

## **LAW OF THE DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA ON EQUITY JOINT VENTURE**

Adopted by Decision No. 10 of the Standing Committee of the Supreme People's Assembly on September 8, 1984, amended by Decision No. 44 of the Standing Committee of the Supreme People's Assembly on January 20, 1994, amended by Decree No. 484 of the Presidium of the Supreme People's Assembly on February 26, 1999, amended by Decree No. 2315 of the Presidium of the Supreme People's Assembly on May 17, 2001, amended by Decree No. 780 of the Presidium of the Supreme People's Assembly on November 30, 2004, amended by Decree No. 1774 of the Presidium of the Supreme People's Assembly on May 23, 2006, amended by Decree No. 2367 of the Presidium of the Supreme People's Assembly on September 26, 2007, amended by Decree No. 2842 of the Presidium of the Supreme People's Assembly on August 19, 2008, and amended by Decree No. 1993 of the Presidium of the Supreme People's Assembly on November 29, 2011

### **Chapter 1 Fundamentals**

#### **Article 1 (Objective)**

This Law is enacted for the purpose of expanding and promoting economic and technical cooperation and exchange with foreign countries through equity joint venture.

#### **Article 2 (Parties to investment)**

Institutions, enterprises and organizations may establish equity joint-venture enterprises with foreign corporate bodies or individuals subject to the approval of the investment management organ. The equity joint-venture enterprises shall be set up mainly in production sectors.

#### **Article 3 (Joint-venture sectors, priority sectors)**

Equity joint ventures may be set up in such sectors as machine-building, electronics, information technology, science and technology, light industry, agriculture, forestry, fisheries, building materials, transport and finance. The State encourages equity joint ventures in the introduction of high technology, scientific research and technological development, manufacturing of internationally competitive goods and construction of infrastructure facilities.

#### **Article 4 (Limited liability)**

An equity joint-venture enterprise shall be liable for the debt incurred in the course of its operations with its registered capital.

#### **Article 5 (Ownership, independence)**

An equity joint-venture enterprise shall have the ownership of the property and property rights contributed by its partners and carry on business independently.

#### **Article 6 (Legal capacity)**

An equity joint-venture enterprise shall be a corporate body of the DPRK from the date of its registration with the investment management organ. The legitimate rights and interests of the equity joint-venture enterprises shall be protected by law.

**Article 7 (Preferential treatment)**

The State shall ensure that equity joint-venture enterprises in priority projects and those with overseas Koreans enjoy such preferential treatment as reduction of or exemption from tax, favourable conditions of land use and preferential bank loaning.

**Article 8 (Applicability)**

The establishment, operation, dissolution and liquidation of an equity joint-venture enterprise shall be conducted in accordance with this Law, Matters not covered by this Law shall be governed by the relevant laws and regulations.

**Chapter 2 Establishment of an Equity Joint-Venture Enterprise**

**Article 9 (Application, date of establishment)**

Partners to an equity joint venture shall, after concluding a joint-venture contract, submit to the investment management organ an application to that effect, accompanied by a copy of the contract, articles of association and feasibility study report. The investment management organ shall review the application within 30 days of receipt thereof, and either issue a notice of approval to the applicant or send a notice of rejection with the reasons thereof stated.

**Article 10 (Registration)**

An equity joint-venture enterprise shall, within 30 days of receiving a notice of approval, be registered with the people's committee of the province (or municipality directly under the central authority) where the enterprise is to be located or with the management organ of the special economic zone. Tax and customs registration shall be made within 20 days of registration with the people's committee of the province (or municipality directly under the central authority) or the management organ of the special economic zone.

**Article 11 (Amount of investment, invested assets, property rights)**

The amount of investment by each partner shall be determined by mutual agreement between the partners. Partners may invest in the form of currency, property in kind, industrial property right, land use right, and right to exploit natural resources. In this case, the value of the property or property rights that have been invested shall be set by agreement between the partners by reference to the prevailing international market price.

**Article 12** (Transfer of share of contribution)

A joint-venture partner may transfer its share of contribution to a third party. In this case agreement of the other partner and approval of the investment management organ shall be obtained.

**Article 13** (Establishment of branch, representative office or agency)

An equity joint-venture enterprise may, subject to the approval of the investment management organ, open its branch, representative office or agency in the DPRK territory, or in a foreign country.

