

This appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in “Appendix IV – Taxation and Foreign Exchange” of this prospectus.

OVERVIEW

All land in the PRC is either state-owned or collectively-owned, depending on the location of the land. All land in urban areas of a city or town is state-owned, and all land in the rural areas and suburban areas and all farm land are, unless otherwise specified by law, collectively-owned. The State has the right to resume its ownership of land or the land use rights in accordance with law if required for the public interest (and compensation must be paid by the state).

Although all land in the PRC is owned by the State or by collectives, individuals and entities may obtain land use rights and hold such land use rights for development purposes. Individuals and entities may acquire land use rights in different ways, the two most important being land grants from local land authorities and land transfers from land users who have already obtained land use rights.

LAND GRANTS

National and local legislation

In April 1988, the National People’s Congress (the “NPC”) passed an amendment to the Constitution of the PRC. The amendment, which allowed the transfer of land use rights for value, paved the way for reforms of the legal regime governing the use of land and transfer of land use rights. In December 1988, the Standing Committee of the NPC also amended the Land Administration Law of the PRC (中華人民共和國土地管理法) to permit the transfer of land use rights for value.

In May 1990, the State Council (國務院) enacted the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-owned Land in Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例). These regulations, generally referred to as the Urban Land Regulations, formalised the process of the grant and transfer of land use rights for consideration. Under this system, the State retains the ultimate ownership of the land. However, the right to use the land, referred to as land use rights, can be granted by the state and local governments at or above the county level for a maximum period of 70 years for specific purposes pursuant to a land grant contract and upon payment to the State of a premium for the grant of land use rights.

The Urban Land Regulations prescribe different maximum periods of grant for different uses of land as follows:

Use of land	Maximum period (Years)
Commercial, tourism, entertainment	40
Residential	70
Industrial	50
Educational, scientific, cultural, public health and sports	50
Comprehensive utilisation or others	50

Under the Urban Land Regulations, domestic and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The state may not resume possession of lawfully-granted land use rights prior to expiration of the term of grant. Should the public interest require the resumption of possession by the State under special circumstances during the term of grant, compensation shall be paid by the State, on the basis of the period of which the land user has used the land and the status with respect to the development and utilisation of the land. Subject to compliance with the terms of the land grant contract, a holder of land use rights may exercise substantially the same rights as a land owner during the grant term, including holding, leasing, transferring, mortgaging and developing the land for sale or lease.

Upon paying in full the land premium pursuant to the terms of the contract, a land-grantee may apply to the relevant land bureau for the land use rights certificate. In accordance with the Property Rights Law (中華人民共和國物權法), which was effective as of October 1, 2007, the term of land use rights for land of residential use will automatically be renewed upon expiry. The renewal of the term of land use rights for other uses shall be dealt with according to the then-current relevant laws. In addition, if public interest requires the resumption of possession of land by the State during the term of the relevant land use rights, owners of residential properties and other real estate on the land shall be compensated and the relevant land premium shall be refunded to them.

On March 26, 2005, the General Office of the State Council promulgated the Notice on Effectively Stabilising House Prices (關於切實穩定住房價格的通知) to restrain the excessive increase of housing prices and to promote the sound development of the real estate market. The notice provided that housing prices should be stabilised and the system governing housing supply should be vigorously adjusted and improved. In accordance with the notice, seven departments of the State Council including the Ministry of Construction (建設部) issued the Opinion on the Work of Stabilising Housing Prices (關於做好穩定住房價格工作的意見) on April 30, 2005. The Opinion stated, among other things, that: (i) the local government should focus on ensuring the supply of low-to medium-end ordinary residential houses while controlling the construction of high-end residential houses; (ii) to curb any speculation in the real estate market, a 5% business tax would be levied from June 1, 2005 on the total revenue arising from any transfer by individuals of houses within two years from their purchase thereof or on the difference between the transfer price and the original price for any transfer of non-ordinary houses (非普通住宅) by individuals after two or more years from their initial purchase thereof; and (iii) the real estate registration department will no longer register the transfer of apartment units which are pre-sold where such units have not obtained the relevant property ownership certificates.

Pursuant to these measures, local governments were required to adopt plans, by September 2006, to focus on developing low-to-mid-priced and small-to-medium-size properties to meet demand from owner-occupiers. These measures stipulate that commencing from June 1, 2006,

the minimum down payment was 30% of the total purchase price for residential units with floor area exceeding 90 square metres on all existing units and those yet to be completed, or a down payment of 20% on residential units for occupation by the owner with floor areas under 90 square metres. The measures require that at least 70% of the residential units in residential housing projects approved or commenced after June 1, 2006 must be no larger than 90 square metres. The measures continue to prohibit land provision for houses and restrict land provision for development of low density and large residential property.

On May 24, 2006, the General Office of the State Council further issued the Notice on Adjusting the Housing Structure and Stabilising Housing Prices (關於調整住房供應結構穩定住房價格意見的通知). The Notice provided for the following broad directives to, among other things: (i) encourage mass-market residential developments and curb the development of high-end residential properties; (ii) enforce the collection of the 5% business tax on property sales (business taxes will be levied on the entire sale price of any property sold within five years, or on the profit arising from any property sold after five years subject to possible exemptions for ordinary residential properties); (iii) restrict housing mortgage loans to not more than 70% of the total property price (for houses purchased for self-residential purposes and with an area of less than 90 sq.m., the owners are still able to apply for a housing mortgage up to an amount representing 80% of the total property price); (iv) halt land supply for villa projects and restrict land supply for high-end, low-density residential projects; (v) moderate the progress and scale of demolition of old properties for re-development; (vi) require local governments to ensure that at least 70% of the total development and construction area must consist of units of less than 90 sq.m. in size (with any exceptions requiring the approval of the Ministry of Construction); and (vii) prevent banks from providing loans to a property developer whose total capital fund is less than 35% of the total investment amount in an intended development project.

On June 13, 2006, the General Office of the State Council issued the Notice on Further Regulating and Controlling Investment in Fixed Assets and Strictly Controlling the Number of New Projects (關於加強固定資產投資調控從嚴控制新開工項目意見的通知). The notice provides for: (i) clearing and rectifying all new projects; (ii) strictly examining all planning projects, strengthening supervision and examination on implementing industry policy, development plan, market access requirements and construction procedures across the country; and (iii) strictly controlling loans provided for infrastructure.

On July 6, 2006, the Ministry of Construction promulgated Certain Opinions regarding the Implementation of the Ratio Requirements for the Structure of Newly Constructed Residential Units (關於落實新建住房結構比例要求的若干意見), or the New Opinions. The New Opinions stipulate that, the residential units with a floor area of less than 90 square meters shall account for over 70% of the total area of residential units, which are newly approved and constructed in each city or county after June 1, 2006. The relevant local government will have authority to determine the configuration of newly constructed property.

On July 13, 2006, the General Office of the State Council issued the Notice about Relevant Matters on Establishing the State Land Supervision System (關於加強土地調控有關問題的通知). In accordance with this notice, the Ministry of Land and Resources established the State Land Supervision General Office (國家土地總督察辦公室) and send its local counterparts State Land Supervision Bureau (國家土地督察局) in order to strengthen supervision and management on land and practice the strictest possible land management system.

On August 31, 2006, the State Council issued a Notice about Relevant Matters on Strengthening Control on Land (關於加強土地調控有關問題的通知) in order to hold back the problems of excessive increases in the aggregate amount of construction land, the excessive expansion of low-cost industrial land, the illegal use of land and abusive occupation of cultivated land. The notice implements the following major measures: (i) adjusting land approval measures for urban construction in accordance with the principle of sharing both rights and responsibilities; (ii) only after guaranteeing the social security fee for the land expropriated from farmers can the approval of land expropriation be granted; (iii) the total amount of money from the sale of state-owned land use rights shall be fully accounted for in the local budget and collected into the local government treasury, and the “line of income and expenditure” shall be administrated separately; (iv) raising the standard for the land use rights fee of newly added construction land as well as the urban land use tax and rural cultivated land use tax; (v) the State formulating and promulgating the unified minimum standard for granting industrial land across the country, and industrial land being granted by tender, auction or putting up for bidding; and (vi) prohibiting conversion of agricultural land into construction land “in the name of leasing while actually expropriating” or other illegal ways.

On November 7, 2006, Ministry of Finance, Ministry of Land and Resources and the PBOC issued a Notice about Relevant Matters on Policy Adjusting Concerning the Land Use Fee for Newly Created Construction Land (關於調整新增建設用地土地有償使用費政策等問題的通知). The notice requires the land use fee on newly created construction land be doubled from January 1, 2007.

On March 29, 2007, the Ministry of Construction, the Ministry of Land and Resources, the Ministry of Finance, National Audit Office, the Ministry of Supervision, the State Administration of Taxation, the NDRC and the SAIC issued the Notice on the Regulation of the Real Estate Market Order (關於開展房地產市場秩序專項整治的通知). This notice aims to examine the unauthorized approval and abuse of power in the areas of project establishment, planning approval, work permit administration, pre-sale permit administration by the relevant departments and working personnel involved in real estate-related fields as well as the implementation of tax policies with respect to real estate. It will also allow for the inspection of real estate enterprises to see if they illegally publish advertisements, hoard properties, drive up prices, swindle or conspire with other parties, evade taxes or properly conduct compulsory demolitions and resettlements. Further review and examination will take place with respect to real estate enterprises that are found to have violated these rules.

Pursuant to the Opinions on Resolving Difficulties of Housing for Urban Low-income Family (關於解決城市低收入家庭住房困難的若干意見) promulgated by the State Council on August 7, 2007, the authorities of each region will adjust the housing supply structure in order to: (i) implement the Circular on Forwarding Opinions of Ministry of Construction and Other Departments on Adjusting Housing Supply Structure and Stabilising Housing Prices issued by the General Office of the State Council (國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知); (ii) focus on the development of low to medium priced, and small to medium sized commodity housing and (iii) to increase the supply of housing. The approval percentage of new housing construction (with a GFA of less than 90 sq.m.) will be more than 70% of the total housing developed area. The annual supply of low rental housing construction land, economy-sized housing and low to medium price and small to medium sized commodity housings shall not be less than 70% of the total residential housing land.

Pursuant to the Notice on Implementation of the Several Opinions of the State Council on Solving Housing Shortage with respect to Urban Low-income Households (關於認真貫徹《國務院關於解決城市低收入家庭住房困難的若干意見》進一步加強土地供應調控的通知) promulgated by Ministry of Land and Resources on September 30, 2007, the administration department of the Ministry of Land and Resources (the “**Administration Department**”) at both municipality and county levels will give priority in arranging land supply for low rental housing, economy-sized housing and low to medium priced and small to medium sized commodity housing. Its annual supply volume shall not be less than 70% of total residential land supply. It will integrate and implement the Notice on the Implementation of Specific Clearing of the Grant of the State-owned Land Use Rights (關於開展國有土地使用權出讓情況專項清理工作的通知) jointly published by the Ministry of Supervision, Ministry of Land and Resources, Ministry of Finance, National Audit Office of the PRC and the Ministry of Construction on August 8, 2007. Further, it will investigate, on a case by case basis, the development of residential land with an emphasis on the observation of land-use contract by real estate development enterprises. For any developer that neither commences nor completes the construction work in accordance to the land-use contract, the Administration Department will provide comments to ensure that such enterprises complete the development on schedule. Enterprises that do not carry out any measure to resolve the situation will be prohibited from participating in any tenders, auction and putting up for bidding for acquiring new land sites. The Administration Department will strictly enforce the regulations governing idle land and for land where the construction still has not commenced after exceeding one full year from the date of commencement stipulated in the contract, the idle land fee shall be imposed and the respective enterprises will be instructed to commence the construction works and fulfil the completion schedule. The idle land fee, in principle, shall be computed and imposed based on 20% of land premium price of the granted or allocated land. Any land that has not been developed for over two years shall be reclaimed with no compensation. For land where construction works have been commenced on the date stipulated in the contract but the developed area is less than the one-third of the area to be developed or the invested capital is less than one-fourth of the total investment as stipulated in the contract and the development is suspended over a year without any approval, it shall be treated as idle land strictly following the laws.

On December 30, 2007, the General Office of the State Council issued the Notice on the Strict Implementation of the Laws and Policies Regarding Rural Collective Construction Land (Guo Fa Ban 2007 No. 71) (關於嚴格執行有關農村集體建設用地法律和政策的規定) (國辦發 2007 71 號). This notice states that residential land in rural areas shall only be allocated to residents of the relevant village residing in the area and that no urban inhabitants shall be allowed to purchase any homesteads, peasants’ dwellings or “small houses with property rights” in rural areas. No organisation or individual shall be allowed to illegally rent or occupy any land collectively owned by peasants for the development of real estate.

On February 7, 2008, the State Council issued the Land Investigation Regulations (Order No. 518 of the State Council of the People’s Republic of China) (土地調查條例 (中華人民共和國國務院令第518號)). This regulation provides that a nationwide land investigation shall be carried out once every 10 years and a land status alteration investigation shall be carried out each year by the competent state land and resources department at the county level or above and this investigation is done in conjunction with the relevant government departments of the same level. The regulation also specifies the qualification requirements that a government department must meet in order to undertake the investigation tasks. The regulation specifies that the purpose of land investigations is to ascertain the land resources that are available and their utilisation status.

