China Employment Handbook

This handbook is contributed by Mr. Gal Furer and Mr. David Wang, Partners at Broad & Bright Law Firm. The article is an overview of the Chinese Employment Laws (Updated to September 2009). It details the various implementations of HR regulations in China and provides employers with better understanding of the current employment requirements and conditions. In respect that Broad & Bright is a PRC law firm based in Beijing and with a branch office in Shanghai, this handbook embodies references to certain specific stipulations of both Beijing and Shanghai.

Legal Notice: The information provided herein is general in nature and it should not be relied or act upon without specific legal advice designed for a particular case.

I. Options to Engage Personnel

In contrast to many other jurisdictions, China does not allow for at-will employment. The Chinese Labor Contract Law (hereinafter “the CLCL”) sets forth three types of employment contracts: fixed-term, non-fixed term, and contracts established for the completion of specific tasks. Fixed-term contracts specify a specific employment period; non-fixed-term contracts do not stipulate a specific time for the termination of the employment relationship; and contracts established for the completion of specific tasks stipulate that the employment relationship will terminate once the employee completes a specific assignment. All three types of the above employment contract shall be in writing.

An employer is required to enter into a non-fixed term agreement under the following circumstances: (1) The employee has worked for the employer for ten consecutive years¹; (2) The employee has been working for a consecutive period of at least 10 years and is less than 10 years away from his legal retirement age (Male: 60/Female: 50²); (3) If the labor contract has already been renewed for two consecutive terms; or (4) If the employer fails to enter into a written employment contract after one year since the employee starts work.

¹ As a general rule, an employment relationship starts from the time when the employee begins to work for the employer.
² For female cadre, the retirement age is 55.
³ This circumstance only applies to situations when an SOE re-concludes an employment contract with an employee after a restructuring or an employer (such as public institution) first introduces the employment contract system (including when the employer has already paid the severance for the previous working period of the employee before re-concluding or concluding the employment contract).
The CLCL also contains provisions on part-time employment. The pay for part-time employees should be calculated on an hourly basis. The hourly wage for part-time employees cannot be lower than the statutory minimum hourly wage for the relevant locality. A part-time employee cannot work longer than four hours a day or more than 24 hours in a week. Part-time employment relationships can be established through oral agreements. Either party to a part-time employment relationship can terminate the relationship at any time without reason and without paying any financial compensation. Part-time employees may simultaneously enter into other employment agreements, so long as the additional agreements do not prejudice the performance of the original part-time employment agreement. The payment cycle for part-time employees cannot exceed 15 days.

In practice, companies sometimes engage personnel as independent contractors (“Consultants”). In such scenarios, an employer-employee relationship will not be established formally, and the provisions of the CLCL will not apply. However, depending on the specific conditions, there is a risk that in case of dispute with the “Consultant”, the competent tribunal may decide that a de-facto employer-employee relations exists, and therefore order the payment of all or part of the employee’s benefits retroactively,

II. Contract Terms

Except for part-time employment agreements, the CLCL requires every employment contract to be executed in writing. An employer must enter into an employment contract with an employee within one month after the employee starts to work. If a contract is not entered into after the one month period, but before a year from the start of employment, then beginning from the second month of employment the employer shall pay an employee twice the amount of his or her salary each month. If a contract is not entered into within one year after the employee started work, in addition to the double salary payment, the employee will also be deemed to have entered into a non-fixed-term contract with the employer. Moreover, the employment contract must specify the following terms: (1) The employer's name, domicile, and legal representative or senior person-in-charge; (2) The employee’s name, domicile, and identity card number or other valid certificate number; (3) The employment period; (4) A description of the relevant job and the location of employment; (5) Working conditions and workplace safety; (6) Work-hours, break time, and vacations; (7) Remunerations; (8) Social security payments; and (9) Other matters required by laws or regulations. The employer and employee may also negotiate and include non-mandatory terms such as confidentiality and non-competition clauses, probationary periods, and benefits. An employer may face several potential consequences for failing to include mandatory terms in an employment contract, including administrative fines and having the contract be interpreted as a non-fixed term contract.