**Article 14** (Term of contribution, investment ratio of intellectual property right)

A joint-venture partner shall make contribution within the time limit prescribed in the notice of approval. Should unavoidable circumstances so require, the term of contribution may be deferred subject to the approval of the investment management organ. Investment in the form of intellectual property rights such as patent, trademark right or industrial design right shall not exceed 20% of the registered capital.

**Article 15** (Registered capital)

The registered capital of an equity joint-venture enterprise shall be over 30-50% of the total investment amount. Where the registered capital is increased, particulars of the change shall be registered with the institution concerned. The amount of registered capital shall not be decreased.

**Chapter 3 Structure and Management of Equity Joint-Venture Enterprises**

**Article 16** (Status of board of directors)

An equity joint-venture enterprise shall have a board of directors. The board of directors shall be the highest decision-making body of the enterprise.

**Article 17** (Functions of board of directors)

The board of directors shall discuss and make decisions on such issues as amending the articles of association, formulating corporate strategy, increase of registered capital, plan for business activities, settlement of accounts, distribution, appointment and dismissal of the manager, assistant manager and auditor, and dissolution of the enterprise.

**Article 18** (Managerial staff)

An equity joint-venture enterprise shall have the manager, assistant manager, accountant and other managerial staff as may be required. The manager shall be accountable to the board of directors for his work.

**Article 19 (Auditor)**

An equity joint-venture enterprise may have an auditor, who shall not be a member of the managerial staff. The auditor shall regularly conduct inspection of the financial situation of the enterprise and shall be accountable to the board of directors for his work.

**Article 20 (Basis of management)**

An equity joint-venture enterprise shall be managed according to the articles of association and the decisions made by the board of directors.

**Article 21 (Date of commencement of operation)**

An equity joint-venture enterprise shall commence its operation within the time limit prescribed in the notice of approval.

Where it is impossible to commence its operation within the prescribed period of time, the date of commencement of operation may be deferred subject to the approval of the investment management organ. The enterprise that had the date of commencement of operation deferred shall pay prescribed arrears.

**Article 22 (Business license, inaugural date)**

An equity joint-venture enterprise shall obtain a license for business operation not later than the scheduled date of commencing operation. The date of receipt of business license issued by the investment management organ shall be the date of inauguration of the enterprise concerned.

**Article 23 (Purchase of materials for operation, marketing of products)**

An equity joint-venture enterprise may, according to the prescribed rates, purchase raw and other materials and equipment or sell its products in the territory of the DPRK. In this case plans for the purchase of materials and marketing of its products shall be submitted to the investment management organ.

**Article 24 (Customs duties)**

Where an equity joint-venture enterprise brings in materials needed for its production and operation or takes out the goods it has produced, customs duties shall not be levied. Where an enterprise sells in the DPRK territory the goods for which customs duties had been exempted, customs duties shall be payable.

**Article 25 (Categories of business)**

An equity joint-venture enterprise shall carry on business within the approved limit of the categories. In case the category of business is to be increased or changed, approval thereof shall be obtained from the investment management organ.

**Article 26 (Employment)**

An equity joint-venture enterprise shall employ the labour of the DPRK. Some of the managerial personnel, and technicians and skilled workers for special jobs may be employed from foreign countries subject to notification thereof to the investment management organ.

**Article 27 (Management of labour)**

An equity joint-venture enterprise shall manage its employees in accordance with the labour-related law and the regulations of the DPRK for foreign-invested enterprises.

**Article 28 (Bank account)**

An equity joint-venture enterprise shall open an account with a bank of the DPRK or a foreign-invested bank. Where an account is to be opened with a bank in a foreign country, approval thereof shall be obtained from the foreign exchange control organ.

**Article 29 (Loan)**

An equity joint-venture enterprise may secure a loan for its business operation either from a DPRK bank or a foreign bank. The Korean Won loaned and the one exchanged from foreign currency shall be used while being deposited in the designated bank.

**Article 30 (Financial management, accounting)**

An equity joint-venture enterprise shall conduct its financial management and accounting in accordance with the accounting regulations of the DPRK for foreign-invested enterprises.

