

**ESTABLISHMENT OF A REAL ESTATE DEVELOPMENT ENTERPRISE**

According to the PRC Law on Administration of Urban Real Estate (the “Urban Real Estate Law”) 《中華人民共和國城市房地產管理法》 promulgated by the Standing Committee of the National People’s Congress, effective in January 1995, as amended in August 2007 and August 2009, a real estate developer is defined as an enterprise which engages in the development and operation of real estate for the purpose of making profits. Under the Regulations on Administration of Development of Urban Real Estate (the “Development Regulations”) 《城市房地產開發經營管理條例》 promulgated by the State Council in July 1998, as amended in January 2011, an enterprise which is to engage in development of real estate must satisfy the following requirements:

- its registered capital must be RMB1 million or more; and
- it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom must hold the relevant qualification certificate. The authorities at provincial level, autonomous region level or municipalities under the direct administration of central PRC governments may impose more stringent requirements regarding the registered capital and professional qualifications of real estate enterprises.

The local government of a province, autonomous region or municipality directly under the PRC central government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a real estate developer.

To establish a real estate development enterprise, the developer must apply for registration with the administration for industry and commerce. The developer must also report its establishment to the real estate development authority in the location of its registration, within 30 days of the receipt of its business license. Where a foreign-invested enterprise is to be established to engage in the development and operation of real estate, it must also comply with the relevant requirements under the PRC laws and administrative regulations regarding foreign invested enterprises and apply for approvals relating to foreign investments in China.

Under the Catalog of Guidance on Industries for Foreign Investment 《外商投資產業指導目錄》 promulgated by MOFCOM and NDRC in December 2011, the development of a whole land lot, the construction and operation of high-quality hotels, premium office buildings, international conference centers and secondary market property trading and brokering falls within the category of industries in which foreign investment is subject to restrictions, the construction and operation of villa falls within the category of industries in which foreign investment is prohibited and other real estate development falls within the category of industries in which foreign investment is permitted.

Subject to approval by the relevant foreign investment regulatory authorities, a foreign investor intending to engage in the development and operation of real estate may establish an equity joint venture, a cooperative joint venture or a wholly foreign owned enterprise in accordance with the PRC laws and administrative regulations regarding foreign invested enterprise.

Under the Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment of Certain Industries 《關於調整部分行業固定資產投資項目資本金比例的通知》 issued by the State Council on April 26, 2004, the portion of capital fund of real estate projects (excluding affordable housing projects) has been increased from 20% or above to 35% or above.

In response to the global financial crisis and in an effort to expand domestic demand, the State Council issued a notice for Adjusting the Portion of Capital for Fixed Assets Investment 《國務院關於調整固定資產投資項目資本金比例的通知》 in May 2009. Under the notice, the limit of capital ratio for protected housing projects and ordinary commodity housing projects is adjusted from 35% to 20%, and the capital ratio for other real estate development projects is adjusted from 35% to 30%.

In July 2006, the Ministry of Construction, the Ministry of Commerce, NDRC, PBOC, the State Administration for Industry and Commerce and SAFE promulgated the Opinions on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market 《關於規範房地產市場外資准入和管理的意見》。

According to the Opinions, a foreign investor must comply with the following requirements in order to invest in the real estate market in China:

- A foreign entity or individual purchasing real estate in China other than for self-use shall, subject to the principle of commercial existence, apply for the establishment of a foreign-invested enterprise pursuant to the regulations relevant to foreign investment in real estate, and conduct relevant operations within the authorized business scope after obtaining approvals from the relevant government authorities and upon completion of the relevant registrations.
- If the total investment amount of a foreign-invested real estate development enterprise exceeds or equals to US\$10 million, the registered capital shall not be less than 50% of the total investment amount of the enterprise. If the total investment amount is less than US\$10 million, the current rules on registered capital shall apply.
- A transfer of projects of or shares in a foreign-invested real estate development enterprise, and the acquisition of a domestic real estate development enterprise by foreign investors shall be approved by the commerce authorities in strict compliance with the relevant laws, regulations and policies. The investor should submit: (a) a letter of guarantee pledging to abide by the State-owned Land-Use Right Grant Contract, the Permit for Land Planning for Construction Purpose and the Permit for the Planning of Construction Projects; (b) the State-owned Land-Use Certificate; (c) the certification of a change of registration issued by the relevant construction administration authorities; and (d) the certification of tax payment issued by the relevant tax authorities.
- Foreign investors acquiring a domestic real estate enterprise by way of equity transfer or other means, or acquiring domestic investors' equity interest in an equity joint venture, shall make proper arrangements for the real estate enterprise's employees and bank loan repayment. The foreign investors shall pay the transfer price in a lump sum and with their own capital. Foreign investors with unfavorable records are prohibited from involvement in such real estate activities in China.

