## INTRODUCTION

This section sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our Group's operation and business.

## ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China are governed by《中華人民共和國公司法》(Company Law of the PRC*) ("**Company Law**"), which was adopted by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 29 December 1993 and became effective on 1 July 1994. It was amended on 27 October 2005 and became effective from 1 January 2006. Companies are classified into two categories — limited liability companies and limited companies by shares. The Company Law also applies to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by《中華人民共和國外資企業法》(Wholly Foreign-owned Enterprise Law of the PRC*) ("**Wholly Foreign-owned Enterprise Law**"), which was promulgated on 12 April 1986 and amended on 31 October 2000, and《中華人民共和國外資企業法實施細則》(the Implementation Regulation of the Wholly Foreign-owned Enterprise Law*), which was promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises is governed by《外商投資產業指導目錄》(Guidance Catalogue of Industries for Foreign Investment*) ("**Catalogue**"), which was amended and promulgated by the Ministry of Commerce of the PRC (中華人民共和國商務部) and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on 31 October 2007. The Catalogue is a long-standing tool that PRC policy makers have used to manage and direct foreign investment. Similar to the 2002 and 2004 editions, the Catalogue divides industries into three basic categories: encouraged, restricted, and prohibited. Industries not listed in the Catalogue are generally open to foreign investment unless specifically barred in other PRC regulations. Foreign-invested enterprises in encouraged industries are often permitted to establish wholly foreign-owned enterprises. Parts of the industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese partner as the majority shareholder. Restricted category projects are also subject to higher-level government approvals. Industries in the prohibited section are closed to foreign investment. According to the Catalogue, the PRC government encourages foreign investments in the production of textiles with new and advanced technologies, weaving and dyeing processes as well as the post refining process of high-end fabric materials.

## IMPORTATION AND EXPORTATION OF GOODS

Pursuant to《中華人民共和國對外貿易法》(Foreign Trade Law of the PRC*) ("**Foreign Trade Law**"), which was promulgated on 6 April 2004 and became effective on 1 July 2004, foreign trade dealers engaged in import and export of goods or technologies shall register with the authority responsible for foreign trade under the State Council of the PRC (中華人民共和國國務院) ("**State Council**") or its authorised bodies unless laws, regulations and the authority responsible for foreign trade under the State Council do not so require. Where foreign trade dealers fail to register as required, the customs authority shall not process the procedures of declaration, examination and release for the imported and exported goods.

Pursuant to《中華人民共和國海關對報關單位註冊登記的管理規定》(Administrative Provisions for the Registration of Customs Declaration Agents by the PRC Customs Authorities*), which was promulgated on 31 March 2005 and became effective on 1 June 2005, as one type of declaration agents, "consignor or consignee of export or import goods" used in it means any legal person, other organisation or individual that directly imports or exports goods within the territory of the PRC. Consignors and consignees of import and export goods shall go through declaration agent registration formalities with their local customs authorities in accordance with the applicable provisions. After going through the registration formalities with customs authorities, consignors and consignees of import and export goods may handle their own declarations at any customs port or any locality where customs supervisory affairs are concentrated within the customs territory of the PRC. A PRC Customs Declaration Enterprise Registration Certificate is valid for a period of two years.

Pursuant to《中華人民共和國貨物進出口管理條例》(Regulations of the PRC on the Administration of Import and Export of Goods*), the administrative measures that China adopts to control exporting goods mainly include export quotas, export licenses, state-operated trade restrictions, designated trading and passive export quotas. Since China's admission into the WTO in 2001, the above administrative measures to control textile export have been gradually abolished.

Pursuant to《出口國營貿易管理貨物目錄》(Catalogue of Goods Subject to State-operated Export Trade Administration*) and《出口指定經營管理貨物目錄》(The Catalogue of Goods Subject to Export Designated Trade Administration*), China no longer implements state-operated trade controls and designated trading on the export of textile products.

Pursuant to《關於簽發2009年度紡織品出口許可證件的通知》(Circular on Issues Concerning Textile export license in 2009*), China no longer implements export quotas and export licenses controls on the export of textile products.

## TAXATION

### Income tax

#### *General provisions*

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by《中華人民共和國外商投資企業和外國企業所得税法》(Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises*) ("**FIE Tax Law**"), which was promulgated on 9 April 1991 and became effective on 1 July 1991, and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local tax at the rate of 3% unless a lower rate was provided by other laws or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempted from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a 50% reduction in the following three consecutive years.