On January 7, 2010, the General Office of the State Council issued the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (關於促進房地產市場平穩健康發展的通知), which, among other things, provides that land resource authorities shall deepen the supervision on the compliance of the contracts and strictly collect the land premiums according to the land grant contracts, and shall:

- effectively increase the supply of social welfare housing and ordinary commodity residential properties, in particular, low and medium-cost and small and medium-sized ordinary commodity residential properties;
- direct consumers to make reasonable purchases of residential properties and discourage investment and speculation in the housing market;
- strengthen credit risk management for real estate projects and market supervision;
- speed up the construction of social welfare housing projects; and
- set or clarify the responsibilities of provincial and local governments.

On March 8, 2010, the Ministry of Land and Resources issued the Notice on Strengthening the Supply and Supervision of Land Use for Real Estate Property (國土資源部關於加強房地產用地供應和監管有關問題的通知). The Notice, among other things, provides that:

- the land and resources bureau at the city and county levels shall ensure that the land supply for government-subsidised housing, slum-dwellers reconstruction and small commercial housing units for self housing shall not be less than 70% of the total residential land supply and strictly control the land supply for large-sized apartments and restrict the land supply for villas;
- land resource authorities shall prohibit property developers who owe land grant premium payments, possess idle land, engage in land speculation and price manipulation, conduct project development exceeding approved scope or fail to conform with the land use rights grant contract from land bidding transactions within a set period of time; and
- the land use rights grant contract must be executed within ten days after a grant of land has been mutually agreed and a down payment of 50% of the land grant premium shall be paid within one month from the execution of the land use rights grant contract with the remaining amount paid no later than one year after the execution of the land use rights grant contract.

On September 21, 2010, the Ministry of Land and Resources and MOHURD jointly promulgated the Notice on Further Strengthening Control and Regulation of Land and Construction of Property Development (關於進一步加強房地產用地和建設管理調控的通知), which stipulates, among other things, that: (i) at least 70% of land designated for construction of urban housing must be used for affordable housing, housing for resettlement of shanty towns and small to medium-sized ordinary commercial housing; in areas with high housing prices, the supply of land designated for small to medium-sized, price-capped housing must be increased; (ii) developers and their controlling shareholders are prohibited from participating in land biddings before the rectification of certain misconduct, including (1) illegal transfer of land use rights; (2)

failure to commence required construction within one year from the delivery of land under land grant contracts due to such developers' own reasons; (3) noncompliance with the land development requirements specified in land grant contracts; and (4) crimes such as obtaining land by forging official documents and illegal land speculation; (iii) developers are required to commence construction within one year from the date of delivery of land under the relevant land grant contract and complete construction within three years of commencement; (iv) development and construction of projects of low-density and large-sized housing must be strictly limited and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1:1; and (v) the grant of two or more bundled parcels of lands and undeveloped land is prohibited.

In December 2010, the Ministry of Land and Resources promulgated the Notice on Strict Implementation of Policies Regarding Regulation and Control of Real Property Land and Promotion of the Healthy Development of Land Markets (關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知), which, among other things, provides that (i) cities and counties that have less than 70% of their land supply designated for affordable housing, redevelopment housing for shanty towns or small/medium-sized residential units shall not provide land for large-sized and high-end housing before the end of 2010; (ii) local land and resources authorities shall file a transaction report with the Ministry of Land and Resources and provincial land and resources authorities, respectively, in relation to land sold via competitive bidding, auction and listing-for-sale with a 50% or more premium; and (iii) for land designated for affordable housing but used for the development of commodity houses, any illegal income derived therefrom will be confiscated and the relevant land use rights terminated. In addition, unapproved changes to the plot ratio are strictly prohibited.

On January 26, 2011, the General Office of the State Council issued the Notice on Relevant Issues of Further Improvement of the Control in Real Estate Market (進一步做好房地產市場調控工作有關問題的通知). This Notice, among other things, provides that:

- individuals selling housing properties within five years of purchase will be charged business taxes on the full amount of sale price, whether ordinary or non-ordinary;
- the minimum down payment for second home purchases increases from 50% to 60%;
- the developer will forfeit the land use rights and the PRC government will impose an idle land fee of up to 20% of the land premium if a developer fails to obtain the construction permit and commence development for more than two years from the commencement date stipulated in the land grant contract; and
- municipalities directly under the central government, municipalities with independent planning status, provincial capitals and cities with high housing prices shall limit the number of homes local residents can buy in a specific period. In principle, local resident families that own one house and non-local resident families who can provide local tax clearance certificates or local social insurance payment certificates for a required period are permitted to purchase only one additional house (including newly built houses and second-hand houses). Sales of properties to (i) local resident families who own two houses or more, (ii) non-local resident families who own one house or more, and (iii) non-local resident families who cannot provide local tax clearance certificates or local social insurance payment certificates for a required period shall be suspended in local administrative regions.

In addition to the general framework for transactions relating to land use rights set out in the Urban Land Regulations, local legislation may provide for additional requirements, including those applicable to specific transactions within specific areas relating to the grant and transfer of land use rights. These local regulations are numerous and some of them are deemed to be inconsistent with national legislation. Under PRC laws, national laws and regulations prevail to the extent of such inconsistencies.

Environmental protection

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law (中華人民共和國環境保護法), the Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the Environmental Impact Assessment Law (中華人民共和國環境影響評價法), the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例) and the Administrative Regulations on Environmental Protection for Acceptance Examination Upon Completion of Buildings (建設項目竣工環境保護驗收管理辦法). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact study report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

Modes of land grant

Pursuant to PRC laws and the stipulations of the State Council, except for land use rights which may be obtained through allocation (劃撥), land use rights for property development are obtained through governmental grant. There are two methods by which land use rights may be granted, namely by private agreement or competitive processes (i.e., tender, auction or listing at a land exchange administered by the local government).

As of July 1, 2002, the grant of land use rights by way of competitive processes is governed by the Regulations on the Grant of Use Right of State-owned Land by Invitation of Tender, Auction or Listing-for-bidding (招標拍賣掛牌出讓國有土地使用權規定), issued by the Ministry of Land and Resources of the PRC on May 9, 2002 (the “**2002 Regulations**”) and revised as of September 21, 2007 with the name of Regulations on Granting State-owned Construction Land Use Right through Tenders, Auction and Putting up for Bidding (招標拍賣掛牌出讓國有建設用地使用權規定) (the “**2007 Regulations**”). Following the 2002 Regulations, the Ministry of Land and Resources issued the Notice on Continuing the Review of the Implementation of the Grant of Land use Rights for Commercial Uses by Invitation of Bids Auction or Listing (關於繼續開展經營性土地使用權招標拍賣掛牌出讓情況執法監察工作的通知) on a Land Exchange on March 31, 2004, requiring all local land administration authorities to strictly enforce the 2002 Regulations. In addition, the Ministry of Land and Resources required that with effect from August 31, 2004, the grant of land use rights must be made pursuant to auctions or listing at a land exchange and that no land use rights for commercial uses may be granted by way of agreement. In the Urgent Notice of the General Office of the State Council on Intense Regulation and Rectification of the Land Market and Strict Administration of Land (關於深入開展土地市場治理整頓嚴格土地管理的緊急通知) issued by the State Council on April 29, 2004, the development of agricultural land was suspended for a period of six months for rectification by the PRC government of irregularities in land development in China. The 2007 Regulations specifically provide that land to be used for industrial, commercial,

tourism, entertainment or commodity residential purposes, or where there are two or more intended users for the certain piece of land, must be granted by way of competitive processes. A number of measures are provided by the 2007 Regulations to ensure such grant of land use rights for commercial purposes is conducted openly and fairly. For instance, the local land bureau must take into account various social, economic and planning considerations when deciding on the use of a certain piece of land, and its decision regarding land use designation is subject to approval of the city or provincial government. The grantee shall apply for land registration and obtain the state-owned land use rights certificate upon full payment of the land premium of the granted land according to the state-owned land grant contract. In the event that the land premium of the granted land is not paid in full, the grantee will not receive the land use rights certificate. In addition, the announcement of tender, auction or listing-for bidding must be made 20 days prior to the date on which such competitive process begins. Further, it also stipulated that for listing at a land exchange, the time period for accepting bids must be no less than 10 days. On May 13, 2011, the Ministry of Land and Resources promulgated the Opinions on Upholding and Improving the System for the Transfer of Land by Tender, Auction and Listing (《關於堅持和完善土地招標拍賣掛牌出讓制度的意見》), which provides, among other things, that (i) correct utilization of the regulating and controlling effects of the land transfer policy through tender, auction and listing; (ii) improvement in the transparency of the system of tender, auction and listing for housing land; (iii) adjustment and improvement in the land transfer policy through tender, auction and listing, including (a) limitation on house price or land price, and transfer of policy-related housing land by listing or auction; (b) limitation on the GFA of allocated security housing, and transfer of commodity housing land by listing or auction; (c) carrying out of comprehensive assessment on conditions of land development and utilization and land transfer prices, and determination of the person who is entitled to land use rights by tender; (iv) promotion of online operation of the transfer of land use rights; (v) improvement in the contracts for land transfer through tender, auction and listing.

In the case of tender, the local land bureau granting the land use rights should examine the qualifications of the intended bidders and inform those qualified to participate in the bidding processes by sending out invitations to tender. Bidders are asked to submit sealed bids together with the payment of a security deposit. When land use rights are granted by way of tender, a tender evaluation committee consisting of not less than five members (including a representative of the grantor and other expert), formed by the land bureau is responsible for opening the tenders and deciding on the successful bidder. The successful bidder will then sign the land grant contract with the land bureau and pay the balance of the land premium before obtaining the State land use rights certificate. See section headed “Documents of title and registration of property interests” below.

Where land use rights are granted by way of auction, a public auction will be held by the relevant local land bureau. The land use rights are granted to the highest bidder. The successful bidder will then be asked to sign the land grant contract with the local land bureau and pay the relevant land premium within a prescribed period.

Where land use rights are granted by way of listing-for-sale administered by the local government, a public notice will be issued by the local land bureau to specify the location, area and purpose of use of land and the initial bidding price, period for receiving bids and terms and conditions upon which the land use rights are proposed to be granted. The land use rights are granted to the bidder with the highest bid who satisfies the terms and conditions. The successful bidder will enter into a land grant contract with the local land bureau and pay the relevant land premium within a prescribed period.

In June 2003, the Ministry of Land and Resources promulgated the Regulations on Grant of State-owned Land Use Rights by Agreement (協議出讓國有土地使用權規定), or the 2003 Regulations, to regulate granting of land use rights by agreement when there is only one party interested in the land, the designated uses of which are other than for commercial purposes as described above. According to the 2003 Regulations, the local land bureau, together with other relevant government departments, including the city planning authority, will formulate the plan concerning the grant, including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design as well as the proposed land premium, which shall not be lower than the minimum price regulated by the State, and submit such plan to the relevant government for approval. Afterwards, the local land bureau and the relevant party will negotiate and enter into the land grant contract based on the above-mentioned plan. If two or more parties are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or listing at a land exchange in accordance with the 2007 Regulations.

The grantee is required to pay the land premium pursuant to the terms of the contract and the contract is then submitted to the relevant local bureau for the issue of the land use rights certificate. Upon expiration of the term of grant, the grantee may apply for its renewal. Upon approval by the relevant local land bureau, a new contract is entered into to renew the grant, and a land premium shall be paid.

According to the “Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction (關於加強城市建設用地審查報批工作有關問題的通知) enacted by the Ministry of Land and Resources on September 4, 2003 (the “**Notice**”), from the day of promulgation, land use for luxurious commodity houses shall be stringently controlled, and applications for land use rights to build villas shall be stopped. On May 30, 2006, the Ministry of Land and Resources issued the “Urgent Notice of Further Strengthening the Administration of the Land” (關於當前進一步從嚴土地管理的緊急通知). It provided that: (i) land use shall not violate the overall land use plan and the annual land use plan and no entity or individual shall change or occupy basic agricultural land. Strict prohibitions shall be imposed on any illegal method to avoid the examination and approval procedures for occupation of basic agricultural land by, for example, amending the overall land use plan, and no one shall increase the use of construction land without authorisation and approval; (ii) stricter examination and approval procedures shall be implemented with respect to the use of various non-agricultural construction land and strict limitations shall be imposed on the supply of land for projects that fall under restricted categories. No land preapproval, examination and approval, and land supply shall be granted for prohibited projects. Application and approval procedures must be undertaken in accordance with relevant laws for any non-agricultural construction using tidal-flat areas, barren hills or wasteland; and (iii) the Circular of the General Office of the State Council on Forwarding the Notice of the Ministry of Construction, the NDRC and the Ministry of Supervision on Adjusting the Housing Supply Structure and stabilising the Housing Price (Guo Ban Fa 2006 No. 37) (國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知(國辦發 2006 37號)) shall be strictly implemented. This circular provides, amongst other things, that: (a) land used for real estate development must be granted through tender, auction or bidding-for-sale and the area of land shall be ascertained reasonably; (b) land supply priority shall be given to ordinary commodity houses at middle to low prices and in medium to small sizes (including affordable housing) and renting affordable housing. The land supply plan shall be known to the public; and (c) the land supply for low-density and large-sized housing shall be strictly controlled, and the rules on ceasing land supply for villa real estate development shall be resolutely implemented. From May 30, 2006, all land use supply and relevant procedures for villa projects shall cease and an overall rectification shall be carried out.