In August 2006, the General Office of MOFCOM issued a notice on the implementation of the Opinion on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market 《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》。

The notice requires that, the registered capital of a foreign invested real estate enterprise, or FIREE, shall not be less than 50% of its total investment if its total investment exceeds US\$3.0 million, and the registered capital of a FIREE shall not be less than 70% of its total investment if its total investment is US\$3.0 million or less.

In September 2006, SAFE and the Ministry of Construction promulgated the Notice of the State Administration of Foreign Exchange and Ministry of Construction on Regulating the Administration of Foreign Exchange in Real Estate Market 《關於規範房地產市場外匯管理有關問題的通知》, which sets forth the specific regulations regarding to the procedure of purchasing real estate by foreign enterprises and individuals. The notice further requests that where a FIREE fails to pay the registered capital in full amount or fails to acquire a Certificate for Using State-owned Land or to make its project development capital reach 35% of the total investments of the project, it shall not borrow any foreign debt, and the foreign exchange bureau shall not accept the registration of its foreign debt or approve the conversion of foreign debt into RMB.

When a foreign enterprise or individual merges a domestic real estate enterprise by way of equity transfer or by any other means or takes over the equity shares from the Chinese shareholder in a joint venture, if it/he fails to pay the transfer price in a lump sum with its/his own fund, the foreign exchange bureau shall not accept the registration or alteration of its/his foreign exchange.

In May 2007, MOFCOM and SAFE issued the Notice on Further Strengthening and Regulating the Approval and Administration of Foreign Direct Investments in the Real Estate Industry (the “No. 50 Notice”) 《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》. Under the Notice, local commercial authorities should reinforce the approval and supervision process over foreign investment in real estate enterprises, and strictly control foreign fund from investing in high quality real estate development projects. For establishment of a foreign invested real estate enterprise, land use rights, house or other construction ownership right 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 establishment will not be approved by the authorities. For existing foreign invested company who intends to engage in real estate development or operation business or intends to engage in the operation or development of new real estate projects, they should undertake relevant procedures to expand business scope or enlarge the operation scale with the approval authority.

No. 50 Notice strictly controls the acquisition or merger of domestic real estate enterprises by means of round trip investment (includes the same de facto controller). It also prohibits Chinese or foreign investors in foreign-invested real estate joint ventures to reach any fixed return related term, or any term to the same effect, for either party.

The local MOFCOM administrative authority should make a record to MOFCOM after a foreign-invested real estate company is approved to establish. The local SAFE administrative authority and designated foreign exchange bank will not conduct foreign exchange purchase and settlement process for capital projects of FIREEs who fail to complete the record with the MOFCOM or to pass the annual review.

SAFE issued a Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment that Have Property Registered with MOFCOM ( the “No. 130 Notice”) 《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》 on July 10, 2007, further regulating foreign investment in real estate sector in China. According to No. 130 Notice, on or after June 1, 2007, real estate enterprises with foreign investment as filed with MOFCOM (including due to establishment and capital increase) will not be permitted to borrow money from overseas, including shareholder loans and foreign commercial loans, or will not be approved to settle foreign exchange of foreign debt. Further, for those which obtain foreign investment approval certificates on or after June 1, 2007 but fail to file with MOFCOM, neither foreign exchange registration nor foreign exchange alteration registration will be effected with SAFE or its branches, and as a result, foreign exchange under capital projects will not be settled or purchased.

The No. 130 Rule was abolished on May 13, 2013 by the Notice on Distributing the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China and its Supporting Documents 《國家外匯管理局關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》 (“**No. 21 Notice**”) which was promulgated by SAFE on May 10, 2013. However, the restriction measures on the foreign debt of foreign-invested real estate enterprises stipulated in the No. 130 Rule have been reflected in the Measures for the Administration of Foreign Debt Registration 《外債登記管理辦法》 (“**No. 19 Notice**”) issued by SAFE on April 28, 2013.

In June 2008, MOFCOM issued the Notice on Completing the Registration of Foreign Investment in the Real Estate Sector 《關於做好外商投資房地產業備案工作的通知》, often known as “Notice No. 23”. According to Notice No. 23, MOFCOM entrusts provincial MOFCOM departments to verify materials on records of FIREEs. Notice No. 23 requires that the establishment (including the increase of registered capital) of a FIREE shall comply with the project company principle of engaging in one approved real estate project only.

In November 2010, the General Office of MOFCOM issued a Notice on Strengthening Management to Registration of Foreign Investment in the Real Estate Sector, 《關於加強外商投資房地產業審批備案管理的通知》. Foreign invested real estate enterprises shall not generate revenues through purchasing and selling completed real estate properties and/or real estate properties under construction. Local commerce administration authorities shall not accept registration of investment companies involving development and management of real estate.

### QUALIFICATIONS OF A REAL ESTATE DEVELOPER

Under the Provisions on Administration of Qualifications of Real Estate Developers (the “Provisions on Administration of Qualifications”) 《房地產開發企業資質管理規定》 promulgated by the Ministry of Construction in March 2000, a real estate developer must apply for registration of its qualifications according to such Provisions on Administration of Qualifications. An enterprise may not engage in property development without a qualification classification certificate for real estate development. The Ministry of Construction oversees the qualifications of real estate developers with national operations, and local real estate development authorities at or above the county level oversee the qualifications of local real estate developers. In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes.

