 300,000 shall be imposed and a public announcement shall be made.

Article 17 — Where a franchisor violates the provisions of these Regulations and the franchisee suffers losses as a result, the franchisor shall be liable for compensation in accordance with the law.

Article 18 — Where the commerce authority or its staff abuse their power, neglect their duties, engage in malpractice, or disclose trade secrets of the franchisor or franchisee learned in the course of performing their duties, sanctions shall be imposed in accordance with the law. Where a crime is constituted, criminal liability shall be pursued in accordance with the law.

Chapter V — Supplementary Provisions

Article 19 — The commerce authority of the State Council may formulate specific implementation measures in accordance with these Regulations.

Article 20 — These Regulations shall take effect on May 1, 2007.

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