On December 12, 2006, the Ministry of Land and Resources and NDRC promulgated the Catalogue of Restrictive Land Supply Items (2006 Version) and Catalogue of Forbidden Land Supply Items (2006 Version) (限制用地項目目錄 (2006本)和禁止用地項目目錄 (2006本)). This catalogue provides that, the new office buildings of the Chinese Communist Party and government agencies, large-scale commercial or entertainment establishments, racing fields, motor vehicle training fields, burial grounds, low-density and large-sized housing projects (referring to residential projects with a plot ratio of less than 1.0 and where the gross floor area for a single house exceeds 144 sq.m.) are listed in the restrictive land supply items, and villas, golf courses, racing courses, and new training centres of the Party and government agencies, State-owned enterprises and institutional agencies are classified as forbidden land supply items.

The Urban and Rural Planning Law of the People's Republic of China (中華人民共和國城鄉規劃法) was implemented on January 1, 2008. This law provides, among other things, that if land use rights were obtained by way of allocation, the developer shall apply to the relevant urban and rural planning authorities for a site selection opinion before applying to other relevant authorities for approval or consent. This law also specifies that if the land use rights were obtained by way of allocation within the planning zones of cities or towns, the developer shall, before applying to the land administration authorities at or above the county level for land use rights, apply for the construction land planning permit from the relevant urban and rural planning authorities of that city or town after obtaining the approval or consent of other relevant authorities. Further, if land use rights were obtained by way of grant within the planning zones of cities or towns, relevant urban and rural planning authorities shall, prior to the granting of land use rights, specify the planning conditions such as the location, nature of use and permitted density of the development and integrate the planning conditions into the grant contract of the land use rights. Land without planning conditions can not be granted. After a grant contract of land use rights is executed, the developer needs to apply to urban and rural planning authorities of the city or county for the construction land planning permit along with the required documents. If a development is within the planning zones of a city or town, the developer needs to apply to urban and rural planning authorities of the particular city or county, or to the township government specified by the provincial level government for a planning permit for construction in a rural area. The development of projects must comply with the planning conditions and an application must be filed with the urban and rural planning authorities of the relevant city or county if any amendments to the planning conditions are necessary. Within six months of the completion of projects, a developer needs to file documents in respect of the inspection and assessment by government authorities of completed project with the urban and rural planning authorities.

Model land grant contract

To standardise land grant contracts, in 2000, the Ministry of Land and Resources and the SAIC published the model land grant contract, on the basis of which many local governments have formulated their respective local form land grant contract to suit their specific local circumstances. The model land grant contract contains terms such as location of land, use of land, land premium and its payment schedule, conditions of land upon delivery, term of grant, land use conditions and restrictions (including GFA, plot ratio and height and density limitations), construction of public facilities, submission of building plans for approval, deadline for commencement of construction, payment of idle fees, deadline for completion of construction, application for extension of the stipulated construction period, restrictions on subsequent transfers, responsibility for obtaining supply of utilities, restrictions against alienation before payment of the land premium and completion of prescribed development, application of renewal, force majeure, breach of contract and dispute resolution.

If a land user wishes to change the specified use of land after entering into a land grant contract, approvals must be obtained from the relevant land bureau and the relevant urban planning department, and a new land grant contract may have to be signed and the land premium may have to be adjusted to reflect the added value of the new use. Registration procedures shall be carried out immediately after approval of the change of designated use.

If a land user fails to develop and invest in the land within the period of time specified in the land grant contract, the land bureau has the right to impose various penalties ranging from fines to withdrawal of the grant without consideration (unless the failure to develop and invest in the land is due to a force majeure event or the activities of a government authority).

According to the Urban and Rural Planning Law of the People's Republic of China (中華人民共和國城鄉規劃法), which was issued on October 28, 2007, after execution of the land grant contract, the urban planning department cannot change the planning requirements under the land grant contract without authorisation.

Transfer of land use rights of collectively-owned construction land

The PRC Land Administration Law (中華人民共和國土地管理法) regulated that land use rights owned by peasants' collectives may not be granted, assigned or leased for non-agricultural construction, except for the transfer according to law of the leaseholds by enterprises due to circumstances such as bankruptcy, merger, etc., provided that the construction land is in compliance with the master land use plan and was lawfully obtained. On October 21, 2004, the Decision on Deepening the Reform of Strict Land Management (關於深化改革嚴格土地管理的決定) issued by the State Council provides that the collective construction land use rights owned by peasants can be transferred according to the law. On December 30, 2007, the Notice regarding Strictly Implement the Law and Regulations of the Collective Construction Land in the Rural Place (關於嚴格執行有關農村集體建設用地法律和政策的通知) issued by the General Office of the State Council provides that the transfer of the collective construction land use rights owned by peasants should be strictly controlled. The rural collectively owned construction land is prohibited to be granted, transferred and leased for the use of commercial property development and residential construction.

TERMINATION

Pursuant to the Property Rights Law (物權法) promulgated on March 16, 2007 which became effective as of October 1, 2007, when the term of the land use rights for construction of residential building expires, it shall be renewed automatically.

The State generally will not withdraw a land use rights before the expiration of its term of grant. Should the circumstance occurs for special reasons, such as for the public interest, it shall pay proper compensation for the properties on such land, and corresponding land premium shall be returned.

Upon expiry of the land other than for residential buildings, unless renewal of the term of land use rights has been approved, the land user must take steps to surrender the land use rights certificate and cancel the registration of the certificate in accordance with relevant regulations.

A land user may apply for renewal of the land use rights and, if the application is granted, the land user is required to enter into a new land grant contract, pay the premium and effect appropriate registration for the renewed land grant.

According to the Law of Administration of Urban Real Property (中華人民共和國城市房地產管理法) (the “**Urban Real Property Law**”) issued in July 1994 and amended in August 2007, where a real property development is carried out on land for which the land use rights are acquired by means of grant, the land must be developed in line with the specified use for the land and the deadline for commencement of the development must be set out in the land use rights grant contract. Where the development does not commence within one year from the specified date set out in the land use rights grant contract, an idle land fee may be charged at a rate equivalent to not more than 20% of the relevant land premium. Where the development does not commence within two years from the specified date, the relevant land use rights may be withdrawn without compensation, except where the commencement of construction is delayed due to force majeure, an act of the government or relevant government departments, or delays in preliminary work necessary for the commencement of development.

The Urgent Notice to Further Strengthen Land Management at Current Stage (關於當前進一步從嚴土地管理的緊急通知) issued by the Ministry of Land and Resources on May 30, 2006, provides that: (i) the dates of construction commencement and completion shall be clearly stated in the state-owned land use rights grant contracts; and (ii) the penalty on idle land shall be strengthened. Where the idle land fee should be levied, it shall be levied at the highest level in accordance with the law. Where the idle land should be reclaimed without compensation, it must be absolutely reclaimed back in accordance with the law.

According to the Measures on Disposal of Idle Land (閒置土地處置辦法) promulgated by the Ministry of Land and Resources on April 28, 1999, “idle land” refers to land granted for use but laying idle because the land user fails to commence development and construction before the specified commencement date without the consent of the government which approved the use of the land. The further Measures on the Disposal of Idle Land, which became effective on July 1, 2012, extended the definition of idle land to include land lying idle due to government action. See “Summary of Principle Legal and Regulatory Provisions – Idle Land” below for further details. Where the land is deemed “idle land”, relevant municipal or county land administrative departments (“**Land Administrative Authorities**”) shall inform the land user and prepare a plan for the disposal of the idle land. Where the land is mortgaged, the mortgagee shall be informed to participate in the preparation of the disposal plan. The Land Administration Authorities are responsible for implementing the disposal plan after such plan has been approved by the government which originally approved the use of the land.

The methods of disposal of idle land include, among others, the following:

- (i) extending the development and construction period by no more than one year;
- (ii) changing the use of the land, and continuing development and construction afterwards;
or
- (iii) arranging for temporary use of the land and re-approving the development after the original project satisfies the construction conditions; where the land has appreciated in value, the government will increase the land premium in accordance with the appreciated value.

Where the idle land is due to acts of the state or relevant government authorities and the land user has partly paid the purchase price (including any compensation or resettlement cost) for the land, in addition to the methods provided above, the State may acknowledge the relevant land to the land user for the part of land which the land user has paid the compensation or requisition fee,

while the remaining part of the land will be withdrawn by the government. The further Measures on the Disposal of Idle Land, which became effective on July 1, 2012, extended the method of disposal of idle land. See “Summary of Principle Legal and Regulatory Provisions – Idle Land” below for further details.

On May 24, 2006, the Circular on Forwarding Opinions of Ministry of Construction and Other Departments on Adjusting Housing Supply Structure and Stabilising Housing Prices issued by the General Office of the State Council (國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知) provides that if any land remains idle for one year, an idle land fee shall be levied and the land shall be developed in due course; if any land remains idle for two years, the idle land will be confiscated.

On January 3, 2008, the State Council issued the Notice on Promoting the Economisation and Intensive Use of Land (Guo Fa 2008 No. 3) (關於促進節約集約用地的通知國發 2008 3號)). This notice states, among other things, that (i) state policies in relation to the forfeiture of land use rights of land which has remained idle for more than two years without compensation shall be strictly implemented; (ii) if any land remains idle for one year, an idle land fee of 20% of the relevant land premium shall be levied; (iii) before June 2008, local governments are required to submit to the State Council reports on the status of the clearance and handling of idle land; (iv) the prohibition of land supply for villa projects shall continue; (v) the authorities are required to research and commence the drafting of implementation rules concerning the levy of land appreciation fees on idle land; (vi) in relation to the supply of residential land, planning conditions such as minimum plot ratio limits and the number and type of flats that can be constructed shall be taken into account in land grant contracts and allocation decisions to ensure that at least 70% of the total land grants for residential developments will consist of low-cost rental housing, economy housing, limited pricing housing and units of less than 90 sq.m. in size; and (vii) financial institutions are required to exercise caution when approving financing for any property developer who fails to commence the construction for one year or more from the commencement date stipulated in the land grant contract, complete at least one-third of the development of project or inject at least 25% of the total investment in the project.

On November 18, 2009, the Ministry of Finance, Ministry of Land and Resources, PBOC, Ministry of Supervision and National Audit Office issued the Circular on Further Tightening Control over Income and Expenses from Land Transfer (關於進一步加強土地出讓收支管理的通知), which among other things, limits the period for full payment of the land premium prescribed under the land grant contract entered between municipality- or county-level Ministry of Land and Resources and a land right transferee to one year. There is an exception for special projects approved by all relevant local land transfer authorities, for which full payment of the land premium for such special project must be paid within two years with a first installment of no less than 50% of the total land premium. The circular also provides that the local level governments should strictly enforce relevant regulations to impose penalties on, or restrict from acquiring new land, property developers that have delayed payment of land premiums or construction for reasons other than force majeure.

LAND TRANSFERS FROM CURRENT LAND USERS

In addition to a direct grant from the government, an investor may also acquire land use rights from land users that have already obtained the land use rights by entering into an assignment contract or a joint-develop agreement with the land user.

The assignment contract or joint-develop agreement must be registered with the relevant local land bureau at the municipal or county level for land use rights title change purposes. Upon a transfer of land use rights, all rights and obligations contained in the land grant contract are deemed to be incorporated as part of the terms and conditions of such transfer.

The assignment contract or the joint-develop agreement is subject to terms and conditions specified in the land grant contract. For residential construction projects, the Urban Real Estate Law requires that at least 25% of total construction costs, excluding land premiums, be expended and the construction schedule and date of completion and delivery of the project have been determined before assignment can take place. All rights and obligations of the current holder under a land grant contract will be transferred contemporaneously to the assignee of the land use rights. The relevant local government has the right to acquire the land use rights to be assigned if the assignment price is significantly lower than the market price. Relevant local governments may also acquire the land use rights from a land user in the event of a change in town planning. The land user will then be compensated for the loss of his land use rights.

LAND RESERVE AND PRIMARY DEVELOPMENT

The Ministry of Finance, Land and Resources and the PBOC jointly promulgated the Measures for Land Reserve Administration (土地儲備管理辦法), which became effective as of November 19, 2007. Pursuant to the Measure, the land reserve institution refers to the independent legal entity which is affiliated to the local land administration bureau. The scope of the land reserve includes but is not limited to the land use rights resumed by the state, the land obtained subject to the pre-emptive right, the rural land which had been completed the reversion procedures and the land purchased by the land reserve institution. The land reserve institutions are permitted to carry out primary development of the reserved lands before supplying them to the market. Commercial banks could make mortgage loans to the land reserve institution after the land reserve institution has obtained approvals from the local financial department.

The Ministry of Finance and the Ministry of Land and Resources issued the Provisional Measures on Administration of Funds and Finance Affairs Relating to Land Reserve (土地儲備資金財務管理暫行辦法) on February 27, 2007, which regulate the matters concerning the capital required for, among other things, the early stage development of reserved land, including the source, scope of use and management of the such capital.

DOCUMENTS OF TITLE AND REGISTRATION OF PROPERTY INTERESTS

According to the Land Registration Regulations (土地登記辦法) issued by the Ministry of Land and Resources on December 30, 2007 and the Buildings Registration Regulations (房屋登記辦法) issued by the Ministry of Construction on February 15, 2008, all land use rights and building ownership rights which are duly registered are protected by the law. A land use rights certificate is the evidentiary legal document to demonstrate that the registered land user has the lawful right to use the land during the term stated in the certificate. Upon the completion of construction of a building (including passing the acceptance tests by various government departments), a property ownership certificate will be issued to the owner of the building. The holder of land use rights who is issued a property ownership certificate holds the land use rights and owns the building erected thereon. All holders of land use rights, and other rights in respect of the land, such as the right to buildings erected on the land, must register their lawful state-owned land use rights, as well as ownership rights to the buildings. In this regard, real estate registries have been established in all cities in China. In most cities, there are separate registries for land use rights and building ownership. However, in Shanghai city, the two registries have been combined. In places where

there are separate registries, the holder of land use rights will be issued a property ownership certificate for the building and a land use rights certificate for the underlying land. In the other places where registries are combined, such as in Shanghai city, the land use rights certificate and the property ownership certificate are combined into a single certificate. Under PRC laws, land use rights and building ownership rights which are duly registered are protected by law.