- Class 1 qualifications are subject to preliminary examination by the construction authorities at the provincial level and final approval of the Ministry of Construction. A class 1 real estate developer is not restricted as to the scale of its real estate projects and may undertake a real estate development anywhere in the country.
- Approval measures of Class 2 or lower qualifications are formulated by the construction authorities at the provincial level. A real estate developer of class 2 or lower may undertake a project with a GFA of less than 250,000 square meters and the specific scale is subject to confirmation by the construction authorities at the provincial level.

Under the Provisions on Administration of Qualifications, the real estate development authorities will examine applications for registration of qualifications submitted by real estate developers by considering the professional personnel in their employ, financial condition and operating results. A real estate developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. A developer of any qualification classification may only engage in the development and operation of real estate within its approved scope of business and may not engage in business which is limited to another classification.

Pursuant to the Provisions on the Administration of Qualifications, the qualifications of each class of real estate developments are as follows:

- **Class 1 qualification:** (1) the registered capital shall be not less than RMB50 million; (2) over five years of operating experience in real estate development is required; (3) in the past three years, the accumulative GFA completed shall be not less than 300,000 sq.m. or the required capital investment for developing corresponding GFA has been invested; (4) the passing rate of quality of construction work is 100% for five consecutive years; (5) over a GFA of 150,000 sq.m. of building construction has been completed or the required capital investment for developing corresponding GFA has been invested last year; (6) the professional management team shall consist of no less than 40 persons with titles and majoring in architecture, construction, finance, real estate and economics, while the number of management staff with professional titles of intermediate level or above shall be no less than 20 persons and there shall be no less than four accountants holding professional qualification certificates; (7) the person-in-charge of , among others, engineering technology, finance and statistics shall hold professional titles of the intermediate level or above; (8) there shall be a proper quality control system in place, and in respect of the sale of commodity residential property, the systems of

Residential Quality Guarantee (住宅質量保證書) and Residential User Manual (住宅使用說明書) shall be implemented; and (9) there shall not be any occurrence of any major accident relating to construction quality.

- **Class 2 qualification:** (1) the registered capital shall be not less than RMB20 million; (2) over three years of operating experience in real estate development is required; (3) in the past three years, the accumulative GFA completed shall be not less than 150,000 sq.m. or the required capital investment for developing corresponding GFA has been invested; (4) the passing rate of quality of construction work is 100% for three consecutive years; (5) over a GFA of 100,000 sq.m. of building construction has been completed or the required capital investment for developing corresponding GFA has been invested last year; (6) the professional management team shall consist of no less than 20 persons with titles and majoring in architecture, construction, finance, real estate and economics, while the number of management staff with professional titles of intermediate level or above shall be no less than 10 persons and there shall be no less than three accountants holding professional qualification certificates; (7) the person-in-charge of, among others, engineering technology, finance and statistics shall hold professional titles of the intermediate level or above; (8) there shall be a proper quality control system in place, and in respect of the sale of commodity residential property, the systems of Residential Quality Guarantee and Residential User Manual shall be implemented; and (9) there shall not be any occurrence of any major accident relating to construction quality.
- **Class 3 qualification:** (1) the registered capital shall be not less than RMB8 million; (2) over two years of operating experience in real estate development is required; (3) the accumulative GFA completed shall be not less than 50,000 sq.m. or the required capital investment for developing corresponding GFA has been invested; (4) the passing rate of quality of construction work is 100% for two consecutive years; (5) the professional management team shall consist of no less than 10 persons with titles and majoring in architecture, construction, finance, real estate and economics, and the number of management staff with professional titles of intermediate level or above shall be no less than five persons and there shall be no less than two accountants holding professional qualification certificates; (6) the person-in-charge of, among others, engineering technology and finance shall hold professional titles of the intermediate level or above and the person-in-charge of other departments, including statistics, shall hold professional titles of the primary level or above; (7) there shall be a proper quality control system in place, and in respect of the sale of commodity residential property, the systems of Residential Quality Guarantee and Residential User Manual shall be implemented; and (8) there shall not be any occurrence of any major accident relating to construction quality.
- **Class 4 qualification:** (1) the registered capital shall be not less than RMB1 million; (2) over one year of operating experience in real estate development is required; (3) the passing rate of quality of construction work completed shall be 100%; (4) the professional management team shall consist of no less than five persons with titles and majoring in architecture, construction, finance, real estate and economics, and there shall be no less than two accountants holding professional qualification certificates; (5) the person-in-charge of engineering technology shall hold professional titles of the intermediate level or above and the person-in-charge for finance shall hold professional titles of the primary level or above, and professional statistician(s) shall be appointed; (6) in respect of the sale of commodity residential property, the systems of Residential Quality Guarantee and Residential User Manual shall be implemented; and (7) there shall not be any occurrence of any major accident relating to construction quality.