III. Important Contractual Provisions
a) Probation Period
Except for part-time employment relationships, the parties may agree to include a probationary period in the employment contract. An employer may only impose one probation period on each employee. An employee’s wage during the probation period must be either the minimum wage for the same position with the same employer or at least 80% of the salary stipulated in the contract (but in any case not less than the minimum wage at the locality). If an employment contract contains a probation period without stipulating an employment period, the probation period will be considered void and the terms of the probation period will be treated as the terms of the contract. An employee must provide a three-day notice before terminating the employment during the probation period. The employer may terminate the employment relationship during the probation period if it finds that the employee does not meet the recruitment conditions. In such a situation, the employer must provide an explanation for the termination, but is not required to provide severance pay. The duration of the probation period is based on the term of the employment contract as follows:

<table>
<thead>
<tr>
<th>Contract Term</th>
<th>3 months ≤ and &lt; 1 year</th>
<th>1 year ≤ and &lt; 3 years</th>
<th>≥ 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probation Period</td>
<td>No more than 1 month</td>
<td>No more than 2 months</td>
<td>No more than 6 months</td>
</tr>
</tbody>
</table>

b) Non-Compete/Confidentiality
The CLCL permits employers to negotiate confidentiality and non-competition clauses in certain employees’ employment contracts; however, in order to enforce the non-competition clauses, the employee must be financially compensated during the non-competition period. Only senior managers, senior technicians, and other employees who have access to confidential information may be subject to non-competition or confidentiality agreements. The employer and employee can negotiate the scope of a non-competition agreement, but the scope must comply with existing laws and regulations. The duration of a non-competition agreement may not exceed two years. If the employee breaches the confidentiality or non-competition clause, he or she may be required to pay liquidated damages. There is no limit to the amount of liquidated damages, but the amount should be negotiated and stipulated in the employment contract.

c) Special Training
If an employer provides an employee with specialized training, the employer may stipulate a service period for that employee. If the employee breaches the service period, he or she may

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4 In respect to confidentiality obligation breach, under the principal of PRC Civil laws and PRC Contract Law, the parties may agree liquidated damages for such breach.
be required to pay liquidated damages. The amount of liquidated damages should be
provided in the employment contract and may not exceed the cost of the training provided by
the employer. The amount of liquidated damages should not exceed the prorated cost of
training during the unperformed service period.

Specialized training and non-competition agreements are the only circumstances when an
employer may stipulate liquidated damages in an employment contract under the PRC Labor
Contract Law.

d) Working Hours/Overtime Work
There are three types of working hour systems in China: the 8-hour regular working system,
the comprehensive working hour system, and the non-fixed working hour system. Usually, a
company is required to obtain the local labor authority’s approval in order to adopt the
comprehensive working hour system or non-fixed working hour system (In Beijing and
Shanghai senior managers may work under the non-fixed system without approval of the
labour bureau). Under an 8-hour regular working system and a comprehensive working hour
system: (1) if the employee works overtime (exceeding 8 hours/day or 40 hours/week) during
the week, the employer is required to pay 150% of the salary for the overtime working hours;
(2) if the employee works overtime (exceeding 40 hours/week) during the weekend, the
employer is required to pay double salary for the overtime working hours; and (3) if the
employee works during a public holiday (such as national days, spring festival, etc.), all of the
hours worked during the holiday are considered overtime and the employer is required to pay
three salary for all of the hours. The concept of “overtime work” does not apply to the
non-fixed working hour system; however, in some localities, an employer who adopts the
non-fixed working hour system, may be required to pay triple salary to employees who work
during public holidays.

e) Compensation
Compensation consists of five parts: base salary, overtime work salary, incentives/bonuses,
allowances, and benefits. Generally, the sum of the first four parts is an employee’s gross
salary, which will be used to calculate the social benefits and the severance payment.
However, if an allowance is paid in the form of a reimbursement, the allowance may be
regarded as a reimbursement, which will not be included in the gross salary composition.