Whether the registered land user can assign, mortgage or lease the land use rights will be subject to conditions stipulated in the original land grant contract. In addition to the requirement to register land use rights, there is also a requirement to register a mortgage of a land use rights in local land registration departments. See the section headed “Mortgage and Guarantee” below.

MORTGAGE AND GUARANTEE

The mortgage of real estate in the PRC is governed by the Property Rights Law (物權法), Security Law of the PRC (中華人民共和國擔保法), or the Security Law, the Law of the PRC on the Administration of Urban Real Estate, or the Real Estate Law, the Regulation on Administration of Mortgages of Urban Real Estate (城市房地產抵押管理辦法), or the Real Estate Mortgage Regulation, and other relevant real estate related laws and regulations. When a mortgage is created over the ownership of a completed building, the same will be simultaneously created over the land use rights of the land where the building is erected. The mortgagee and the mortgagor shall enter into a mortgage contract in writing which becomes effective on the date of the registration of such mortgage by the relevant real estate authority. Pursuant to the Security Law, a real estate mortgage agreement shall contain specific provisions including (i) the type and amount of the indebtedness secured, (ii) the period of the obligation by the debtor, (iii) the repayment of the indebtedness, and (iv) the name, quantity, conditions, location, valuation and ownership of the mortgaged property. Pursuant to the Real Estate Law, buildings newly-erected on a piece of urban land after a mortgage contract has been entered into shall not be a mortgaged property. If the mortgaged property is auctioned off, the new buildings added on the land may be auctioned together with the mortgaged property, but the mortgagee shall not be entitled to priority compensation from the proceeds of the auction of the new buildings.

Pursuant to the Property Rights Law, a real estate mortgage becomes effective on the date of registration with the local real estate department. When carrying out mortgaged property registration, the loan contract and the mortgage contract as well as the land use rights certificate or the property ownership certificate in respect of the mortgaged property must be submitted to the registration authority. If the mortgagor cannot repay the loan that is secured by the mortgaged property, the mortgagee may agree with the mortgagor to receive payment by appraising the mortgaged property or through the proceeds of an auction or sale of the property. If no such agreement is reached, the mortgagee may institute proceedings in a People's Court. After the mortgaged property has been appraised or been auctioned or sold, any portion of the proceeds that exceeds the amount of the indebtedness shall belong to the mortgagor and any shortfall shall be paid by the mortgagor.

The Security Law also contains comprehensive provisions dealing with guarantees. Under the Security Law, guarantees may be in two forms: (i) general guarantees whereby the guarantor bears the liability when the debtor fails to perform the payment obligation; and (ii) guarantees with joint and several liability whereby the guarantor and debtor are jointly and severally liable for the payment obligation. A guarantee contract must be in writing and, unless agreed otherwise, the guarantee shall remain valid for six months after the expiration of the term for performance of the principal obligation of the debtor.

IDLE LAND

According to the Measures on Disposing Idle Land (閒置土地處置辦法) enacted and enforced by the Ministry of Land and Resources on April 28, 1999, the land can be defined as idle land under any of the following circumstances: (i) development and construction of the land is not commenced within the prescribed time limit after obtaining the land use rights without consent from the people's government who approved the use of the land; (ii) where the "Contract on Paid Use of the Right to Use State-Owned Land" or the "Approval Letter on Land Used for Construction" has not prescribed the date of commencing the development and construction, the development and construction of the land is not commenced at the expiry of one year from the date when the "Contract on Paid Use of the Right to Use State-Owned Land" became effective or when the Ministry of Land and Resources issued the "Approval Letter on Land Used for Construction"; (iii) the development and construction of the land has been commenced but the area of the development and construction that has been commenced is less than one-third of the total area to be developed and constructed or the invested amount is less than 25% of the total amount of investment, and the development and construction have been continuously suspended for one year or more without an approval; or (iv) other circumstances prescribed by the laws and the administrative regulations.

On June 1, 2012, the Ministry of Land and Resources promulgated further Measures on the Disposal of Idle Land (閒置土地處置辦法) ("**further measures**"), which became effective on July 1, 2012. The Ministry of Land and Resources extended and clarified that the definition of idle land includes any land that became idle as a result of government related or non-government related acts. Government actions may cause land to become idle if (i) the government fails to deliver the land parcels to the grantee in accordance with the time limit specified under the relevant land grant contract or related documents, (ii) the grantee of the land use rights cannot develop the land in accordance with the contracted purposes due to recent land or urban planning adjustments, (iii) there are changes in the land or urban planning conditions due to modification of relevant national policies, and (iv) there are mass petitions, military control, protection of cultural relics, natural disaster and other related issues, which delay the development schedule of the land parcels.

The further measures require land use rights to be granted by the Ministry of Land and Resources to fulfill the following requirements: (i) the land use rights shall be free of encumbrances; (ii) original residents to be resettled (if any) must be compensated; (iii) there must be no legal or economic disputes in connection with the land use rights; and (iv) the relevant land parcels must have a clearly defined premise, nature of use, floor-area ratio and other land planning conditions.

The further measures provide clear procedures for investigation of idle land. Where the municipality or county-level land administrative department suspects the land to constitute idle land, it shall, within 30 days, commence investigation to confirm the status of the land, and issue an "Idle Land Investigation Notification Memorandum" ("**notification memorandum**") to the grantee of the land use rights. The grantee of the land use rights shall, within 30 days of receiving the notification memorandum, provide materials outlining the state of affairs of the land development, reasons for the land being idle and other related explanatory materials to the abovementioned administrative department. The municipality or county-level land administrative department shall, after a piece of land which has been ascertained as idle land, notify the concerned land user and draft a proposal on methods of disposal of the idle land including but not limited to extending the time period for development and construction (provided that the extension

shall be no longer than one year), changing the use of the land, arranging for temporary use, ascertaining a new land user by competitive bidding, public auction. The administrative department of land under the people's government of city or county level shall, after the proposal on disposal has been approved by the original people's government who approved the use of the land, arrange for implementation of the proposal.

With respect to any land parcel obtained under a land grant contract within the scope of city planning and becoming idle due to non-government related acts, if the work has not been commenced after one year from the prescribed date of commencement, a surcharge on idle land equivalent to no more than 20% of the land grant premium may be levied (such land grant premium cannot be listed as manufacturing cost for accounting purposes); if the work has not been commenced after two years from the prescribed date of commencement, the land can be confiscated without any compensation. However, the preceding stipulations shall not apply if the delay is caused by force majeure; acts of government or acts of other relevant departments under the government; or by the indispensable preliminary work. The further measures provide that, with respect to any land parcel becoming "idle" as a result of government-related acts, the grantee of the relevant land use rights shall explain to the municipality or county-level land administrative department the reasons for the land becoming idle, and consult the relevant government authority and rectify the situation accordingly ("**rectification procedures**"). The means of rectification include but are not limited to the extension of the period permitted for commencing development, the adjustment of the land use and planning requirements or the substitution of the relevant land parcels with other land parcels. To enhance control over land hoarding and land speculating activities, the further measures also require the Ministry of Land and Resources not to accept or process any application for title transfer transaction, lease transaction, mortgage transaction or land registration application in respect of the land use rights over any idle land parcel before the completion of the required rectification procedures. To strengthen the regulation of idle land, the further measures require that the Ministry of Land and Resources to copy the relevant finance authorities in all its communications about idling of government-owned land with the grantee of land use rights.

According to the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (關於促進房地產市場平穩健康發展的通知) issued by the General Office of the State Council on January 7, 2010, the land resource authorities shall strengthen the investigation and handling of idle lands.

PROPERTY DEVELOPMENT

Property development projects in the PRC are generally divided into single projects and large tract development projects. A single project refers to the construction of buildings on a plot of land and the subsequent sale of units. Large tract development projects consist of the comprehensive development of large area and the construction of necessary infrastructure such as water, electricity, road and communications facilities. The developer may either assign the land use rights of the developed area or construct buildings on the land itself and sell or lease the buildings erected on it.

Under the "Regulations on Administration of Development of Urban Real Estate (城市房地產開發經營管理條例) (the "**Development Regulations**") promulgated by the State Council on July 20, 1998, an enterprise which is to engage in development of real estate shall satisfy certain requirements including (i) its registered capital shall be more than RMB1 million; and (ii) it has four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom shall hold the relevant qualification certificate.

Where a foreign-invested enterprise is to be established to engage in development and sale of real estate, the relevant requirements of the laws and regulations regarding foreign-invested enterprises must also be observed and relevant approvals be obtained. The “Foreign Investment Industrial Guidance Catalogue” was amended and promulgated by the Ministry of Commerce and the NDRC on December 24, 2011 and effective as of January 30, 2012, which provides, among other things, that the development of a whole land lot and construction of high-end hotels, premium office buildings, international conference centres by foreign-invested enterprises falls within the category of industry in which foreign investment is subject to restrictions, and the construction and operation of villas falls within the prohibited category, while other real estate development falls within the category of industries in which foreign investment is permitted. Moreover, real estate secondary market and estate agent or broker falls within the category of industry in which foreign investment is subject to restrictions. A foreign investor intending to engage in the development and sale of real estate may establish an equity joint venture, a cooperative joint venture or a wholly owned enterprise in accordance with relevant laws and regulations regarding foreign investment. Prior to its registration, the enterprise must be approved by the government authorities in charge of foreign investment, upon which an Approval Certificate for a Foreign Invested Enterprise will be issued.

The total investment amount and the category provided by the “Foreign Investment Industrial Guidance Catalogue” determine the levels of the approval authorities. The existing laws and regulations impose a cap of a total investment of US\$50 million on local approval for projects in the restricted category and a cap of a total investment of US\$100 million on local approval for projects in the encouraged or permitted category. For those with a total investment exceeding US\$50 million in the restricted category and projects with a total investment exceeding US\$100 million in the encouraged or permitted category, the relevant approval authority shall submit the project documents to the Ministry of Commerce for approval.

Pursuant to the Urban Land Regulations, foreign entities may acquire land use rights in the PRC unless the law provides otherwise. However, in order to develop the acquired land, the foreign entities need to establish foreign investment enterprises in the PRC as the project companies.

These project companies may be in the form of Sino-foreign equity or cooperative joint ventures or wholly foreign-owned enterprises. The typical scope of business of such project companies includes development, construction, property management, and sales and leasing commodity properties and ancillary facilities on the specific land as approved by the government. The term of the property development company is usually the same as the term of grant of the land use rights in question.

Establishment of a project company is subject to the approval by the relevant departments of the PRC government in accordance with the following procedure. First, the PRC party to a joint venture project or the foreign investor, in the case of a wholly foreign-owned project, will submit a project application report to the state or local development and reform commission for verification and approval. If the development and reform commission considers the proposed property development project to be consistent with the prevailing national and local economic plans and foreign investment regulations, it will grant an approval to the applicant in respect of the project. The NDRC and the Ministry of Commerce have been authorised to regularly promulgate guidelines for the direction of foreign investment.

Secondly, once the project application report has been verified and approved, the PRC party and the foreign investor may proceed to prepare a joint feasibility study report that reflects their assessment of the overall economic viability of the proposed project company. At the same time, the parties may proceed to negotiate and execute the joint venture contract and articles of association for the establishment of a project company. In the case of a wholly foreign-owned project, the foreign investor may then prepare and sign the articles of association. Thirdly, the joint feasibility study report, the joint venture contract and/or articles of association will then, depending, among other things, on the industry to which it belongs under the Catalogue and the amount of total investment, be submitted to the Ministry of Commerce or its local counterpart, as the case may be, for approval. If the Ministry of Commerce or its local counterpart finds the application documents to be in compliance with PRC laws, it will issue an approval certificate for the establishment of the project company. With this approval certificate, the foreign investor and/or the PRC party can apply to the relevant branch of the Administration of Industry and Commerce for a foreign investment enterprise business licence for the project company.

Once a foreign entity developer has established a project company and secured the land use rights to a piece of land for development, it has to apply for and obtain the requisite planning permits from the planning departments and have its design plan approved by, and apply for and obtain a construction work commencement permit from, the relevant construction commission for commencement of construction work on the land. When the construction work on the land is completed, the completed buildings and structures must be examined and approved by the government departments before they can be delivered to purchasers or lessors for occupancy.

Under the “Provisions on Administration of Qualification Certificates of Real Estate Developers” (房地產開發企業資質管理規定) (the “**Qualification Certificate Regulation**”) implemented by the Ministry of Construction on March 29, 2000, a real estate developer shall apply for its qualifications according to such Regulation. An enterprise may not engage in the development and sale of real estate without the qualification registration certificate. The construction authority under the State Council takes charge of supervising the qualifications of real estate developers throughout China, and the real estate development authority under a local government on or above the county-level shall supervise the qualifications of local real estate developers.

In accordance with the Qualification Certificate Regulation, real estate developers are classified into four classes. The approval system is tiered, so that confirmation of class 1 qualifications’ shall be subject to preliminary examination by the construction authority under the people’s government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2, 3 or 4 shall be formulated by the construction authority under the people’s government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the authority.