According to the new EIT Law, which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008. In order to clarify some provisions in the EIT Law,《中華人民共和國企業所得税法實施條例》(Implementation Rules to the EIT Law*) ("**Implementation Rules**") was promulgated on 6 December 2007 and became effective on 1 January 2008. The EIT Law provides certain relief during the transition period to enterprises that were established prior to 16 March 2007: (i) if foreign-invested enterprises enjoyed preferential tax treatment under the then effective laws and regulations, their applicable tax rate will be gradually increased to coincide with the new tax rate within five years starting from 2008; and (ii) if foreign-invested enterprises were enjoying the preferential tax treatment period under the then effective laws and regulations, such foreign-invested enterprises can continue to enjoy the preferential treatment until its expiry. However, if an enterprise has not started to enjoy the tax preferential treatment, year 2008 will be deemed as the first profit-making year in which the tax preferential treatment period commenced.

#### *Special provisions*

Pursuant to the EIT Law and its Implementation Rules, where non-resident enterprises that have not set up institutions or establishments in China, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall pay enterprise income tax in relation to the income originating from China. The incomes originating from China include income from transfer of property such as equity.

Furthermore,《關於企業重組業務企業所得税若干處理問題的通知》(Circular on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business*), which was promulgated on 30 April 2009 and became effective on 1 January 2008, shall be observed by parties involved in the equity acquisition. According to the aforesaid circular, "equity acquisition" refers to a transaction that an enterprise (hereinafter referred as the acquiring enterprise) purchases the equities of another enterprise (hereinafter referred to as the acquired enterprise) to realise the control over the acquired enterprise. The forms of the consideration payment by the acquiring enterprise include equity payment, non-equity payment or combination of both. As a result of the application of general tax process (tax process in connection with enterprise restructuring applies general tax process provisions and special tax process provisions respectively based on different conditions), in enterprise equity acquisition, and asset acquisition and restructuring, relevant transactions shall be processed as follows: (1) the acquired enterprise shall determine the gains or losses from transfer of equities and assets; (2) the tax base for the equities or assets obtained by the acquiring party shall be determined on the basis of fair value; and (3) other relevant issues on income tax payment by the acquired enterprise remain unchanged in principle.

The matters concerning enterprise income tax on incomes from non-resident enterprises' equity transfers is particularly governed by《國家税務總局關於加強非居民企業股權轉讓所得企業所得税管理的通知》(Circular of the State Administration of Taxation on Strengthening the Administration of Enterprise Income Tax on Incomes from Non-resident Enterprises' Equity Transfers*), which was promulgated on 10 December 2009 and became effective on 1 January 2008. According to this circular, "equity transfer income" refers to the income obtained by the non-resident enterprises from their transfers of the equity of Chinese resident enterprises (excluding the stocks of Chinese resident enterprises that are purchased from and sold in the open securities markets). Where the withholding agent fails to withhold legally or it is impossible to perform the withholding obligation, the non-resident enterprise in question shall file tax return and pay the enterprise income tax to the competent tax authorities at the locality of the Chinese resident enterprise whose equity has been transferred within seven days upon the date of equity transfer as agreed in relevant contracts and/or agreements (where the transferring party obtains the equity transfer income in advance, the date of actual obtaining of equity transfer income shall prevail). Where the non-resident enterprise fails to file tax return on time and accurately, the relevant regulations of the taxation collection and administration laws shall be referred to for handling of the same. In addition, where the non-resident enterprise transfers the equity of a Chinese resident enterprise to its affiliate(s) and the transfer price thereof is not in consistent with the arm's length principle and thus the taxable income amount is reduced, the tax authorities shall have the right to adjust the same in light of reasonable methods.

**Value-added tax**

Pursuant to《中華人民共和國增值税暫行條例》(Provisional Regulations on Value-added Tax of the PRC*) ("**VAT Law**") latest amended on 5 November 2008 and which became effective from 1 January 2009 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement

services, and the importation of goods are required to pay value-added tax. VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT is 17% for those engaging in the sale or importation of goods except otherwise provided by paragraph (2) and paragraph (3) of Article 2 in the VAT Law and is 17% for those providing processing services, repairs and replacement services.

Pursuant to《關於提高輕紡、電子信息等商品出口退税率的通知》(Circular on Issues Concerning increase the export tax refund rate of Textile and Electronic information industry*), from 1 April 2009, the refund rate for exporting textile products has been increased to 16%.

## FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

### Foreign currency exchange

The principal regulation governing foreign currency exchange in China is《中華人民共和國外匯管理條例》(Foreign Exchange Administration Rules of the PRC*) ("**Foreign Exchange Administration Rules**"). It was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and was amended on 14 January 1997 and 1 August 2008. Under these rules, RMB is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loan unless prior approval of the SAFE is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval or file with the relevant governmental authorities (if necessary).

