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Termination of Foreign Invested Enterprises

(Applicable to Wholly Foreign Owned Enterprise, Sino-Foreign Equity Joint Venture and Cooperative Joint Venture types of foreign invested enterprises)

1. Conditions for Termination

In line with Chinese law, a foreign invested enterprise shall be terminated where any of the following conditions occurs:

- (1) The expiry of the business period stipulated in the articles of association or other reasons for dissolution as stipulated in the articles of association;
- (2) Resolution of shareholders or shareholders' meeting;
- (3) Dissolution due to company merger or division;
- (4) The business license is revoked, ordered to close or be revoked according to law;
- (5) The company was declared bankrupt according to law;
- (6) The people's court shall dissolve it according to law;
- (7) Other dissolution situations as stipulated by laws and administrative regulations.

2. Procedures for Termination

When the conditions for the dissolution of foreign invested enterprises are met, an application for termination shall be submitted on its own and reported to the examination and approval authority for approval. A liquidation group shall be established within 15 days from the day when the cause of dissolution arises, and liquidation shall begin. The liquidation team shall notify the creditors within ten days from the date of establishment and make an announcement in the newspaper within 60 days. Creditors shall declare their claims to the liquidation team within 30 days from the date of receiving the notice, and within 45 days from the date of the announcement if they have not received the notice.

The liquidation group of a limited liability company is composed of shareholders, and the liquidation group of a company limited by shares is composed of the directors or the personnel determined by the general meeting of shareholders.

After clearing the company's assets and preparing the balance sheet and property list, the liquidation group shall formulate a liquidation plan and submit it to the shareholders' meeting, general meeting or people's court for confirmation.

During the liquidation period, the company is still existing, but it shall not carry out business activities not related to liquidation. The company's property shall not be distributed to shareholders before it is paid off in accordance with the provisions of the law. After the company's property is paid for liquidation, employee's wages, social insurance costs, statutory compensation and overdue taxes, , the limited liability company can allocate the remaining assets according to its shareholders' proportion of capital contribution, and the company limited by shares can allocate the remaining assets based on proportion of shareholding.

After the company liquidation is completed, the liquidation group shall prepare a liquidation report, report it to the shareholders' meeting, general meeting or the people's court for confirmation, and submit it to the company registration authority to apply for cancellation of company registration and announce the company's termination.

It is necessary to state here that under most circumstances, the structure of ownership of a foreign-funded enterprise, after its termination, can be changed through the transfer of shareholding rights, with the Chinese partner or other Chinese enterprises buying the shares held by the foreign partner. An enterprise whose structure of ownership has been changed may continue to operate in a new form after re-registration by competent administrative authorities for industry and commerce.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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