Under the Qualification Certificate Regulation, the real estate development authorities shall examine applications for registration of qualifications of a real estate developer when it reports its establishment, by considering its assets, professional personnel and business results. A real estate developer shall only undertake real estate development projects in compliance with the approved qualification registration.

After a newly established real estate developer reports its establishment to the property development authority, the latter shall issue a provisional qualification certificate to the eligible developer within 30 days of its receipt of the above report. The real estate developer shall apply for a formal qualification certificate from the real estate development authority within one month before expiry of the provisional one. The provisional qualification certificate shall be effective for one year from the date of its issuance. The real estate development authority can extend the validity period for not more than two years after considering the actual business situation of the enterprise. Failure to obtain the required provisional or formal qualification certificate may result in a fine ranging from RMB50,000 to RMB100,000 and revocation of the developer's business licence if such failure to obtain the certificate is not rectified.

A developer of any qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business exceeding the scope permitted by its classification. A class 1 real estate developer is not restricted as to the scale of real estate project to be developed and may undertake a real estate development project anywhere in the country. A real estate developer of class 2, 3 or 4 may undertake a project with a gross area of less than 250,000 sq.m. and the specific scope of business shall be as confirmed by the construction authority under the people's government of the relevant province, autonomous region or municipality.

The real estate development authorities perform annual inspections of qualified developers. Developers who fail to meet the qualification requirements or violate the relevant rules may have their qualification classification certificates degraded or revoked.

For the purpose of carrying out the construction and development of a real estate project, the real estate developers shall, after signing the land grant contract in accordance with the Regulations on Land Granting and Transfer and the Tender, Auction and Listing Regulations, attend certain procedures and obtain relevant approval documents in relation to the design, planning, construction and development of the land.

PLANNING AND CONSTRUCTION PERMITS

Under the "Regulations on Planning Administration regarding Granting and Transfer of State-owned Land Use Right in Urban Area" (城市國有土地使用權出讓規劃管理辦法) promulgated by the Ministry of Construction in December 1992, a real estate developer shall apply for a construction land planning permit (建設用地規劃許可證) from the municipal planning authority. After obtaining the construction land planning permit, the real estate developer shall then organise the necessary planning and design work in accordance with relevant planning and design requirements. A planning and design proposal in respect of the real estate project shall be submitted to the municipal planning authority following the requirements and procedures under the Urban and Rural Planning Law of the People's Republic of China (中華人民共和國城鄉規劃法), which was issued on October 28, 2007, and a construction work planning permit (建設工程規劃許可證) must be obtained from the municipal planning authority.

On January 21, 2011, the State Council promulgated the Regulation on Expropriation and Compensation Related to Buildings on State-owned Land (國有土地上房屋徵收與補償條例), which replaces the Regulations for the Administration of Demolition and Removal of Urban Housing (城市房屋拆遷管理條例). The new regulation provides, among other things, that:

- buildings can be expropriated under certain circumstances for public interests but only governmental authorities are permitted to conduct resettlement activities. Real estate developers are prohibited from involvement in the demolition and relocation procedures;

- compensation shall be paid before the resettlement;
- compensation to owners of properties to be demolished cannot be less than the market value of similar properties at the time of an expropriation. The market value of properties shall be determined by qualified real estate appraisal institutions in accordance with appraisal rules related to property expropriation. If any owner does not agree with the appraised market value of the property, he can apply to the real estate appraisal institution for re-appraisal; and
- neither violence nor coercion may be used to force homeowners to leave. In addition, certain measures such as illegally cutting water and power supplies cannot be used in relocation work.

Upon obtaining the Permit for Housing Demolition and Resettlement, the real estate developer may appoint a qualified third party to carry out the demolition and removal within the land area and period specified in the Permit for Housing Demolition and Resettlement after the local real estate administration office having issued a demolition and resettlement notice to the inhabitants of the housing to be demolished. Subject to a written agreement entered into by the real estate developer and the parties relevant to the demolition and resettlement for compensation and resettlement, the real estate developer needs to pay compensation and resettlement fees to the inhabitants of the housing to be demolished. Compensation may be effected by way of monetary compensation or exchange of property rights. In addition to paying the demolition and resettlement compensation, the real estate developer shall pay resettlement allowance to the parties subject to demolition and resettlement. After a real estate developer has carried out the above work, the site is ready for commencement of the construction works, the progress of demolition of existing buildings complies with construction needs, funds required for the construction have been made available, the contractor has been determined, and the design for construction has been examined and approved by the relevant government authorities, the real estate developer shall then apply for a construction work commencement permit (建設工程施工許可證) from the relevant construction authority in accordance with the “Regulations on Administration regarding Permission for Commencement of Construction Works (建築工程施工許可管理辦法) promulgated by the Ministry of Construction in October 1999, which was amended in July 2001.

ACCEPTANCE AND EXAMINATION UPON COMPLETION OF A REAL ESTATE PROJECT

Pursuant to the Regulations on Administration of Development of Urban Real Estate (城市房地產開發經營管理條例) promulgated by the State Council on January 30, 2000, the Interim Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收備案管理暫行辦法) promulgated by the Ministry of Construction in April 2000 and the Interim Provisions for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收暫行規定) promulgated and implemented by Ministry of Construction on June 30, 2000, upon the completion of real estate development project, the real estate development enterprise shall submit an application to the control department of real estate development of local people's government at county level or above, where the project is located, for examination upon completion of building and for filing purposes; and to obtain the Examination Upon Completion of Construction Project Filing Form (建築工程竣工驗收備案表). A real estate project may not be delivered before passing the acceptance examination and obtaining the completion certificate.

SALES/PRE-SALES OF COMMODITY BUILDINGS

Commodity buildings can be sold before or after their completion. These sales are regulated and conducted in accordance with the provisions of the “Regulations for the Administration of Sale of Commodity Buildings (商品房銷售管理辦法), or the Sales Regulations promulgated by the Ministry of Construction in April 2001, the Measures for the Administration of Pre-sale of Commodity Buildings (城市商品房預售管理辦法), or the Pre-sales Measures amended by the Ministry of Construction in July 2004 and in accordance with the Development Regulations.

For units of a commodity building sold before completion (a “**Pre-sale**”) to occur under the Pre-sale Regulations, a developer must make the necessary pre-sale registration with the real estate development authority of the relevant city or county and obtain a pre-sale permit. A Pre-sale will take place if:

- The premium in respect of the land use rights has been paid in full and the land use rights certificate has been obtained;
- The construction work planning permit and the construction work commencement permit have been obtained;
- At least 25% of the total amount of the project investment fund has been injected into the development of the project and the progress of construction and the expected completion date of the project has been ascertained; and
- The pre-sale permit has been obtained.

Under the “Regulations for the Administration of Sale of Commodity Buildings” (商品房銷售管理辦法), commodity buildings may be put to post-completion sale only when the following preconditions have been satisfied: (a) the real estate development enterprise offering to sell the post-completion buildings shall have a enterprise legal person business licence and a qualification certificate of a real estate developer; (b) the enterprise has obtained a land use rights certificate or other approval documents of land use; (c) the enterprise has the permit for construction project planning and the permit for construction; (d) the commodity buildings have been completed and been inspected and accepted as qualified; (e) the relocation of the original residents has been completed; (f) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc. have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of have been specified; (g) the property management plan has been completed. Before the post-completion sale of a commodity building, a real estate developer shall submit the real estate development project manual and other documents showing that the preconditions for post-completion sale have been fulfilled to the real estate development authority for making a record.

On July 6, 2006, the Ministry of Construction, the NDRC and the SAIC promulgated the Notice for the Further Rationalisation and Standardisation of the Property Deal (關於進一步整頓規範房地產交易秩序的通知) (2006 No. 166), or the “166 Notice”. The 166 Notice aimed at perfecting a system of disclosure in order to regulate transactions conducted in the property market so as to prevent speculation. The 166 Notice contains, inter alia, the following measures that:

- property developer shall commence the pre-sale within 10 days since the permission is obtained;
- the resale of any unit of an pre-sold uncompleted commodity building be prohibited;

- the advertisement of pre-sales prior to obtaining the relevant pre-sale permit be prohibited; and
- standard forms for the sale and purchase of an unit of a commodity building before or after its completion be made available to a purchaser.

According to the Property Rights Law (中華人民共和國物權法) which was promulgated on March 16, 2007 and implemented on October 1, 2007, parties can apply for registration of a caveat by agreement in order to secure that they obtain future property rights. After registration of such caveat, without permission of the persons who enjoy such right of registration of the caveat, any disposal of the relevant real estate shall have no effect to the property rights.

Pursuant to the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (關於促進房地產市場平穩健康發展的通知) issued by the General Office of the State Council on January 7, 2010, local governments must decide the minimum scale of pre-sales rationally and may not issue separate pre-sale permits by floor or unit.

On April 13, 2010, the MOHURD of People's Republic of China issued the Notice on Further Strengthening the Supervision over the Real Estate Market and Improving the Pre-sale System of Commercial Housing (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知). It provides that, among other things, within 10 days after the real estate developers obtain the pre-sale permit for the project for sale, they shall release the information regarding number of properties allowed for pre-sale under such pre-sale permission and the prices of such mentioned pre-sale units to the public in one time. They shall also sell the properties to the public at the price as published and strictly subject to the pre-sale permits.

On September 2, 2010, Shanghai Municipal Housing Support And Building Administration Bureau issued the Notice of Further Strengthening Municipal Supervision on Real Estate Market and Regulating Pre-sale Behaviours (《上海市住房保障和房屋管理局關於進一步加強本市房地產市場監管規範商品住房預銷售行為的通知》(滬房管市 2010 246號)). To thoroughly apply the "Notice on Further Strengthening the Supervision over the Real Estate Market and Improving the Pre-sale System of Commercial Housing" (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知), it requires that (1) real estate project with a GFA less than 30,000 sq.m. shall apply for only one pre-sale permit; real estate project with a GFA more than 30,000 and where it is necessary to conduct pre-sale in stages, each pre-sale permit applied shall not cover less than 30,000 sq.m.; (2) real estate enterprise shall complete filings with relevant local authorities prior to pre-sale, setting out, among other things, the pre-sale price of each unit for sale; real estate enterprise shall submit amended filings with relevant local authorities if any particular unit is sold at a price higher than that stated in the relevant filings; (3) relevant authorities shall regulate the reservation and sales behaviours, and real estate developing enterprises shall not sign any commercial housing deposit contracts or commercial housing sales contracts unless they have obtained the Pre-sale Permit or have filed for sales of their existing houses.

On November 4, 2010, the MOHURD and the SAFE collectively promulgated the Notice on Further Regulating the Administration on House Purchase by Overseas Organization and Individual (關於進一步規範境外機構和個人購房管理的通知), which stipulates that, except as otherwise stated in laws and regulations, an overseas individual shall solely purchase one unit of owner-occupied residential house, and an overseas organization with a branch or representative office set up in the PRC shall solely purchase non-residential house necessary for business operations in the city where it is registered.

On March 16, 2011, the NDRC promulgated the Regulations on Sales of Commodity Houses at Expressly Marked Price (商品房銷售明碼標價規定) (“**the Regulation**”) with effect from May 1, 2011, which provide that real estate development enterprises and intermediary agencies (collectively, “**the Sellers and the Agencies**”) shall, during the period of selling new-built commodity houses, publish and mark the prices of the commodity houses and closely related factors thereof as well as the pricing standards. The Regulation stipulates that the Sellers and the Agencies shall mark the price of each commodity house with one price only. For real estate development projects that have obtained the pre-sale permits or are registered as finished houses, the Sellers and the Agencies shall publish the availability of all houses that are permitted to be sold and the price of each house within a specified time frame. The Sellers and the Agencies shall not sell the house at a price higher than the marked price and shall not collect charges not specified. Meanwhile, intermediary agencies shall sell second-hand commodity houses with reference to the Regulation. In the event that the Sellers and the Agencies do not expressly mark the price or publish their charges, or commit fraud through the marking of price or pricing artifices, local competent authorities of county-level or above shall have the right to penalize the Sellers and the Agencies accordingly.

INDIVIDUAL HOUSING LOANS

“Circular on for the Determination of Second Residential Property in Individual Commercial Housing Loan Applications” 《關於規範商業性個人住房貸款中第二套住房認定標準的通知》 was jointly promulgated by MOHURD, PBOC and CBRC on May 26, 2010. The circular lays down the determining criteria of a property being identified as an individual’s second residential property in individual commercial housing loan applications. The circular provides that the number of residential properties owned by an individual loan applicant shall be determined with reference to the number of completed residential properties actually owned by the members of the family (including the individual loan applicant, their spouses and minor children) of the individual who plans purchase another residential property with the use of individual commercial housing loan. The application or authorization of any individual commercial housing loan by an individual borrower shall be subject to checks on the borrowers’ residential property registry records through the property registration information system and the issuance written results of such checks by the urban real estate authorities. The lender should implement a differential credit policy for the individual borrower’s second (or above) residential property in accordance with the number of residential properties owned by such borrowers. The policy in this circular is also applicable to non-residents who can provide local tax clearance certificates or local social insurance payment certificates for one year or above.