### Dividend distribution

Prior to the promulgation of the EIT Law, the principal regulations governing distribution of dividends paid by wholly foreign-owned enterprises was the Wholly Foreign-owned Enterprise Law and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this provision has been revoked by the EIT Law. The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. However, the Implementation Rules reduced the rate from 20% to 10%, effective on 1 January 2008.

The Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income was executed on 21 August 2006 ("**Arrangement**"). According to the Arrangement, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

## PRODUCT QUALITY

The principal legal provisions governing product liability are set out in《中華人民共和國產品質量法》(Product Quality Law of the PRC*) ("**Product Quality Law**"), which was promulgated on 22 February 1993 and amended on 8 July 2000.

The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law.

## CONSUMER PROTECTION

The principal legal provisions for the protection of consumer interests are set out in《中華人民共和國消費者權益保護法》(Consumer Protection Law of the PRC*) ("**Consumer Protection Law**"), which was promulgated on 31 October 1993 and came into effect on 1 January 1994.

According to the Consumer Protection Law, the rights and interests of the consumers who purchase or use commodities for the purposes of daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause damage to persons and properties.

### Anti-Monopoly Law

Pursuant to《中華人民共和國反壟斷法》(Anti-Monopoly Law of the PRC*) ("**Anti-Monopoly Law**"), which was promulgated on 30 August 2007 and became effective on 1 August 2008, "dominant market position" shall refer to a position in which a market participant can control the prices and supplies of products, and other terms of trade within the relevant markets as well as obstruct or otherwise affect the entry of other operators into the relevant markets. Market participants who hold a dominant market position shall be prohibited from engaging in practices which may be classified as an abuse of said position such as selling products at unfairly high or purchasing products at unfairly low prices, selling products at a price lower than cost without legitimate grounds, refusing to conduct transactions with relevant trading partners without legitimate grounds, forcing trading partners to conduct transactions only with said market participant or a group of market participants specified by said market participant without legitimate grounds, conducing tie-in sales or adding other unreasonable conditions on a transaction without legitimate grounds, discriminating between trading partners of the same qualifications with regards to transaction price, etc. without legitimate grounds, or other practices recognised by the Anti-Monopoly Law enforcement authorities as abuse of dominant

market position. Furthermore, where an operator violates the provisions of this law by abusing its dominant market position, the Anti-Monopoly Law enforcement authorities shall order a halt to the offending behavior, confiscate the illegal earnings, and impose a fine between 1 and 10 percent of the previous year's sales volume.

## COMPETITION LAW

The principal legal provisions governing the competition among the business operators are set out in《中華人民共和國反不正當競爭法》(Law of the PRC for Anti-Unfair Competition*) ("**Anti-Unfair Competition Law**"). According to the Anti-Unfair Competition Law, in carrying on transactions in the market, market participants shall follow the principle of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Any acts of market participants which contravene the provisions of this law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. When the lawful rights and interests of a market participant are damaged by the acts of unfair competition, it may institute proceedings in a people's court. In comparison, where a market participant commits unfair competition in contravention of the provisions of this law and causes damage to another market participant, it shall bear the responsibility for compensating the damages. Where the losses suffered by the non-defaulting market participant are difficult to quantify, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the market participant suspected of infringing its lawful rights and interests.

## PRICING LAW

Pursuant to《中華人民共和國價格法》(Pricing Law of the PRC*) ("**Pricing Law**"), which was promulgated on 29 December 1997 and became effective from 1 May 1998, the market participants shall, in determining prices, abide by the principle of fairness, being in conformity with law, honesty and credibility. And production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators.

Market participants shall, in selling, procuring commodities and providing services, display the clearly marked price in accordance with the provisions of the competent departments of price of the government. Market participants shall not sell commodities with additional price on top of the marked price and shall not collect any fee not indicated. Furthermore, market participants shall not commit such unfair price acts as manipulating market price in collusion to the detriment of the lawful rights and interests of other operators or consumers and so on. Any market participants who commit any of the unfair price acts prescribed in the Pricing Law shall be ordered to make a rectification, confisticated of the illegal gains and may be concurrently imposed a fine of less than five times of the illegal gains; where the circumstances are serious, an order shall be issued for the suspension of business operations, or the business license shall be revoked by the agency of industry and commerce administration. In addition, any market participants who cause consumers or other operators to pay more than the market prices should

refund the overpaid portion; where damage has been caused, liability for compensation shall be borne according to this law. And any operator who violates the provision of clearly marked prices shall be ordered to make a rectification, confisticated of the illegal gains and may be concurrently imposed a fine of less than RMB5,000.