In addition, pursuant to the Provisions on Administration of Qualifications, newly-established real estate developer shall make application with the competent authorities for a tentative qualification

certificate (暫定資質證書) within 30 days from the date of the business licence. Developer applying a tentative qualification certificate shall fulfill the requirements of class 4 qualification or above. The validity period of the certificate is 1 year. Regulatory authorities of real estate development may extend the validity of the tentative qualification certificate depending on the operation of the developer, provided that the extension shall not exceed two years. In the event that no development project has been carried out within one year since the issuance date of the tentative qualification certificate, the validity of tentative qualification certificate shall not be extended.

Pursuant to the Implementation Rules of the Provisions on the Administration of Qualification Certificates of Real Estate Developers in Jiangsu Province (《江蘇省實施<房地產開發企業資質管理規定>細則》) (Su Jian Fang [2001] No.250) (“**Implementation Rules of Jiangsu**”) effective on August 6, 2001, the discrepancies between the conditions to be satisfied by real estate developers applying for qualification certificates and the Provisions on Administration of Qualifications are as follows:

- **Class 1 qualification:** real estate developers in Jiangsu applying for Class 1 qualification shall satisfy the same conditions as those prescribed under the Provisions on Administration of Qualifications in respect of registered capital, total years of experience in project development, passing rate of quality of construction work, numbers and qualifications of professionals, quality control system and the requirement for no occurrence of any major accident relating to construction quality. However, the Implementation Rules of Jiangsu contains different requirements for total GFA developed and accumulative capital investment. Pursuant to the Implementation Rules of Jiangsu, real estate developers applying for Class 1 qualification must satisfy the following conditions: (1) in the past three years, the accumulative GFA completed shall be not less than 300,000 sq.m. or the accumulative capital investment made for real estate development shall be over RMB300 million; and (2) a GFA of over 150,000 sq.m. of building construction has been completed or the capital investment made for real estate development was over RMB150 million last year.
- **Class 2 qualification:** real estate developers in Jiangsu applying for Class 2 qualification shall satisfy the same conditions as those prescribed under the Provisions on Administration of Qualifications in respect of registered capital, total years of experience in project development, passing rate of quality of construction work, numbers and qualifications of professionals (except for architectural and construction professionals), quality control system and the requirement for no occurrence of any major accident relating to construction quality. However, the Implementation Rules of Jiangsu contains different requirements for total GFA developed, accumulative capital investment and the numbers and qualifications of architectural and construction professionals. Pursuant to the Implementation Rules of Jiangsu, real estate developers applying for Class 2 qualification must satisfy the following conditions: (1) in the past three years, the accumulative GFA completed shall be not less than 150,000 sq.m. or a GFA of over 80,000 sq.m. of building construction has been completed last year; (2) in the past three years, the accumulative capital investment made for real estate development shall be over RMB150 million or the capital investment made for real estate development was over RMB80 million last year; and (3) the number of architectural and construction management staff with professional titles of intermediate level or above shall be no less than four persons.
- **Class 3 qualification:** real estate developers in Jiangsu applying for Class 3 qualification shall satisfy the same conditions as those prescribed under the Provisions on Administration of Qualifications in respect of the total years of experience in project development, passing rate of quality of construction work completed, numbers and qualifications of professionals, quality control system and the requirement for no occurrence of any major accident relating to construction quality. However, the Implementation Rules of Jiangsu contains different requirements for registered capital, total GFA developed and accumulative capital investment. Pursuant to the Implementation Rules of Jiangsu, real estate developers

applying for Class 3 qualification must satisfy the following conditions: (1) over one year of operating experience in real estate development is required; (2) in the past three years, the accumulative GFA completed shall be not less than 50,000 sq.m. or a GFA of over 30,000 sq.m. of building construction has been completed last year; or the accumulative capital investment made for real estate development in the past three years shall be over RMB50 million or the capital investment made for real estate development was over RMB30 million last year; (3) the passing rate of quality of construction work completed is 100%; and (4) the number of architectural and construction management staff with professional titles of intermediate level or above shall be no less than two persons.

- **Class 4 qualification:** real estate developers in Jiangsu applying for Class 4 qualification shall satisfy the same conditions as those prescribed under the Provisions on Administration of Qualifications in respect of registered capital, numbers and qualifications of professionals (except for architectural and construction professionals), quality control system and the requirement for no occurrence of any major accident relating to construction quality. However, the Implementation Rules of Jiangsu contains different requirements for the total years of experience in project development, total GFA developed, accumulative capital investment, passing rate of quality of construction work and numbers and qualifications of architectural and construction professionals. Pursuant to the Implementation Rules of Jiangsu, real estate developers applying for Class 4 qualification must satisfy the following conditions: (1) the registered capital shall be not less than RMB4 million; and (2) in the past three years, the accumulative GFA completed shall be not less than 20,000 sq.m. or a GFA of over 10,000 sq.m. of building construction has been completed last year; or the accumulative capital investment made for real estate development in the past three years shall be over RMB20 million or the capital investment made for real estate development was over RMB10 million last year.