“Circular on Regulations of Policies Concerning Individual Housing Provident Fund Loans” 《關於規範住房公積金個人住房貸款政策有關問題的通知》 was jointly promulgated by MOHURD, Ministry of Finance, PBOC and CBRC on November 2, 2010 and it lays down regulations in relation to the Individual Housing Provident Fund Loans. The circular provides that Individual Housing Provident Fund Loans could only be used to purchase, build, re-build and repair ordinary and privately used residential properties of labourers with the aim of meeting their basic need for housing. The making use of Individual Housing Provident Fund Loans to carry out speculative purchase of properties is strictly prohibited. To purchase the first residential property for private use with Individual Housing Provident Fund Loans, the down payment of the purchase shall not be less than 20% of the total purchase price if the gross floor area of the property is less than 90 meter squares (inclusive). If the gross floor area of the property is more than 90 meter squares, the down payment shall not be less than 30% of the total purchase price. For the purchase of the second residential property, Individual Housing Provident Fund Loans are only available to labourers whose families’ per-capita gross floor area is lower than the local average, and that

could only be used to purchase ordinary and privately used residential properties that help improve the living condition of the labourers. The down payment for the purchase of the second residential property shall not be less than 50% of the total purchase price, and the interest rate of the loan shall not be less than 1.1 times of the interest rate for Individual Housing Provident Fund Loans in relation to the purchase of the first residential property during the same period. Individual Housing Provident Fund Loans are not available to labourers and their families for purchasing the third (or more) residential property.

RESIDENTIAL PROPERTY QUALITY WARRANTY

On May 12, 1998 the Ministry of Construction promulgated the Regulation for Adoption of Residential Property Quality Warranty and Residential Building User Guide for Commodity Residential Properties (商品住宅實行住宅質量保證和住宅使用說明書制度的規定), which took effect from September 1, 1998. This regulation provides that the residential property quality warranty shall include the following contents: (1) quality grading as verified by a construction quality supervision authority; (2) guaranteed repair of the foundation and main structure within their reasonable use life; and (3) the contents and term of guaranteed repair of all parts and components under normal using conditions. The term of guaranteed repair of the residential buildings shall commence at the date of delivery by the developers of the residential buildings which have passed the check and acceptance procedure.

LEASING

Both the Urban Land Regulations and the Real Estate Law permit the leasing of granted land-use rights and of the buildings or homes constructed on the land. On December 1, 2010 the Ministry of Construction promulgated the “Measures for Administration of Leases of Commodity Buildings” (商品房屋租賃管理辦法) (“**New Lease Measures**”), which took effect on February 1, 2011 and replaces the Measures for Administration of Leases of Buildings in Urban Areas (城市房屋租賃管理辦法). Pursuant to New Lease Measures, within 30 days after a lease contract is entered into, the parties thereto shall file with the local property administration authority. Any failure to comply with such filing requirement would lead to a fine. According to the Real Estate Law, rental income derived from the any building situated on allocated land, or land which the landlord has acquired only allocated land use rights, must be turned over to the State.

INSURANCE

There are no mandatory provisions in the PRC laws, regulations and government rules which require a real estate developer to take out insurance policies for its real estate projects.

According to the “Construction Law of the People’s Republic of China” (中華人民共和國建築法) promulgated by the Standing Committee of the National People’s Congress on November 1, 1997 and effective as of March 1, 1998, construction enterprises must take out accident and casualty insurance for workers engaged in occupationally hazardous operations and pay insurance premium. In the “Opinions of the Ministry of Construction on Strengthening the Insurance of Accidental Injury in the Construction Work” (建設部關於加強建築意外傷害保險工作的指導意見) by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasises the importance of the insurance of accidental injuries in the construction work and put forward the detailed opinions of guidance.

REAL ESTATE LOANS**Commercial Bank Loans**

On June 5, 2003, the PBOC promulgated the Notice on Further Strengthening the Administration of Real Estate Related Credit (關於進一步加強房地產信貸業務管理的通知). According to this notice, commercial banks shall focus their business on supporting real estate projects targeted at mid-to lower-income households and appropriately restrict the granting of real estate loans to projects for the construction of luxury apartments and houses. The notice provides that when applying for bank loans, a real estate development company must contribute at least 30% of the total investment of the project from its own funds, and prohibits banks from advancing funds to real estate developers as working capital or for payment of land premiums. See “Recent macroeconomic control measures” below for recent developments in this area.

On August 12, 2003, the State Council published the Notice by the State Council on Facilitating Sustained and Healthy Development of the Real Estate Market (國務院關於促進房地產市場持續健康發展的通知), which provides a series of measures to control the real estate market, including but not limited to enhancing the gathering and granting of public housing fund (住房公積金), perfecting the security of the residential loan and strengthening the supervision of real estate loans. The purpose of the notice is to create a positive influence on the long-term development of the real estate market in China.

On August 30, 2004, the CBRC issued a Guideline for Commercial Banks on Risks of Real Estate Loans (商業銀行房地產貸款風險管理指引). According to the guideline, no loans shall be granted in relation to projects which have not obtained requisite land use rights certificates, construction land planning permits, construction works planning permits and construction work commencement permits. The guideline also stipulated that not less than 35% of the investment in a property development project must be funded by the real estate developer’s own capital for the project in order for banks to extend loans to the real estate developer. In addition, the guideline noted that commercial banks should set up strict approval systems on granting loans.

On March 16, 2005, the PBOC promulgated a Notice on Adjusting the Housing Loan Policy and Deposit Rate of Excess Reserves for Commercial Banks (關於調整商業銀行住房信貸政策和超額準備金存款利率的通知) which cancelled the preferential mortgage lending interest rate for individuals and restricted on the minimum mortgage loan rate to 0.9 times the benchmark rate. The PBOC also increased the public housing fund loan rate (住房公積金貸款利率) by 0.18% and permitted commercial banks to decrease the mortgage loan rate from 80% to 70% of the value of the property if it is located in a city where property prices are increasing too rapidly.

On April 27, 2006, the PBOC promulgated a Notice on Adjusted the RMB Loan Interest Rates of Financial Institutions (關於調整金融機構人民幣貸款利率的通知). The notice provides that, from April 28, 2006, the benchmark loan interest rates of financial institutions will be increased. The benchmark one year bank lending rate was increased from 5.58% to 5.85%.

On May 31, 2006, the PBOC promulgated a Notice about Relevant Matters on Adjusted Housing Credit Policies (關於調整住房信貸政策有關事宜的通知). The notice provides that, from June 1, 2006, the first instalment payment for an individual house bought through a mortgage loan must not be lower than 30% of the purchase price. However, for houses purchased for self-residential purposes and with a gross floor area of less than 90 sq.m., the 20% first instalment payment regulation still applies.

On May 25, 2009, the State Council issued a Notice on Adjusting the Capital Ratio of Fixed Assets Investment Project (國務院關於調整固定資產投資項目資本金比例的通知). The Notice provides that the minimum capital requirement for affordable housing and ordinary commodity apartments are 20%, and the minimum capital requirement for other real estate development projects is 30%. These regulations apply to both domestic and foreign investment projects.

On September 27, 2007, PBOC and CBRC promulgated a “Circular on Strengthening the Management of Commercial Real-estate Credit Loans” (關於加強商業性房地產信貸管理的通知), which increases the down payment requirement applicable to a purchaser acquiring his second residential property to at least 40% and the interests payable on these loans must not be less than 110% of the benchmark interest rate of the same kind and same term by PBOC. Under this circular, the PRC authority has tightened control over commercial banks’ loans to property developers in order to prevent these banks from excessive credit granting. The circular emphasises that commercial banks must not offer loans to property developers who have been found by state land and resource and construction authorities as hoarding land and buildings. Commercial banks are also prohibited from accepting commercial properties that have been vacant for more than three years as guaranties for loans. Under the complementary notice on Strengthening the Administration of Commercial Real Estate Credit Loans (關於加強商業性房地產信貸管理的補充通知), if a member of a family (including the purchaser, his/her spouse and their children under 18) has borrowed loans from banks to buy a house, any member of the family that buys another house will be regarded as a second-time home buyer.

On July 29, 2008, PBOC and CBRC issued the Notice on Financially Promoting the Economisation and Intensive Use of Land (關於金融促進節約集約用地的通知), which among other things,

- restrict PRC commercial banks from granting loans to property developers for the purpose of paying land premiums;
- regulate the secured loans for land reserve in various respects including to obtain land use certificate, to secure up to 70% value of security’s appraised valuation, and to limit the length of maturity in no more than two years;
- prudently grant or extend loans to the property developer who (i) delay the commencement of development date specified in the land transfer agreement more than one year, (ii) has not finished one-third of the intended project, or (iii) has not invested the quarter of the intended total project investment;
- restrict granting loans to the property developer, the land of which is idle for two years; and
- restrict taking idle land as a security for loans.

On January 7, 2010, the General Office of the State Council issued the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (關於促進房地產市場平穩健康發展的通知). The Notice, among other things, provides that:

- To the families (including the debtors, their spouses and their juvenile children) who have bought a residential house by the loans and are applying for loans to buy a second residential house or more residential houses, the down payments of the loans should not be lower than 40%, the loan rates should be strictly commensurate with the credit risks.
- Banks are restricted from offering loans to a property development project or property developer which is not in compliance with credit loan regulations or policies.

On December 31, 2009, the China Banking Association issued the Self-regulation Consensus on the Regulation of Real Estate Mortgage Loan Business for Individuals and Maintain Market Order (關於規範做好個人房地產按揭貸款業務維護市場秩序的自律共識), pursuant to which, (1) all members of the China Banking Association are required to strengthen their business operations with respect to real estate mortgage loans for individuals, and (2) commencing from January 1, 2010, all members of the China Banking Association are prohibited from paying commissions to real estate brokers or other intermediaries for pure business solicitation and introduction purposes that are not in proportion to the services rendered by such persons.

The PBOC raised the Renminbi deposit reserve ratio for large-scale financial institutions by 0.5% as of January 18, 2010 to 16%. The adjustment of the deposit reserve ratio is intended to slow the growth of money supply, which may adversely affect demand for property in China.

The PBOC decided to raise the Renminbi deposit reserve ratio of the deposit financial institutions (存款類金融機構) by 0.5% as of February 25, 2010 to 16.5%. The deposit reserve ratio of the small-scale financial institutions such as the rural credit cooperatives will temporarily remained.

The PBOC decided to raise the Renminbi deposit reserve ratio of the deposit financial institutions (存款類金融機構) by 0.5% as of May 10, 2010 to 17.0%. The deposit reserve ratio of the small-scale financial institutions such as the rural credit cooperatives will temporarily remained.

On April 17, 2010, the State Council issued the Notice on Strictly Restraining the Excessive Growth of the Property Prices in Some Cities (國務院關於堅決遏制部分城市房價過快上漲的通知), according to which a stricter differential housing credit policy shall be enforced. It provides that, among other things, (1) for first-time family buyer (including the borrower, his/her spouse and his/her underage children, similarly hereinafter) of the apartment larger than 90 square meters, a minimum 30% down payment must be paid; (2) the down payment requirement on second-home mortgages was raised to at least 50% from 40% and also reiterated that an extra 10% should be adopted on interest rates for such buyers; and (3) for those who buy three or more houses, even higher requirements on both down payments and interest rates shall be levied. In addition, the banks can suspend housing loans to third or more home buyers in places where house prices rise too rapidly and too high and home supply is insufficient.

On October 7, 2010, Shanghai Municipal Government approved the Several Opinions on Further Strengthening the Control of Real Estate Market and Speeding up Housing-Security Programs of Shanghai (關於進一步加強本市房地產市場調控加快推進住房保障工作的若干意見), according to which:

- (1) On the basis of the Notice on Strictly Restraining the Excessive Growth of the Property Prices in Some Cities (國務院關於堅決遏制部分城市房價過快上漲的通知), it further prohibited all commercial banks from making loans to the family buyers who buy three or more apartments in Shanghai.
- (2) For the family who buy its first property with a GFA larger than 90 sq.m. and apply for housing fund loans, a minimum 30% of down payment is required, and the ceilings of the housing fund loan shall be RMB600,000; for the family who buy its second property for improving its living condition, a minimum 50% of down payment is required and the ceilings of the housing fund loan is RMB400,000; all the Housing Fund Management Centers shall suspend making loans to the family who apply for its second property, which could not be defined as a living-condition-improving property; the family who buy its three or more properties, the making of housing fund loans is prohibited.
- (3) Since the date that this Opinion being issued, any family (including both the husband and wife, and their underaged children) of Shanghai or other provinces can buy only one property in Shanghai.
- (4) Land value appreciation tax shall be levied according to the ratio of the average price of house sold (A) by the company to the average price of all newly built house (B) in the whole area of last year: when A is lower than B, the land value appreciation tax shall be levied at the rate of 2%; when A does not exceed 2B, the tax rate shall be 3.5%; when A exceeds 2B, the tax rate shall be 5%.
- (5) As to any real estate project which has obtained its Construction Licence after July 1, 2010, the requirements for it to apply for Pre-sale Permits shall be adjusted. The real estate project aforesaid can only apply for their pre-sale permits after its completion of capping main structure and passing the inspection.
- (6) Relevant authorities are required to strengthen their managements on approval of planning, construction and pre-sale. Separately applying for limits of planning, construction and pre-sale are restricted. The scale of construction and pre-sale of a real estate project shall be no less than 30,000 sq.m. GFA. Real estate project with less than 30,000 sq.m. GFA is required to get Construction Planning Permit, Construction Licence and Pre-sale Permit at a single time.
- (7) Real Estate Enterprises should strictly price its products according to the price it declared to relevant authorities. Whenever the actual price is higher than the declared one, it is required to file the new price to relevant authorities in timely fashion.