**Article 31 (Insurance)**

An equity joint-venture enterprise that wishes to be insured shall take out the insurance policy of the DPRK. Compulsory insurance shall be taken with the insurance company designated by the central insurance guidance organ.

**Article 32 (Trade union)**

The employees of an equity joint-venture enterprise may organize a trade union. The joint-venture enterprise shall provide conditions for the activities of the union.

**Chapter 4 Settlement of Accounts, Profit Distribution****Article 33 (Fiscal year)**

The fiscal year of an equity joint-venture enterprise shall begin on January 1 and end on December 31. Settlement of accounts for any fiscal year shall be completed by the end of February of the following year.

**Article 34** (Mode of settlement of accounts)

The accounts of an equity joint-venture enterprise shall be settled in such a way as determining the profit by deducting from the gross revenue the costs of materials, fuel, power, and labour, depreciation, purchase expenses, maintenance costs of workshop and company, insurance premium, sales costs and the like, and calculating the net profit by deducting from it the turnover tax or business tax and other expenses.

**Article 35** (Reserve fund)

An equity joint-venture enterprise shall create reserve fund by laying aside 5% of its annual net profit until the reserve fund amounts to 25% of its registered capital. The reserve fund shall be used only for the purpose of covering the losses of the enterprise or increasing the registered capital.

**Article 36** (Types of funds, creation thereof)

An equity joint-venture enterprise shall create funds for production expansion, technological development, bonus for employees, welfare and training. The type, size, benefiting objects and scope of the funds shall be discussed and determined by the board of directors.

**Article 37** (Profit distribution)

An equity joint-venture enterprise shall distribute profits after its document of account settlement has been examined by an auditor and endorsed by the board of directors. The profits shall be distributed among the partners according to the proportion of their contribution after the payment of the income tax and the deduction of the reserve fund and other necessary funds from the net profit.

**Article 38** (Payment of tax, reduction or exemption)

An equity joint-venture enterprise shall pay tax according to the prescribed rates. An enterprise in the priority sector shall be entitled to benefit from reduction or exemption of income tax for a certain period of time.

**Article 39** (Compensation for loss in management)

An equity joint-venture enterprise may use its net profit of a given year to cover the loss incurred in the preceding year. In this case, the compensation period shall be limited to 4 successive years.

**Article 40** (Settlement of accounts)

An equity joint-venture enterprise shall settle its accounts at a fixed period of time. The documents of account settlement shall be submitted to the financial institution concerned within the prescribed period of time.

**Article 41 (Reinvestment)**

The foreign partner of an equity joint-venture enterprise may reinvest in the territory of the DPRK the whole or part of the profit that has been allotted to him. In this case, the income tax on the reinvested profit may be wholly or partially refunded from the total amount of income tax that has already been paid.

**Article 42 (Remittance)**

The foreign partner of an equity joint-venture enterprise may, without any restrictions, remit abroad the profits earned from business and other income, as well as money received after the liquidation of business.

**Chapter 5 Dissolution, Settlement of Disputes****Article 43 (Terms of dissolution)**

An equity joint-venture enterprise shall be dissolved when it is unable to continue its operation for such reasons as the termination of the term of operation, insolvency, default of the contractual obligations by either of the partners, continued operational loss or natural calamities.

**Article 44 (Dissolution before expiry of term)**

An equity joint-venture enterprise may, in case the circumstance demands the dissolution before the expiration of the term of operation, make decision on that matter at the board of directors and dissolve itself subject to the approval of the investment management organ. In this case a liquidation committee shall be organized by the board of directors. The liquidation committee shall settle all the transactions and complete the liquidation of the enterprise and, within 10 days thereof, go through the formalities for the cancellation of the registration of the enterprise. Where it is deemed in the course of liquidation that the enterprise deserves bankruptcy, application to that effect shall be filed with the court of law.

**Article 45 (Extension of term of operation)**

An equity joint-venture may extend the term of operation. In this case the matter shall be discussed and decided at the board of directors 6 months before the termination of the term of operation and submitted to the investment management organ for approval. The term of operation shall be counted from the date when the approval for the establishment of the enterprise was granted.

**Article 46 (Settlement of disputes)**

Any dispute concerning equity joint-venture shall be settled through consultation. In case of failure in consultation, the dispute shall be referred to mediation, arbitration or court.