Besides, pursuant to the Implementation Rules of Jiangsu, a real estate developer shall apply to the local real estate development authority of where the registration authority locates for extension of the validity of the tentative qualification certificates or verification of the relevant class of qualification within one month before the expiry of the tentative qualification certificate. The provincial administrative department for construction shall extend the validity of tentative qualification certificates for one year or verify the respective class of qualification according to the preliminary review opinions of the municipal real estate development authority in such region and the conditions of development and operations of the developer.

The qualification of a property developer should be subject to annual inspection. The Ministry of Construction or its entrusted institution is responsible for carrying out the annual inspection of real estate developers with Class 1 qualification. The construction authorities at the provincial level formulate annual inspection measures for real estate developers with Class 2 or lower qualifications.

#### DEVELOPMENT OF A REAL ESTATE PROJECT

According to the Interim Provisions on Approving Foreign Investment Project 《外商投資項目核准暫行管理辦法》 promulgated by NDRC in October 2004, approval of NDRC is required for foreign investment projects with total investment (or amount of capital increase) of US\$100 million or more within the category of encouraged or permitted foreign investments and those with total investment (or amount of capital increase) of US\$50 million or more within the category of restricted foreign investments. Other foreign investments in China will require only local approval.

According to Several Opinions on Further Utilizing Foreign Investment 《關於進一步做好利用外資工作的若干意見》 promulgated by the State Council on April 6, 2010 and a Notice on Decentralizing the Examination and Approval Authority for Foreign Investment 《關於做好外商投資項目下放核准權限工作的通知》 issued by the NDRC on May 4, 2010, an encouraged or permitted

project with a total investment (including capital increase) of less than US\$300 million in the Catalog for the Guidance of Foreign Investment Industries, or Catalog, shall be verified and approved by the relevant provincial development and reform commission unless the Catalog requires it to be verified and approved by the relevant department of the State Council. The verification and approval rights to restricted projects will not be delegated to local level temporarily.

According to the Notice on Decentralizing the Examination and Approval Authority for Foreign Investment 《關於下放外商投資審批權限有關問題的通知》, promulgated by the MOFCOM on June 10, 2010, the formation and change of foreign investment enterprises with a total investment less than US\$300 million for encouraged and permitted projects or US\$50 million for restricted projects in the Catalog shall be subject to the examination, approval and management of the provincial MOFCOM counterparts.

Under the Interim Regulations of the People's Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land (the "Interim Regulations on Grant and Assignment") 《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》 promulgated by the State Council in May 1990, China adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authority at the city or county level may enter into a land use rights grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land use rights grant contract. After payment in full of the land premium, the land user may register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The Urban Real Estate Law and the Development Regulations provide that land use rights for a site intended for real estate development must be obtained through grant except for land use rights which may be obtained through premium-free allocation by the PRC government pursuant to the PRC laws or the stipulations of the State Council. Government-allocated land is not allowed to be transferred unless the transfer is approved by the relevant PRC government authorities and the land premium as determined by the relevant PRC government authorities has been paid.

When carrying out the feasibility study for a construction project, the construction or the developer entity must make a preliminary application for construction on the relevant site to the relevant land administration authority in accordance with the Measures for Administration of Examination and Approval for Construction Land 《建設用地審查報批管理辦法》 promulgated by the Ministry of Land and Resources in March 1999, as amended in November 2010, and the Measures for Administration of Preliminary Examination of Construction Project Land 《建設項目用地預審管理辦法》 promulgated by the Ministry of Land and Resources in July 2001, as amended in October 2004 and November 2008. After receiving the preliminary application, the land administration authority will carry out preliminary examinations of various aspects of the construction project in compliance with the overall zoning plans and land supply policy of the government, and will issue a preliminary approval in respect of the project site if its examination proves satisfactory. The land administration authority at the relevant city or county will sign a land use rights grant contract with the land user and issue an approval for the construction land to the construction entity or the developer.

According to the Urban Real Estate Law, a land user who obtains land use rights under the grant system must develop the land according to the land usage as indicated in the land use rights grant contract and must commence the development within the time frame agreed to under the land use rights grant contract.

According to the Regulations on Idle Land Administration 《閒置土地處置辦法》 promulgated by the Ministry of Land and Resources on April 28, 1999, as amended in June 2012, it shall be idle land which the land user fails to commence developing after one year from the construction



commencement date stipulated in the state-owned construction land use rights grant contract or in the approval of premium-free allocation. The land may also be treated as idle land and may be subject to land idle fee or forfeiture, if the developed land area is less than one-third of the total land area under the land use rights grant contract or the sum already expended on the development of the land is less than one-fourth of the total investment of the project and the suspension of development of the land has lasted for one year or more.