## INTELLECTUAL PROPERTY RIGHTS

### Trademarks

Pursuant to《中華人民共和國商標法》(Trademark Law of the PRC*) ("**Trademark Law**"), which was revised on 27 October 2001 and became effective on 1 December 2001, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods on which the use of a trademark has been approved. The period of validity of a registered trademark shall be ten years commencing from the date the registration is approved. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorisation of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. When a dispute arises after a party commits any of the acts infringing upon another party's exclusive right to use a registered trademark as enumerated in the Trademark Law, the parties involved shall settle the dispute through consultation. Where the parties refuse to pursue consultation or where consultation has failed, the trademark registrant or any interested party may institute legal proceedings with the people's court or ask the administrative authorities for industry and commerce to handle the matter upon determining that trademark infringement has taken place.

According to《中華人民共和國商標法實施條例》(Implementation Rules of the Trademark Law*) ("**Implementation Rules of the Trademark Law**"), which was promulgated on 3 August 2001 and became effective on 15 September 2001, the trademark office shall examine the applications for trademark registration that it has accepted according to the relevant provisions of the Trademark Law and the present Implementation Rules of the Trademark Law, and grant preliminary approval by public announcement to those applications that meet the requirements and those applications that meet the requirements for registration of trademarks to be used on some of the designated commodities. If the application does not meet the requirements or the application for registration of a trademark to be used on some of the designated commodities does not meet the requirements, it shall be rejected, and the applicant shall be informed with an explanation of the reasons.

### Patent

Pursuant to《中華人民共和國專利法》(Patent Law of the PRC*) ("**Patent Law**"), which was revised on 27 December 2008 and became effective on 1 October 2009, the term "invention" refers to any new technical solution relating to a product, a process or improvement thereof, and the term "utility model" used therein refers to any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use, while the term "design" refers to any new design of the shape, pattern or their combination and the combination of color and shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application.

After the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, and use, offer to sell, sell or import the product directly obtained by the patented process, for production or business purposes. After a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design.

The scope of protection for the patent right for an invention or utility model shall be subject to the contents of its claims and the description and drawings attached thereto may be used to explain the contents of the claims. The scope of protection of the patent right for a design shall be subject to the design of a product displayed in pictures or photographs and the brief description may be used to explain such design. The duration of patent right for inventions shall be 20 years and the duration of patent right for utility models and designs shall be ten years, both commencing from the date of application. Where a dispute arises as a result of the exploitation of a patent without the authorisation of the patent owner, that is, the infringement of the patent right of the patent owner, it shall be settled through consultation by the patent owner. Where the parties are not willing to consult with each other or where the consultation fails, the patent owner or any interested party may institute legal proceedings in the people's court, or request the administrative authority for patent affairs to handle the matter.

**ENVIRONMENTAL PROTECTION**

According to《中華人民共和國環境保護法》(Environmental Protection Law of the PRC*) ("**Environmental Protection Law**"), which was promulgated and became effective on 26 December 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;

- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and

- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefor.

The purposes of the Environmental Protection Law are to protect and enhance living environment, prevent and cure contamination and other public hazards, and safeguard human health. The Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部) implements uniform supervision and administration of environmental protection work nationwide and formulates the national waste discharge standards. Local environmental protection bureaus at county level and above are responsible for the environmental protection

in their jurisdictions. Government authorities shall impose different penalties against persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities.

Pursuant to《中華人民共和國水污染防治法》(Law on Prevention and Control of Water Pollution of the PRC*) ("**Water Pollution Preventive Law**") which was promulgated on 11 May 1984 and amended on 28 February 2008 to establish legal standards for the prevention and control of the pollution of river, lakes and other surface water bodies and of underground water bodies within China, government authorities shall impose different penalties against persons or enterprises in violation of the Environmental Protection Law depending on the individual circumstances and the extent of contamination. Such penalties include warnings, fines, decisions to impose deadlines for cure, orders to stop production, orders to re-install contamination prevention and cure facilities which have been removed or left unused, imposition of administrative actions against relevant responsible persons, or orders to close down those enterprises or authorities.