On September 29, 2010, the PBOC and the CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan Policies (關於完善差別化住房信貸政策有關問題通知), which (i) raised the minimum down payment to 30% for all first home purchases with mortgage loans; (ii) required commercial banks in China to suspend mortgage loans to: (1) customers for their third or more residential property purchase, and (2) to non-local residents who cannot provide documentation certifying payment of local tax or social security for

longer than a one-year period; and (iii) restricted the grant of new project bank loans or extension of credit facilities for all property companies with non-compliance records regarding, among other things, holding idle land, changing the land use to that outside the scope of the designated purpose, postponing construction commencement or completion, or hoarding properties.

TRUST FINANCING

On October 1, 2001, “The Trust Law of the People’s Republic of China” (《中華人民共和國信託法》) (the “**Trust Law**”) came into effect. Trust Law regulates settlers, trustees, and beneficiaries that engage in civil, business or public welfare trust activities within the PRC. For purposes of the Trust Law, trust refers to that the settler, based on his faith in trustee, entrusts his property rights to the trustee and allows the trustee to, according to the will of the settler and in the name of the trustee, administer or dispose of such property in the interest of a beneficiary or for any intended purposes. The trust property shall be segregated from the property owned by the trustee. Where the trustee dies or the trustee as a body corporate is dissolved, removed or is declared bankrupt according to the applicable law, and the trusteeship is accordingly terminated, the trust property shall not be form part of his legacy or liquidation property.

A trust shall be created for lawful trust purposes and shall be made in written form. To create a trust, there must be definite property under the trust, and such property including the lawful property right must be the property lawfully owned by the settler. If laws or administrative regulations stipulate that registration shall be made for the creation of a type of trust, such registration shall be made accordingly, or the trust shall have no effect.

On March 1, 2007, “The Administration Measures on Trust Company” (《信託公司管理辦法》) came into effect. For the purposes of these measures, “trust financing company” shall have the meaning of a financial institution which was established pursuant to the PRC Company Law and these Measures and primarily engages in trust business; and the term “trust business” shall have the meaning of any business of a trust financing company through which it accepts a trust and handles trust affairs as a trustee and obtains remuneration. A trust financing company engaging in trust activities shall comply with laws, administrative regulations and the trust document and may not harm the interests of the State, the public or the legal rights and interests of third parties. To establish as a trust financing company, a financial institution shall be approved by the CBRC and shall obtain a financial business licence. A trust financing company may apply to engage in cash trust, movable property trust, real estate property trust or any other business that regulated by laws and regulations or approved by the CBRC. Where a trust financing company manages or disposes of trust property, it must scrupulously carry out its responsibilities and perform its obligation of honest, trustworthy, prudent and efficient management. Meanwhile, trust property is not a part of the trust financing company’s own property and does not constitute a liability of the trust financing company towards the beneficiary. When a trust financing company is terminated by way of liquidation or dissolution, trust property shall not be a part of its property subject to liquidation.

On February 4, 2009, the amended “Measures for the Administration of Trust Companies’ Trust Plans of Assembled Funds” (《信託公司集合資金信託計劃管理辦法》) came into effect. This regulation is applicable to the set up trust plans of assembled funds (“**Trust Plan**”) in the PRC. Trust Plans must be set up according to relevant industry policies, laws and regulations, and shall has explicit investment target and strategy. For the purposes of this regulation, “Trust Plan” includes any trust activity that the trust financing company acts as a trustee, according to the will of the settler, administer or dispose settler’s property in the interest of a beneficiary. The property of Trust Plan is segregated from property owned by trust financing company. A trust financing

company is prohibited to mix the property of a Trust Plan into its own property. In case where a trust financing company is dissolved, deregistered or declared bankrupt according to the law, the property of Trust Plan shall not form part of the liquidation property.

During the period of a Trust Plan, the trust financing company is required to select well-managed commercial bank as the custodian. The trust financing company is also required to establish specific departments and appoint specialized employees to manage the Trust Plan. Furthermore, the trust financing company may be required to disclose information of the Trust Plan in accordance with relevant laws and regulations.

From October 2008 to November 2010, the CBRC issued several regulatory notices in relation to real estate business conducted by trust financing companies, including a “Circular on Relevant Matters regarding Strengthening the Supervision of Real-estate and Securities Business of Trust Companies” (關於加強信託公司房地產、證券業務監管有關問題的通知), pursuant to which trust financing companies are restricted from providing trust loans, in form or in nature, to (i) property projects that have not obtained the requisite land use rights certificates, construction land planning permits, construction works planning permits and construction work commencement permits; (ii) property developers that had not been issued with Class 2 qualification certificates by the relevant competent construction authorities; (iii) property projects of which less than 35% of the total investments are funded by the property developers’ own capital (the percentage of 35% was changed to 20% for affordable housing and ordinary commodity apartments and 30% for other property projects as provided by a Notice on Adjusting the Capital Ratio of Fixed Assets Investment Project (國務院關於調整固定資產投資項目資本金比例的通知) issued by the State Council on May 25, 2009); and (iv) to property developers for payment of land premium or for working capital purposes.

LOCAL LEGISLATION

While the Urban Land Regulations set out a general framework for transactions relation to land use rights, Guangdong Municipal legislation regulates specific transactions within specified areas relating to the grant and transfer of land use rights. These local regulations are numerous. Some of them are inconsistent with national legislation. The central authorities have taken the position that if there are inconsistencies, the national legislation will prevail.

ESTABLISHMENT OF REAL ESTATE ENTERPRISES

In accordance with the regulations of Law of the People’s Republic of China on Urban Real Estate Administration (《中華人民共和國城市房地產管理法》) (revised on August 30, 2007), the real estate development enterprise is defined as the enterprises that engage in the real estate development and operation for the purpose of seeking profits. In accordance with the regulations of Administrative Regulations on Development and Operation of Urban Real Estate 9 (《城市房地產開發經營管理條例》) (Promulgated and implemented on July 20, 1998 by the State Council), establishment of a real estate development enterprise shall, in addition to the conditions for the enterprise establishment prescribed by relevant laws and administrative regulations, fulfill the following conditions:

1. The registered capital should be over RMB1 million yuan, and
2. The enterprise shall have more than 4 full-time technical personnel with certificates of qualifications of real estate specialty and construction engineering specialty and more than 2 full-time accountants with certificates of qualifications.

People's governments of the provinces, autonomous regions and municipalities directly under the Central Government may, in the light of the actual conditions prevailing in their respective localities, work out provisions for the conditions of registered capital and specialized technical personnel for the establishment of a real estate development enterprise higher than those in the preceding paragraph.

Pursuant to the provisions of Rules for Implementation of Regulations on Administration of Qualifications of Real Estate Development Enterprises in Jiangsu Province (《江蘇省實施<房地產開發企業資質管理規定>細則》) promulgated and implemented on August 6, 2001 by Jiangsu Construction Department, the registered capital for establishment of real estate development enterprises should be no less than RMB4 million yuan and should meet the requirements of relevant technical personnel.

In accordance with the Law of the People's Republic of China on Urban Real Estate Administration (《中華人民共和國城市房地產管理法》), to establish a real estate development enterprise, a registration should be made with the Administration for Industry and Commerce. The Administration for Industry and Commerce shall handle registration procedures of those which comply with conditions as prescribed by this law and issue licences to them; and refuse to handle registration procedures of those which do not comply with conditions prescribed by this law. Those which establish a limited liability company or limited stock company to engage in real estate development and operations shall also execute the relevant provisions of the Corporate Law. A real estate enterprise shall report for record to a department designated by the people's government above county level where the registration department is located within one month after obtaining the licence.

On May 25, 2009, the State Council issued a Notice on Adjusting the Capital Ratio of Fixed Assets Investment Project (國務院關於調整固定資產投資項目資本金比例的通知). The Notice provides that the minimum capital requirement for affordable housing and ordinary commodity apartments are 20%, and the minimum capital requirement for other real estate development projects is 30%. These regulations apply to both domestic and foreign investment projects.

Qualifications of real estate development enterprises

Classification and rating of qualifications of real estate development enterprises

In accordance with the relevant provisions of Administrative Regulations on Development and Operation of Urban Real Estate (《城市房地產開發經營管理條例》), A real estate development enterprise should, within 30 days starting from the date of obtainment of the business licence, go to the competent department of real estate development of the locality wherein the registration organ is located for the record. The competent department of real estate development should, on the basis of the assets, specialized technical personnel and development and management achievements, verify the human quality grade of a real estate development enterprise put on record. The real estate development enterprise should, in accordance with the verified qualification grade, undertake corresponding real estate development projects.

On March 29, 2000, the Ministry of Construction promulgated the Regulations on Administration of Qualification of Real Estate Development Enterprises (《房地產開發企業資質管理規定》). Pursuant to the regulations, the enterprises engaged in real estate development should

be approved in accordance with the provisions of application for the enterprise qualification level. Enterprises that fail to obtain certificates of real estate investments (hereinafter referred to as qualification certificates) shall not engage in the real estate development business.

Enterprises engaged in real estate development enterprises are classified into four qualification levels: Level I, Level II, Level III and Level IV in accordance with the enterprise conditions. The preliminary examination of the qualification of level I should be performed by the administrative departments of people's governments of the provinces, autonomous regions and municipalities directly under the Central Government and then reported to the construction administrative departments of the state council for approval. The examination measures of the enterprises of level II qualification or lower should be developed by the construction administrative department of the people's governments of the provinces, autonomous regions and municipalities directly under the Central Government. Those enterprises passing the qualification examination should be awarded with corresponding levels of qualification certificates by the qualification examination departments. The newly-established real estate enterprises should put a record in the competent department of real estate development within 30 days upon receipt of the business licence. The competent department of real estate development should verify and issue the provisional qualification certificate (《暫定資質證書》) to the enterprises that conform to the conditions within 30 days upon receipt of the application for filing. The valid period of the provisional qualification certificate is one year. The competent department of real estate development may extend the valid period of the provisional qualification certificate depending on the actual conditions and the extension should not exceed two years. Enterprises engaged in real estate development shall apply for verification of qualification level to the competent department of real estate development one month before expiration of the valid period of the provisional qualification certificate.

On August 6, 2001, Jiangsu Provincial Department of Construction promulgated Rules for Implementation of Regulations on Administration of Qualifications of Real Estate Development Enterprises in Jiangsu Province (《江蘇省實施<房地產開發企業資質管理規定>細則》). In accordance with the Rules, enterprises engaged in real estate development enterprises are classified into four qualification levels: Level I, Level II, Level III and Level IV in accordance with the enterprise conditions. The preliminary examination of the qualification of level I should be performed by the administrative departments of provincial people's governments and then reported to the construction administrative departments of the state council for approval. The preliminary examination of qualification of levels II, III and III and temporary qualification should be conducted by the competent department of real estate development of the city with the districts and reported to the provincial construction administrative department for approval. Those enterprises passing the qualification examination should be awarded with corresponding levels of qualification certificates by the qualification examination department, which is produced by the construction administrative department of State Council. Those enterprises applying for provisional qualification certificate should possess the conditions not lower than level IV qualification.

Business scope of real estate development enterprises

Pursuant to the relevant provisions of Regulations on Administration of Qualifications of Real Estate Development Enterprises (《房地產開發企業資質管理規定》), enterprises of various qualification levels shall engage in the in real estate development and management within the prescribed business scope and shall not undertake tasks bypassing the levels. The level I qualification of real estate development enterprises can undertake the unrestricted construction scale of real estate construction across the country. The level II and lower levels of real estate

development enterprises can undertake the development construction projects with the construction area less than 250,000 square meters. The specific range of business is determined by the competent construction administrative department of the people's governments of provinces, autonomous regions and municipalities directly under Central Government.

Pursuant to the relevant provisions of Rules for Implementation of Regulations on Administration of Qualifications of Real Estate Development Enterprises in Jiangsu Province (《江蘇省實施〈房地產開發企業資質管理規定〉細則》), the level I qualification of real estate development enterprises can undertake the unrestricted construction scale of construction of real estate development projects across the country. The level II qualification of real estate development enterprises can undertake the development construction projects across the province with the construction area less than 250,000 square meters but no restriction on the number of floors. The level III qualification of real estate development enterprises can undertake the development construction projects within the provincially administered municipality with the construction area less than 150,000 square meters and no more than 16 floors (including) of buildings. The level IV qualification of real estate development enterprises are restricted to engage in the real estate development in the villages and towns beyond the urban planning area, which can undertake the development construction projects with the construction area less than 50,000 square meters and no more than 7 floors of buildings (including). The real estate development enterprises that obtain the Provisional qualification certificate may engage in the corresponding level of qualification of development construction projects according to the standards approved by following the Provisional qualification certificate.

Annual inspection of qualification of real estate development enterprises

Pursuant to the relevant provisions of Regulations on Administration of Qualifications of Real Estate Development Enterprises (《房地產開發企業資質管理規定》), an annual inspection system is implemented for the qualification of real estate development enterprises. For enterprises that do not conform to the original qualification conditions or have adverse operating acts, their qualification certificates should be downgraded or cancelled by the original qualification approval department. The annual inspection of qualification of level I qualification of real estate development enterprises should be under the charge of competent construction administrative department of State Council or its authorized authority. For the annual inspection of level II or below qualifications of real estate development enterprises, the competent construction administrative department of the provinces, autonomous regions and municipalities directly under the central government shall develop the administrative measures.

Pursuant to the relevant provisions of Rules for Implementation of Regulations on Administration of Qualifications of Real Estate Development Enterprises in Jiangsu Province (《江蘇省實施〈房地產開發企業資質管理規定〉細則》), an annual inspection system is implemented for the qualification of real estate development enterprises. The annual inspection of the qualification of real estate development enterprises shall follow the Measures for the Administration of Annual Inspection of Qualifications of Urban Real Estate Development Enterprises of Jiangsu Province (《江蘇省城市房地產開發企業資質年檢管理辦法》).