According to the Regulations on Idle Land Administration, if the land user fails to commence developing the land after one year from the construction commencement date, then the local land administration authority, with approval by the local government, shall charge the land user a “land idle fee” of 20% of the land premium, which is not permitted to be disbursed from the cost. If the land user fails to commence development of the relevant land after two years from the deadline, with approval by the local government, the land user’s land use rights shall be forfeited by local land administration authority without compensation. However, the foresaid penalties do not apply if the failure to commence development and construction is due to force majeure or caused by government actions. Where the land user reserves or speculates lands on purpose by violating laws or regulations, or breaching contractual obligations or land allotment letter, the local land administration authority shall not accept its new land use application or registration of transfer, lease, charge and change of its idle land. Relevant local land use administration departments shall inform finance administration departments of the information of idle land.

On January 3, 2008, the State Council issued a Notice on Promoting Economization of Land Use 《關於促進節約集約用地的通知》, which urges the full and effective use of existing construction land. The notice also emphasizes the strict enforcement of the current rules on idle land. If a piece of land has been idled for two years or more, it must be taken back free of charge in accordance with laws and regulations, and rearranged for any other uses; if the land does not meet the statutory conditions for being taken back, it must be timely dealt with and fully used through changing usage, replacement by parity value, temporary usage or incorporation into government reserves. If a piece of land has been idled for one year or more but less than two years, an idle land fee must be collected at a price of 20% of the transfer or allotment price. Financial institutions shall not grant loans to illegal land use projects and such projects shall not be approved for public listing.

Under the Measures for Control and Administration of Grant and Assignment of Right to Use Urban State-owned Land 《城市國有土地使用權出讓轉讓規劃管理辦法》 promulgated by the Ministry of Construction in December 1992, as amended in January 2011, the grantee under a land use rights grant contract, i.e. a real estate developer, must further apply for a permit for construction site planning from the relevant municipal planning authority. After obtaining such permit, a real estate developer will organize the necessary planning and design work. Planning and design proposals in respect of a real estate development project are again subject to relevant reporting and approval procedures required under the Law of the People’s Republic of China on Urban and Rural Planning 《中華人民共和國城鄉規劃法》 promulgated by the Standing Committee of the National People’s Congress in October 2007, effective from January 1, 2008, and local statutes on municipal planning. Upon approval by the authorities, a permit for construction works planning will be issued by the relevant municipal planning authority. According to the Law of the People’s Republic of China on Urban and Rural Planning, a construction entity shall return the land or compensate relevant parties if it gets the approval of land use right without a permit for construction works planning. Such land use right approval shall be forfeited by the relevant authority. If a construction entity starts a project construction without obtaining a planning permit or violates the provisions of the planning permit, it will be punished by local planning administration authorities by way of stopping construction, imposing a fine based on construction costs or removing the completed construction.

According to Regulation on the Expropriation of Buildings on State-owned Land and Compensation 《國有土地上房屋徵收與補償條例》, promulgated by the State Council on January 21, 2011, local government shall decide expropriation of buildings based on public interests. Construction entities shall be prohibited from participating in relocation activities.

When the site has been properly prepared and is ready for the commencement of construction works, the developer must apply for a permit for commencement of works from the construction authorities at or above the county level according to the Measures for Administration of Granting 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, as amended in July 2001.

The development of a real estate project must comply with various laws and legal requirements on construction quality, safety standards and technical guidance on architecture, design and construction work, as well as provisions of the relevant contracts. After completion of construction works for a project, the real estate developer must organize an acceptance examination by relevant government authorities and experts according to the Development Regulations and the Interim Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure (“Acceptance Examination Measures”) 《房屋建築工程和市政基礎設施工程竣工驗收暫行規定》 promulgated by the Ministry of Construction in June 2000. The developer must also report details of the acceptance examination according to the Measures for Reporting Details Regarding Acceptance Examination upon Completion of Buildings and Municipal Infrastructure 《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》 promulgated by the Ministry of Construction in April 2000, as amended in October 2009. A real estate development project may not be delivered until and unless it has satisfactorily passed the necessary acceptance examination. Where a property project is developed in phases, an acceptance examination may be carried out for each completed phase.

There are several laws and regulations regulating environment protection in the real estate industry in the PRC, including Environmental Protection Law of the People's Republic of China 《中華人民共和國環境保護法》, Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise 《中華人民共和國環境噪聲污染防治法》, Law of the People's Republic of China on Appraising of Environment Impacts 《中華人民共和國環境影響評價法》, Regulation of Environment Protection in Construction Projects 《建設項目環境保護管理條例》, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes 《中華人民共和國固體廢物污染環境防治法》 and Decision of the State Council on Several Issues Concerning Environmental Protection 《國務院關於環境保護若干問題的決定》. According to such laws and regulations, a real estate developer shall submit a report of environmental impacts before receiving approval from relevant authority to start the construction. A construction enterprise shall, upon completion of a construction project, file an application with the competent department of environmental protection administration for acceptance checks on completion of matching construction of environmental protection facilities required for the construction project.