1. Base Salary - Base salary is paid on a monthly basis. The current minimum wage for
   Beijing is RMB 800 per month and for Shanghai is RMB960; however, due to a lack of
   managerial talent, salaries for mid-level positions and experienced professionals are
   rapidly increasing.
2. Overtime Work Salary - See elaboration above.
3. Incentives/Bonuses - Incentives generally depend on individual performance and can be
   provided on a monthly, quarterly, or annual basis. There are several types of incentives,
including individual performance plans, team performance plans, cash profit sharing plans based on organizational profitability, comprehensive performance plans, sales bonus plans, sales commissions, and special recognition awards. Most employers, although not obligated to do so, pay annual bonuses during the Chinese Spring Festival Holiday. These annual bonuses are often referred to as the “13th Month Pay” because they are generally equivalent to one-month’s salary.

4. Allowances - Allowances are usually not obligatory, but in some localities, certain special allowances are mandatory, for example, Beijing municipality issued a local regulation (Jing Lao She Zi Fa (2007) No. 123) requiring the employer to give a high-temperature working allowances (at least 60 RMB/day outdoors or 45 RMB/day indoors) to employees that work in temperatures above 33°C from June to August. Allowances generally include stipends for transportation, meals, and cellular phones. Some allowances may be deductible in regard to individual income tax purposes.

5. Social Benefits - Both employers and employees must pay mandatory contributions for social benefits for every employee. The contributions are based on a portion of the employee’s total compensation and the proportions differ among provincial and local governments. For reference, the social benefits plans for Beijing and Shanghai residents are respectively outlined below:

For Beijing:

<table>
<thead>
<tr>
<th>Social Benefits</th>
<th>Contribution Base</th>
<th>Contribution Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>By employer</td>
</tr>
<tr>
<td>Pension insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>(Maxima Cap: 300% of the Average Monthly Salary of the Public in Beijing in the Previous Year (“AMSPBP”); Minimum Base: 40% of the AMSPBP)</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year</td>
<td>1.5%</td>
</tr>
<tr>
<td></td>
<td>(Maxima Cap: 300% of AMSPBP; Minimum Base: 40% of AMSPBP)</td>
<td></td>
</tr>
<tr>
<td>Medical insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year</td>
<td>Basic medical treatment: 9% +1% for Large-sum medical</td>
</tr>
<tr>
<td></td>
<td>(Maxima Cap: 300% of AMSPBP; Minimum Base: 60% of AMSPBP)</td>
<td></td>
</tr>
</tbody>
</table>

5 The AMSPBP of Beijing in 2008 is RMB 3,726 and the AMSPBP of Shanghai in 2008 is RMB 3,292.
<table>
<thead>
<tr>
<th>Service</th>
<th>Treatment Description</th>
<th>Treatment Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workplace insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year (Maxima Cap: 300% of AMSPBP; Minimum Base: 40% of AMSPBP)</td>
<td>0.2%-3%</td>
</tr>
<tr>
<td>Maternity insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year (Maxima Cap: 300% of AMSPBP; Minimum base: 60% of the AMSPBP)</td>
<td>0.8%&lt;sup&gt;6&lt;/sup&gt;</td>
</tr>
<tr>
<td>Public housing fund</td>
<td>Average Monthly Salary of the Employee in the Previous Year Maximum Cap after June 2009 is RMB 2,682.</td>
<td>12%</td>
</tr>
</tbody>
</table>

<sup>6</sup> Only the employees with a Beijing resident permit (“Hukou”) are entitled to this benefit.
For Shanghai