FOREIGN INVESTMENT IN PROPERTY DEVELOPMENT

On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the Options on Regulating the Entry and Administration of Foreign Investment into the Real Estate Market (關於規範房地產市場外資進入和管理的意見) (the “171 document”). The 171 document provides that: (i) foreign organisations and individuals who have established FIEs are

allowed to invest and purchase non-self-resided real estate in China; branches of foreign organisations established in China and foreign individuals who work or study in China for over a year are eligible to purchase commercial houses which match their real needs for self-utilisation or self-residence under their real names; (ii) the registered capital of foreign-invested real estate corporations with total investments of more than US\$10 million shall be no less than 50% of its total investment; (iii) foreign-invested real estate corporations can apply for the FIE approval certificate (外商投資企業批准證書) and business licence (營業執照) only after they have paid back all the land premium and obtained the State-owned land use rights certificate; (iv) foreign investors shall pay off all the transfer price in a lump sum with their own funds if they acquire Chinese domestic real estate corporations; (v) no offshore or Chinese domestic loan is allowed and the foreign exchange administration shall not approve the conversion of foreign loans into RMB if the foreign-invested real estate corporations have not contributed their registered capital in full, or have not obtained the State-owned land use rights certificate, or their capital for a development project is less than 35% of the total investment; and (vi) by no means can Chinese or foreign investors make any commitment in any documents to guarantee a fixed return or fixed revenue in disguised form for any party in the contract.

On August 14, 2006, Commerce Department of PRC promulgated the Notification on Relevant Issues on Implementing “Opinions on Regulating Foreign Capital Admittance and Management in the Property Market” (《商務部辦公廳關於貫徹落實〈關於規範房地產市場外資准入和管理的意見〉有關問題的通知》). According to this Notification, foreign-capital-invested property enterprises with total investment exceeding or equal to US\$10 million or between US\$3 million and US\$10 million shall have its registered capital no less than 50% of the total investment while no less than 70% hereof when total investment less than or equal to US\$3 million. Foreign investors that merge domestic property enterprises through stock equity transfer and other means shall appropriately arrange staff members and deal with banking debts and pay off all transfer payment in a lump sum with its owned funds within three months since the issuing date of foreign-investment enterprise business licence. Foreign investors that merge stock equity of the Chinese side in foreign-invested property enterprises shall appropriately arrange staff and deal with banking debts and pay off all considerations for transfer in a lump sum with its owned funds within three months since the issuing date of foreign-investment enterprise business licence.

MOFCOM and SAFE jointly issued a Notice on Further Strengthening and Regulating the Approval and Administration regarding Foreign Direct Investment in the Real Estate Industry (關於進一步加強、規範外商直接投資房地產業審批和監管的通知) (“**No. 50 Notice**”) on May 23, 2007. Under the Notice, local commercial authorities should reinforce the approval and supervision process over foreign-invested real estate enterprises, and strictly control foreign fund from investing in high-end real estate development projects. For foreign-invested company intending to engage in the property development business, the land use rights should be obtained, or at least has entered into pre-contract purchase agreement with the relevant land administrative authorities, land developers, or the owners of the house or other constructions, otherwise the proposed foreign-invested real estate company will not be approved by the authorities. For existing foreign-invested company who intends to expand its operations in its business operation or company who intends to engage in the operation or development of the new real estate project, they should undertake relevant procedures with the approval authority.

The General Department of SAFE issued the Notice on Issuing the List of the First Batch of Foreign-invested Real Estate Projects Having Passed the Procedures for Filing with the Ministry of Commerce 國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知 (the “**No. 130 Rule**”) on July 10, 2007. The No. 130 Rule included the list of the first batch of foreign-funded real estate projects that passed MOFCOM’s filing procedures. In addition,

according to the No. 130 Rule, real estate enterprises with foreign investment as filed with MOFCOM after June 1, 2007 (inclusive) will not be permitted to borrow money from overseas, including through shareholder loans and foreign commercial loans. Further, for those which fail to file with MOFCOM after June 1, 2007, neither foreign exchange registration, foreign exchange alteration registration nor sale and purchase of foreign exchange under capital account will be effected with SAFE or its branches.

On December 24, 2011, MOFCOM and the NDRC jointly issued a revised Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄), which took effect on January 30, 2012 and provides, among other things, that the development and construction of high-end hotels, high-end office buildings and international convention centers by foreign invested enterprises is restricted. The construction and operation of villas by foreign invested enterprises is prohibited. The real estate enterprises with foreign investment can be established in the forms of Sino-foreign joint venture, Chinese foreign cooperative venture or wholly foreign-owned. Prior to the establishment of registration, enterprises shall be approved by Competent Commerce Department and obtain Certificate of approval for establishment of enterprises with foreign investment issued thereof.

On June 18, 2008, MOFCOM issued the Notice Regarding the Registration for Foreign-Funded Real Estate Industry (商務部關於做好外商投資房地產業備案工作的通知) (“**Circular 23**”), requiring that registration filings be preliminarily examined by the provincial branch of MOFCOM before submitting to MOFCOM for registration. Pursuant to Circular 23, MOFCOM may select approximately five to ten registered foreign-invested real estate enterprises as samples for test examinations in each quarter, and for any enterprise which is found to have failed to comply with current regulations, MOFCOM may inform SAFE and request their foreign currency registration and status be cancelled.

Moreover, in December 2010, MOFCOM promulgated the Notice on Strengthening Administration of the Approval and Registration of Foreign Investment into Real Estate Industry (關於加強外商投資房地產業審批備案管理的通知), which provides that, among other things, in the case where a real estate enterprise is established within the PRC with overseas capital, it is prohibited from purchasing and/or selling real estate properties completed or under construction within the PRC for arbitrage purposes. The local MOFCOM authorities are not permitted to approve investment companies to engage in real estate development and management.

PROPERTY SERVICE ENTERPRISES

Foreign-invested Property Service Enterprises

Pursuant to the provisions of Catalogues of Industries, the services of property management fall into such categories permitted foreign investment. Foreign-invested property service enterprises can be established in the forms of Sino-foreign joint venture, Chinese foreign cooperative venture or wholly foreign-owned. Prior to the establishment of registration, enterprises shall be approved by Competent Commerce Department and obtain certificate of approval (《外商投資企業批准證書》) for establishment of enterprises with foreign investment issued thereof.

Qualifications for Property Service Enterprises

Enterprises that engage in property management shall implement Qualifications Management System pursuant to relevant state regulations in Property Management Regulations (《物業管理條例》) (executed on September 1, 2003 and revised on August 26, 2007). Pursuant to relevant regulations in Measures on Property Service Enterprises Qualifications Management (《物業服務企業資質管理辦法》) (executed on May 1, 2004 and revised on November 26, 2007), newly-established property service enterprises shall submit such following files to competent departments in charge of property of the municipalities directly under the central government and People's Government of cities with districts where commercial registrations are conducted for application for qualifications within 30 days on receiving trading certificates. Qualifications examination and legal organs shall audit and issue the qualifications certificate of corresponding levels pursuant to Actual conditions of enterprises.

In accordance with the Measures on Administration of Qualification of Property Service Enterprises (《物業服務企業資質管理辦法》), qualifications of property service enterprises fall into first level, second level and third level. The competent construction department of the State Council is responsible for issuing and managing of the first-level qualification certificates for first-level of property service enterprises. Competent construction departments under provincial and autonomous regional People's Governments are responsible for issuing and managing of the second-level qualification certificates, while competent real estate construction departments under People's Government of municipalities directly under the central government are responsible for issuing and managing of second and third level qualification certificates thereof, which are subject to the guidance and supervision of competent construction departments of State Council. The competent real estate construction departments of the cities with districts are responsible for the issuing and management of the third level qualification certificates, which are subject to the guidance and supervision of competent construction departments of State Council.

Property service enterprises of first-level qualification shall undertake various property management projects. Property service enterprises of second-level qualification shall undertake property management of residence project less than 300 thousand square meters and non-residence projects less than 80 thousand square meters. Property service enterprises of third-level qualification shall undertake property management of residence projects less than 200 thousand square meters and non-residence projects less than 50 thousand square meters. The annual check system is implemented for property service enterprises.

Pursuant to relevant regulations in Property Management Regulations in Jiangsu Province (《江蘇省物業管理條例》) (executed on March 1, 2001 and revised on October 25, 2003), prior to sales of residence property, construction organs shall recruit property service enterprises that have relevant qualifications through bidding; in case the number of bidders is less than three or residence scale is small, property management enterprises with relevant qualifications shall be recruited with approval of property management department of the local district or county's People's Government. This property service enterprise shall undertake pre-phase property management services of the period from sales of property to the official signing of property management contract by the Owner's Committee. After the property is submitted for use, owner or Owner's Committee shall timely renew or re-recruit the property service enterprises and sign the property management contract. Property service enterprises may delegate particular services within property scope on specialized company but shall not delegate the overall or main management service responsibilities to others.

Recruitment of Property Service Enterprises

In accordance with the relevant regulations of Real Right Law (《物權法》) and Property Management Regulations (《物業管理條例》), to select and to recruit property service enterprises should be agreed by exceeding half of the total owners and such owners who shall have construction gross area exceeding half of the gross area of constructions. Prior to recruiting property service enterprises by owner and owner conference, if the construction units select the property services enterprises, a written pre-phase property management contract should be signed.

LANDSCAPING ENTERPRISES**Foreign-invested Landscaping Enterprises**

Pursuant to the provisions of Catalogues of Industries, landscaping industry falls into such categories permitted for foreign investment. In accordance with relevant laws and regulations, Foreign-invested landscaping enterprises can be established in the forms of in the forms of Sino-foreign joint venture, Chinese foreign cooperative venture or wholly foreign-owned. Prior to the establishment of registration, enterprises shall be approved by Competent Commerce Department and obtain certificate of approval (《外商投資企業批准證書》) for establishment of enterprises with foreign investment issued thereof.

Qualifications of Landscaping Enterprises

Pursuant to relevant regulations in Regulations on Urban Landscaping (《城市綠化條例》) (promulgated on June 22, 1992 and implemented since August 1, 1992), the design of urban landscaping project shall be entrusted to such design organs with corresponding qualification certificates.

Pursuant to relevant regulations in Qualification Management Measures on Urban Landscaping Enterprises (《城市園林綠化企業資質管理辦法》) (promulgated on July 4, 1995 and implemented since October 1, 1995) and Qualification Standards of Urban Landscaping Enterprises (《城市園林綠化企業資質標準》) (implemented since February 2, 2007), the qualification referred to in the measures refers to staff quality, technical and managerial levels, engineering equipment, capita and benefit conditions, contractual operation capacities and construction performance etc. Urban landscaping enterprises shall follow relevant provisions to apply for corporate qualifications from corresponding competent departments and obtain certificate for approval prior to engaging in corresponding operating activities.

Qualifications of landscaping enterprises can be categorised into first level, second level and third level. Newly-established urban landscaping enterprises shall submit such files as listed in Article V in this regulation to competent administrative department of urban landscaping for application for preliminary examination of qualification, which shall issue Qualifications Trial Implementation Certificate of Urban Landscaping Enterprises (《城市園林綠化企業資質試行證書》) after approval of the preliminary examination. Competent administrative department of urban landscaping shall conduct official qualification audit and investigations on the enterprises, which shall obtain the qualification certificate after approval. Such enterprises as having passed the audit and obtained Qualifications Trial Implementation Certificate of Urban Landscaping Enterprise (《城市園林綠化企業資質證書》) shall accept annual inspection from the qualification inspection department.

EMPLOYMENT

The Employment Contract Law of the People's Republic of China (中華人民共和國勞動合同法) was implemented on January 1, 2008. This law sets out specific provisions in relation to the execution, contents and term of employment contracts and the rights and obligations of employees and employers (including minimum wage requirements). This law provides, among others, that at the time of hiring, the employer shall truthfully inform the employee as to the scope of work, working conditions, place of work, occupational hazards, production safety conditions, work compensation and other matters which the employee may request to be informed about. In addition, unless otherwise prohibited by the PRC Labour Contract Law or objected to by the employees themselves, the employer is also required to enter into non-fixed-term employment contracts with employees who have previously entered into fixed-term employment contracts for two consecutive terms. Further, at the time of termination of an employment contract, the amount of compensation payment shall equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer. The employer is also required to issue to the employee a proof of termination of the employment contract and carry out the procedures for the transfer of the employee's file and social insurance account within 15 days. An employer needs to archive all terminated employment contracts for not less than two years. The implementation of this law provides protection for both employees and employers. Our Company shall comply with this law.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on January 1, 2008, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from five to 15 days, depending on the length of the employees' work time. Employees who consent to waive such vacation at the request of employers shall be compensated in an amount equal to three times their normal daily salaries for each vacation day being waived.

The Employment Promotion Law of the Peoples' Republic of China (中華人民共和國就業促進法) has been in place since January 1, 2008. This law mainly regulates the employment systems such as employment supporting services and human resource market. We intend to provide fair employment opportunities to potential employees in accordance with all applicable employment laws. This law sets out specific provisions in relation to the hiring practices of employers to ensure the existence of an equal opportunity environment for all candidates. This law provides that employers cannot apply different hiring criteria to men and women, refuse employment solely on the basis of gender, background or any disability. Further, an employer cannot contractually restrict female employees from marrying or bearing children.