There are several laws and regulations in the PRC regarding to the civil air defense project construction, including Law of the People's Republic of China on National Defense 《中華人民共和國國防法》, Civil Air Defense Law of the People's Republic of China 《中華人民共和國人民防空法》, Property Law of the People's Republic of China 《中華人民共和國物權法》 and Measures of the Development and Utilization of Civil Air Defense Construction during the peacetime 《人民防空工程平時開發利用管理辦法》. According to such laws and regulations, basements that will be used for air defense in time of war shall be constructed in new buildings of cities for civil use. If any construction project cannot have basements due to any geological reason, fees for substitute site construction shall be paid. Investors of air defense construction shall be entitled to any benefits generated from its usage and shall manage such construction in the peacetime. Civil use of air defense construction shall be registered in relevant air defense authority.

Several laws and regulations specific fire protection in real estate development, including Fire Protection Law of the People's Republic of China 《中華人民共和國消防法》, Provisions of Supervision and Management of Fire Protection Construction 《建設工程消防監督管理規定》 and Interim Measures of Inspection and Evaluation to Fire Protection Construction 《建築工程消防驗收評定暫行辦法》. According to such laws and regulations, a real estate project shall get approval from or filing with relevant public security and fire protection authorities for fire protection design before the construction is started and subject to a fire protection as-built acceptance inspection.

**LAND FOR PROPERTY DEVELOPMENT**

In April 1988, the National People's Congress amended the PRC Constitution 《中華人民共和國憲法》 to permit the transfer of land use rights for value. And in December 1988, the Standing Committee of the National People's Congress amended the Land Administration Law 《土地管理法》 to permit the transfer of land use rights for value.

Under current PRC laws and regulations on land administration, land for property development may be obtained only by grant except for land use rights obtained through allocation.

In May 2002, the Ministry of Land and Resources promulgated the Rules Regarding the Grant of State-Owned Construction Land Use Rights By Way of Tender, Auction and Listing-For-Sale 《招標拍賣掛牌出讓國有建設用地使用權規定》 (the "Rules"), which was implemented on July 1, 2002 and was amended in September 2007. Pursuant to the Rules, all land for commercial use, tourism, entertainment and commodity residential housing must be granted by way of tender, auction or listing for sale.

On September 24, 2003, the Ministry of Land and Resources promulgated the Notice on Strengthening the Land Supply Management and Promoting the Sustainable Sound Development of Real Estate Market 《關於加強土地供應管理促進房地產市場持續健康發展的通知》, as amended in December 2010, which provides that land supply for luxury commodity housing shall be strictly controlled.

According to the Opinions on Certain Issues Relating to Voluntary Examination and Rectifying of Land Market 《關於進一步治理整頓土地市場秩序中自查自糾若干問題的處理意見》 promulgated by Ministry of Land and Resources on October 13, 2003, land must be restored to its original use if the development of such land fails to comply with the overall land use requirements, unless such land has been developed for construction and restoration is impossible to achieve, in which case the overall land use requirements shall be modified so the respective amount of basic farmland, cultivated land and land for building will remain unchanged. Similarly, restoration of land to farmland or to its original use is required when a land development project lacks construction feasibility or is short of project funding, even though a proper approval is in place. Idle land that has been supplied for construction purposes shall be disposed of according to relevant stipulation governing idle land. However, exceptions are allowed when pre-approval has been granted by local authorities, or if a project development contract has been executed and between local authorities and developers prior to July 1, 2002. On March 21, 2004, the Ministry of Land and Resources together with the Ministry of Supervision promulgated the Notice of Enforcing and Supervising the Transfer of Operative Land Use Rights Through Tenders, Bidding and Public Auction 《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》, which expressly required that after August 31, 2004, no transfer of land use rights will be allowed in the form of agreement.

On May 30, 2006, the Ministry of Land and Resources promulgated an Urgent Notice on Currently Further Strengthening Land Management 《關於當前進一步從嚴土地管理的緊急通知》, which provides that land grant for real estate development must be conducted by way of tender, auction or listing for sale, and land supply for low to medium-priced and/or small to medium-sized ordinary commercial residential housing (including affordable housing) and for low-rental residential housing must be granted in priority, and land supply for low-density and/or large-sized residential housing shall be strictly restricted. In addition, the notice provides that land supply for new villa project shall be suspended.

On November 18, 2009, the Ministry of Finance, MLR, PBOC, the Ministry of Supervision of the PRC and the National Audit Office of the PRC jointly issued a Notice on Further Strengthen the Management of Revenue and Expenditure from Land Granting, 《關於進一步加強土地出讓收支管理的通知》 to require a minimum down payment of 50% of the land premium relating to land purchases from the PRC government. The notice also provides that the installment period stipulated in the

relevant land use rights grant contracts may not exceed one year, provided that, for special projects, upon collective approval by the relevant government authorities, the installment period stipulated in the relevant land use rights grant contracts can be two years. Developers will not be permitted to buy new land if they fail to pay off such land premium in time. The new rules also forbid local governments from giving discounts to developers or allowing developers to delay payments except as stipulated by the State Council.