<table>
<thead>
<tr>
<th>Social Benefits</th>
<th>Contribution Base</th>
<th>Contribution Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>By employer</td>
</tr>
<tr>
<td>Pension insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>(Maxima Cap: 300% of AMSPBP; Minimum Base: 60% of AMSPBP)</td>
<td></td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>(Maxima Cap: 300% of AMSPBP; Minimum Base: 60% of AMSPBP)</td>
<td></td>
</tr>
<tr>
<td>Medical insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>(Maxima Cap: 300% of AMSPBP; Minimum Base: 60% of AMSPBP)</td>
<td></td>
</tr>
<tr>
<td>Workplace insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year</td>
<td>0.5%</td>
</tr>
<tr>
<td></td>
<td>(Maxima Cap: 300% of AMSPBP; Minimum Base: 60% of AMSPBP)</td>
<td></td>
</tr>
<tr>
<td>Maternity insurance</td>
<td>Average Monthly Salary of the Employee in the Previous Year</td>
<td>0.5%</td>
</tr>
<tr>
<td></td>
<td>(Maxima Cap: 300% of AMSPBP; Minimum base: 60% of the AMSPBP)</td>
<td></td>
</tr>
<tr>
<td>Public housing fund</td>
<td>Average Monthly Salary of the Employee in the Previous Year Maximum Cap after July 1, 2009 is RMB 1,382; Minimum Base after July 1, 2009 is RMB134.</td>
<td>7%</td>
</tr>
</tbody>
</table>

For part-time employees, the employer is only required to pay workplace insurance. The other social benefits shall be fully borne by the part-time employee at his/her own cost.

According to recent developments in some localities (such as Tianjin, Suzhou, etc.), foreign employees may also be entitled to the social benefits listed above.

**f) Sick Leave**
1. Sick Leave is the allotted time period when an employee stops working in order to be treated for an illness or a non-work related injury, and during which an employer is prohibited from terminating the employee.
2. The period of the sick leave, which ranges from 3 to 24 months, is based on the total working period of the employee and the working period of the employee with the current employer:

<table>
<thead>
<tr>
<th>Working Period with Current Employer</th>
<th>Total working period</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10</td>
<td>&lt;10</td>
</tr>
<tr>
<td>≥10</td>
<td>≥10</td>
</tr>
</tbody>
</table>

---(Sick Leave Days)---

<table>
<thead>
<tr>
<th>Period</th>
<th>Total month</th>
<th>Total month</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5 years</td>
<td>3 months</td>
<td>3 months</td>
</tr>
<tr>
<td>≥5–&lt;10 years</td>
<td>6 months</td>
<td>9 months</td>
</tr>
<tr>
<td>≥10–&lt;15 years</td>
<td>12 months</td>
<td>18 months</td>
</tr>
<tr>
<td>≥15 – &lt;20 years</td>
<td>18 months</td>
<td>18 months</td>
</tr>
<tr>
<td>≥20 years</td>
<td>24 months</td>
<td>24 months</td>
</tr>
</tbody>
</table>

3. Salary Payment during Sick Leave

Different localities have different requirements on the minimum salary paid to an employee for sick leave. For example, in Beijing, the minimum salary paid during sick leave shall be no less than 80% of Beijing’s minimum salary, which is RMB 800. However, the common practice for companies in China is to provide a full-salary for a 10-day period of sick leave.

\[ g) \text{ Annual Leaves} \]

1. In General

An employee who has worked continuously for one or more years (including any working periods with different employers) is entitled to paid annual leave based on his or her working period as follows:

<table>
<thead>
<tr>
<th>Working Period</th>
<th>Annual Leave</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥1 years – &lt; 10 years</td>
<td>5 days</td>
</tr>
<tr>
<td>≥10 years – &lt; 20 years</td>
<td>10 days</td>
</tr>
<tr>
<td>≥20 years</td>
<td>15 days</td>
</tr>
</tbody>
</table>

2. Paid Annual Leave for New Employee

A new employee that has continuously worked for at least one year with a previous employer is entitled to paid annual leave based on the following formula:

Annual Leave Days with New Employer= the number of days from the time when the employee is employed by current employer to the end of the calendar year/365 × the days of annual leave he is entitled to based on his previous employment. If the calculation result is less than one day, the employee is not entitled to paid annual leave in the current year.

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3. **Compensation for the Unused Annual Leave**

If the employer requires an employee to forfeit any of the employee’s annual leaves (because of additional work, etc.), the employee is entitled to an additional 200% of his daily income for each day of leave he is asked to forfeit.

**IV. Employee Rules**

Employee rules can cover many terms that are left out of employment contracts, such as work discipline. Effective employee rules are binding on the employee. Should the employee break any of the employee rules, the employer can use the employee rules as a basis for dismissal.