According to《建設項目環境保護管理條例》(Administration Rules of Construction Project Environmental Protection*), which was promulgated and became effective on 29 November 1998, the state practises the construction project environmental impact evaluation system. A construction unit should, in the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. For a construction project that necessitates no feasibility study pursuant to relevant state provisions, the construction unit should, prior to the start of the construction of the construction project, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. Besides, the construction unit should, upon the completion of the construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact statement or environmental impact registration form for acceptance checks on completion of matching construction of environmental protection facilities required for the said construction project. For construction projects that are built in phases, go into production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities should be conducted in phases.

## LABOUR CONTRACTS AND OCCUPATIONAL PROTECTION

Pursuant to《中華人民共和國勞動合同法》(Labour Contract Law of the PRC*) ("**Labour Contract Law**"), which was adopted by the Standing Committee of the National People's Congress on 29 June 2007 and became effective on 1 January 2008, to establish a labour relationship, a written labour contract should be concluded. In the event that no written labour contract is concluded at the time when a labour relationship is established, such a written

contract should be concluded within one month as of the date when the employing unit employs a worker. Where an employing unit fails to conclude a written labour contract with a worker for more than one month but less than a year from the date it starts employing him, it shall pay the workers two times his salary for each month. In addition, if an employing unit fails to conclude a written labour contract with a worker within one year as of the date when it employs the worker, it shall be deemed to have concluded an open-ended contract with the latter.

Pursuant to《中華人民共和國職業病防治法》(Law on Prevention and Control of Occupational Diseases of the PRC*) ("**Law on Prevention and Control of Occupational Diseases**"), which was adopted by the Standing Committee of the National People's Congress on 27 October 2001 and became effective on 1 May 2002, for construction projects, including projects to be constructed, expanded and reconstructed, and projects for technical updating and instruction, which may produce occupational diseases hazards, the unit responsible for the construction project shall, during the period of feasibility study, submit to the public health administration department a preliminary assessment report on the hazards. The said department shall, within 30 days from the date the reports received, make a decision upon examination and inform the unit of the decision in writing. Where a unit fails to submit such a report to or obtain approval by the public health administration department after examination of the report, the authority concerned may not grant approval to the construction project. Furthermore, for construction projects that produce serious occupational diseases hazards, the design of the protective facilities shall be subject to examination by the public health administration department. Only when the design conforms to the national norm for occupational health and meets the requirements for occupational health, construction can be started. Before the construction project is completed for inspection and acceptance, the construction unit shall assess the effect of the control of occupational disease hazards when the project is completed and ready for inspection and acceptance. The facilities for prevention of occupational diseases may be put into formal operation and use only after they pass the inspection by the public health administration department.

## SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

According to《中華人民共和國保險法》(Social Insurance Law of PRC*), which was promulgated on 28 October 2010 and became effective from 1 July 2011, enterprises with foreign investment fall into the collection and payment scope of basic pensions, basic medical insurance and unemployment insurance (collectively referred to as "**social insurance**"). Enterprises with foreign investment shall, within 30 days of the date of their establishment, apply for social insurance registration at the local social insurance agencies which may be the taxation departments or the social insurance agencies established by the administrative department of labour security according to the provisions of the State Council, on the basis of their business licences, registration certificates or other such relevant certificates. After verification, the social insurance agencies shall issued to them a social insurance registration certificate. Furthermore, these enterprises shall, on a monthly basis, report to the social insurance agency the amount of the social insurance premiums payable and, after assessment by the social insurance agency, pay their social insurance premiums within the prescribed time period.

《住房公積金管理條例》(Administration Rules of the Housing Provident Fund*), which were promulgated on 3 April 1999 and amended on 24 March 2002, were applicable to enterprises with foreign investment. Newly established enterprises with foreign investment shall attend the housing provident fund management center to undertake housing provident fund payment and deposit registration within 30 days from the date of their establishment, and attend a commissioned bank to go through the formalities of opening housing provident fund accounts on behalf of their staff and workers within 20 days from the date of the registration with the verified documents of the housing provident fund management center. When employing new staff or workers, these enterprises shall undertake housing provident fund contribution and deposit registration at a housing provident fund management center within 30 days from the date of the employment, and shall go through the formalities of opening or transferring housing provident fund accounts of staff and workers at a commissioned bank with the verified documents of the housing provident fund management center. Furthermore, according to said Rules, the housing provident fund to be paid and deposited by an individual staff member or worker shall be withheld from his salary by the enterprise for which he serves, and the enterprise itself shall pay and deposit housing provident fund on schedule and in full, and may not be overdue in the payment and deposit or underpay the housing provident fund. The payment and deposit rates for housing provident fund of both staff and workers and enterprises shall not be less than 5% of the average monthly salary of an individual staff member or worker in the previous year.