In order to be valid, employee rules must satisfy the following conditions:

1. The employee rules shall be made through a democratic process and should be discussed with the trade union or employee representative congress. It is recommended to have a majority of the employees approve the employee rules by affixing their signatures to the employee rules after some discussion with the employer;

2. The content of the employee rules shall not violate PRC laws and regulations; and

3. The employee rules must be published and made available to the employees.

**V. Role of Labor Unions**

Generally, an employer with 25 or more members (employees) shall establish a basic-level trade union committee. If the members are less than 25, a basic-level trade union committee may be established separately. A basic-level trade union committee may also be established by the members of two or more employers. An employer who establishes a labor union is required to pay an annual fee, 2% of the total salary of all the employees, for the activity costs of its established labor union. Although in practice, many small to mid-sized companies generally do not have labor unions, in some localities, employers who do not establish a labor union one year after its incorporation are still obligated to pay an annual fee to the local trade union as a preparation fund for the establishment of the labor union.

**VI. Collective Contracts**

Besides entering into an individual employment contract with every employee, the employer can conclude a collective contract through a labor union or an employee representative congress that acts on behalf of all the employees. A collective contract may address labor compensation, working hours, rest, leave, work safety, benefits, and other employment conditions. The conditions stipulated in the individual employment contract shall not be lower than those stipulated in the collective contract. The collective contract must be reported to the Labor Administrative Department. Unless the Labor Administrative Department objects to the contract, the contract shall become effective 15 days after the
Labor Administration Department receives the contract. Generally, only large companies enter into collective contracts.

VII. **Labor Dispatch Agencies**

The CLCL permits the use of labor dispatch agencies (such as Fesco, CIIC, etc.) to serve as intermediaries between the employer and the employee. Labor dispatch agencies enter into contracts with potential employees, establishing an employment relationship, and then enter into separate contracts with employers, establishing a contractual relationship, in order to “dispatch” the employee to the employer. Labor dispatch agencies are generally used for temporary, auxiliary, or substitute positions. Many representative offices of foreign companies use labor dispatch agencies because foreign representative offices are not permitted to directly hire any employee. In practice, employers use labor dispatch agencies to retain employees on a fixed term basis that would otherwise be required to sign non-fixed term contracts. According to the CLCL, contracts between the dispatch agency and the employee must be for fixed terms of at least two years. The contract between the dispatch agency and the employer must stipulate the number of employees that will be dispatched, the terms of the dispatch, the amounts and terms of remunerations and social security payments, and liabilities for breach of the agreement. Although dispatched personnel are not technically employees of a company, a company is obligated, among other things, to implement state labor standards and provide the corresponding work conditions and labor protection. Therefore, employers still have many obligations under the CLCL with respect to dispatched employees. For instance, an employer must still provide dispatched employees with the work conditions, pay overtime remunerations and performance base bonuses, and apply the same wage adjustment system that is applied to regular employees. It is recommended that an employer shall enter into a contract with a dispatched employee to provide for all the rights and obligations that are not covered by the dispatch agreement.

VIII. **Termination by Employer**

An employer and an employee may mutually agree to terminate an employment relationship. However, when an employer unilaterally terminates an employment contract, it shall provide advance notification to the labor union(if no labor union is established, the employer better report the dismissal to the local labor union to perfect the unilateral termination in respect to the termination procedure legitimacy.), providing a written explanation for the termination. The labor union can require the employer to rectify any situation where the employer has violated any laws or regulations, or any stipulations in the labor contract. The employer must consider the union’s opinions. If the employer does not inform the labor union of the unilateral dismissal, a court may invalidate the termination of employment.

a) The employer may unilaterally terminate the employment immediately without paying...
severance compensation under any of the following circumstances:

1. The employee fails to meet the employment conditions during the probation;
2. The employee seriously violates the employer’s internal rules system;
3. The employee causes serious harm to the employer by neglecting his/her duties or engaging in acts for personal gain;
4. The employee simultaneously enters into an employment relationship with any other employer and thus seriously affects his/her ability to complete the tasks assigned by the employer, or the employee refuses improve his/her performance after the employer has pointed out the problem;
5. The employee, by means of deception or coercion or by taking advantage of the employer’s difficulties, forces the employer to conclude or change the employment contract against the employer’s true will; or
6. The employee is held liable for criminal liabilities.

b) The employer may unilaterally terminate the employment by providing the employee with a 30-day prior notice or by paying one month’s wage in lieu of such notice if:

1. After the expiration of the prescribed period for sick leave, the employee is still sick or injured from a non-work-related event and cannot resume his/her original position or any other position arranged by the employer;
2. The employee remains incompetent for his/her position after training or being assigned to another position; or
3. The objective situation on which the conclusion of the employment contract is based has considerably changed, making it impossible to perform the employment contract, and the employer and employee have not reached an agreement on amending the employment contract after negotiations.

c) Collective Dismissals

1. An employer can engage in collective dismissals in special circumstances such as restructuring pursuant to PRC Enterprise Bankruptcy Law (2007), financial difficulties, and other situations provided by law. If an employer wants to terminate 20 or more employees or less than 20 employees, but the layoff accounts for 10% of the total number of the employees, the employer must first provide a 30-day prior notice to the labor union explaining the collective dismissal and report the employee reduction plan to the labor administration department.

d) Restrictions on Termination
Employers may not, through collective dismissal or unilateral termination as described in part c) above, terminate employees who:

1. Engage in operations that expose them to occupational disease hazards and have not undergone an occupational health examination before leaving their positions, or are suspected to have an occupational disease and have been diagnosed or are under medical observation;
2. Have lost or partially lost their capacity to work due to an occupational disease or a work-related injury that occurred during their employment with the employer;
3. Are in their pregnancy, confinement, or nursing period;
4. Have been working with the employer continuously for at least 15 years and are less than five years away from legal retirement (Male 60/ Female 50); or
5. Other laws or regulations prohibit their unilateral termination.

e) Other Procedural Requirements
Generally, if an employment contract expires while the employee is under any of the circumstances described directly above, the term of the contract shall be extended until the relevant circumstance ceases to exist. However, relevant provisions on work-related injury insurance shall govern the expiration of contracts for employees who have lost or partially lost their capacity to work due to occupational disease or a work-related injury that occurred during their employment.

IX. Termination by the Employee

a) An employee may terminate his/her employment if the employee provides a thirty-day prior written notice. During the probationary period, an employee can terminate his/her employment by providing a three-day notice.

b) An employee can immediately terminate his/her employment if the employer commits any of the following acts:
   i. Fails to provide work-place protection or work conditions as specified in the contract;
   ii. Fails to timely pay the full amount of remunerations;
   iii. Fails to pay social security premiums;
   iv. The employer’s internal rules and regulations violate PRC laws or regulations and impair the rights and interests of the employees;
   v. The employer, by means of deception or coercion or by taking advantage of the employee’s difficulties, forces the employee to conclude or change the employment contract against the employee’s true will;
   vi. If an employer forces an employee to work through use of violence, threats, or
illegal restraint of personal freedom, or the employer violates safety regulations and requires an employee to perform dangerous operations that endanger the employee’s personal life; or

vii. Other circumstances provided by laws or regulations that allow the employee to terminate the employment relationship.

X. **Severance Pay**

A. **When Must an Employer Pay Severance Pay?**

An employer must provide an employee with severance pay under the following circumstances:

i. The employee terminates the employment for reasons set forth in Part IX (b) above;

ii. The employer proposes to terminate the labor contract and reaches an agreement with the employee on the termination;

iii. The employer unilaterally terminates the employment under the conditions described in Part VIII (b) and (d) above;

iv. The employer engages in a collective dismissal;

v. The employer does not renew a fixed-term contract that has expired, unless the employee refuses to renew the contract although the conditions offered by the employer are equivalent or better than those provided in the original contract;

vi. The employment is terminated because the employer is declared bankrupt, the employer’s business license is revoked, the employer is ordered to close his business or dissolve, or the employer decides to liquidate its business ahead of schedule; or

vii. Other circumstances as provided in other laws and regulations.

B. **Calculation of Severance Pay**

Because the new CLCL was adopted in 2008, severance pay is calculated different for employment periods before 2008 and employment periods after 2008. Therefore, if an employee commenced employment before 2008 and was terminated under conditions requiring severance pay, the employer would employ one method to calculate severance pay for employment periods before 2008 and another method for periods after 2008. The total severance pay is the sum of the severance pay for periods before 2008 and the severance pay for periods after 2008.

i. **Severance Pay for Periods after 2008**
Severance pay is based on the number of years an employee has worked for the employer and the rate of the employee’s monthly gross salary for each full year the employee worked. Any period of six months or more shall be considered one-year for the purpose of calculating severance pay. Severance pay for any period less than six months shall be calculated at one-half of an employee’s monthly gross monthly salary. Monthly gross salary is defined as the employee’s average monthly wage for the 12 months prior to the termination of his contract, including bonuses, overtime, and other monetary income. (Severance Payment = monthly gross salary × the number of full years that the employee works + one-month gross salary for working periods that do not reach a full year, but exceed 6 months; or half-month gross salary for working periods that do not exceed 6 months).

There are two limits to severance pay if an employee’s monthly salary exceeds three times the average monthly gross salary for the previous year in the relevant locality (for example, the standard average monthly gross salary of the employee of 2008 in Beijing is RMB 3,322 and that in Shanghai is RMB3,292): (1) the monthly gross salary is limited to three-times the average monthly gross salary for the previous year in the relevant locality; and (2) the total severance payment paid to the employee shall be no more than 12 times the employee’s monthly gross salary.

ii. Severance Pay for Periods Before 2008

For employment periods before 2008, severance pay is calculated at the employee’s monthly gross salary times the number of full years the employee worked for the company (prior to 2008) plus one-month gross salary for any working periods not amounting to a full year. (Severance Payment for the Working Period before 2008 = monthly gross salary × the number of full years that the employee worked + one month gross salary for the working period less than one full year).

In some termination situations (such as termination by agreement and termination due to the incompetence of the employee), the maximum severance payment shall not exceed 12 times of the employee’s monthly gross salary.

XI. Official Public Holidays

Generally, an employee is entitled to the official Chinese public holidays, which amount to 11 working days. These holidays include: New Year’s Day (January 1), Spring Festival (3 days, from the 1st day to the 3rd day of the 1st lunar month), Tomb-sweeping Day (1 day, usually between April 4 and April 6), Labor Day (May 1), Dragon Boat Festival (the 5th day of the 5th lunar month), Mid-Autumn Festival (the 15th day of the 8th lunar month) and National Day (3 days, from October 1 to October 3).
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List of Relevant PRC Laws and Regulations

1. PRC Labor Law (1995)/ 中华人民共和国劳动法
2. PRC Labor Contract Law (2008)/ 中华人民共和国劳动合同法
4. Measures for Economic Compensations due to Violation or Rescission of Labor Contracts (1995)/ 违反和解除劳动合同的经济补偿办法
5. Regulation on Paid Annual Leave for Employees (2008)/ 职工带薪年休假条例
6. Implementation Measures for Paid Annual Leave for Employees of Enterprises (2008)/ 企业职工带薪年休假实施办法
7. Regulation on Public Holidays for National Annual Festivals and Memorial Days (2007)/ 全国年节及纪念日放假办法
8. Sick Leaves Regulation due to Illness and Non Work Related Injury Suffered by Employees of Enterprises (1995)/ 企业职工患病或非因工负伤医疗期规定
9. PRC Trade Union Law (2001)/ 中华人民共和国工会法
10. Approval Measures on Non-fixed Working Hour System and Comprehensive Working Hour System (1995)/ 劳动部关于企业实行不定时工作制和综合计算工时工作的审批办法
11. Interpretation of the Supreme People’s Court on Several Issues about the Application of Laws for the Trial of Labor Dispute Cases (2001)/ 最高人民法院关于审理劳动争议案件适用法律若干问题的解释