In March 2010, the Ministry of Land and Resource of the PRC issued the Notice on Several Issues concerning the Reinforcement on Provision and Supervision over the Land Use for Property Development 《關於加強房地產用地供應和監管有關問題的通知》, which shortens the time for payment of the land price by successful bidder of land. In April 2010, the State Council issued the Notice of Resolutely Curbing the Rise of Housing Price in Certain 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, when real estate development enterprises participate in the auction, development and construction of land, their shareholders shall not provide loans, lending, guarantee or other relevant financing activities to them in violation of regulations.

In September 2010, the Ministry of Land and Resources and the Ministry of Construction issued the Notice on Further Strengthening the Control of Land Transfer 《關於進一步加強房地產用地和建設管理調控的通知》 regarding land authorities to prohibit real estate developers and their controlling shareholders who have engaged in illegal activities (such as obtaining land use rights through fraudulent means, transferring land use rights improperly, holding land which has been idled for more than one year due to the fault of the developer or the controlling shareholders) from participating in land bidding process until the illegal activities have been rectified.

In January 2011, the State Council issued the Notice on Issues Relating to Further Regulating the Control of Property Market 《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》 which specifies that if a real estate developer fails to obtain the construction permits or fails to commence the construction within two years from the designation of land for real estate development, the granted land use rights will be forfeited and an idle land penalty will be imposed. A real estate developer is further restricted from transferring land and real estate development projects if the amount of real estate development investment (excluding the land grant fee) incurred is less than 25% of the total investment amount in respect of the subject project. The Ministry of Land and Resources issued the Notice of Diligently Carrying Out Real Estate Land Use Management and Regulation 《關於做好2012年房地產用地管理和調控重點工作的通知》 on February 15, 2012, requiring land users to submit written reports to land and resources departments at the time of or prior to project commencement and completion.

### **SALE OF COMMODITY PROPERTIES**

Under the Measures for Administration of Sale of Commodity Houses 《商品房銷售管理辦法》 promulgated by the Ministry of Construction in April 2001, sale of commodity houses can include both sales before the completion of the properties (the “pre-sale”) and sales after the completion of the properties (the “post-completion sale”). Commodity buildings may be put to post-completion sale after they have passed the clearance examination and satisfied the various preconditions for such sale. Before the post-completion sale of a commodity building, the developer must, among other things, submit the Real Estate Development Project Manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the real estate development authority for its record.

Any pre-sale of commodity buildings must be conducted in accordance with the Measures for Administration of Pre-sale of Urban Commodity Buildings (the “Pre-sale Measures”) 《城市商品房預售管理辦法》 promulgated by the Ministry of Construction in November 1994, as amended in August 2001 and in July 2004, and the Development Regulations. The Pre-sale Measures provide that any pre-sale of commodity buildings is subject to specified procedures. According to the Development

Regulations and the Pre-sale Measures, a pre-sale permit must be in place before a commodity building may be put to pre-sale. Specifically, a developer intending to sell a commodity building before its completion must apply to the real estate development authority for a permit for pre-sale. A commodity building may be sold before completion only if:

- the purchase price has been paid in full for the grant of the land use rights involved and a land use rights certificate has been properly obtained;
- a permit for construction works planning and a permit for commencement of works have been properly obtained;
- the funds invested in the development of the commodity buildings put to pre-sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been properly ascertained; and
- a permit for pre-sale of commodity buildings has been obtained through pre-sale registration.

The proceeds of pre-sale of commodity buildings must be used to the relevant project construction.

According to the Measures for Administration of Sale of Commodity Houses, the real estate developer shall not sell commodity housing by means of rebated sale or any such means in disguised forms. The real estate developer may not sell uncompleted commodity housing by the after-sale lease guarantee or by any such means in disguised forms.

According to the Notice on Promoting the Stable and Sound Development of the Real Estate Market promulgated by the General Office of the State Council, local governments shall decide the minimum scale of pre-sales rationally based on local practice and may not issue separate pre-sale permits by floor or unit.

In April 2010, the Ministry of Housing and Urban-Rural Development of the PRC issued the Notice on Further Regulating the Real Estate Market and Improving the Commodity Housing Pre-sale System 《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》, which set forth certain measures to enhance the regulation of pre-sales of commodity housing. Real estate developers are strictly prohibited from pre-selling commodity housing without obtaining pre-sale permits. Within 10 days after obtaining the relevant pre-sale permits, real estate developers are required to make a public announcement on all information relating to the units available for pre-sale and the price of each unit.

## **TRANSFER OF REAL ESTATE**

According to the Urban Real Estate Law and the Provisions on Administration of Transfer of Urban Real Estate 《城市房地產轉讓管理規定》 promulgated by the Ministry of Construction in August 1995, as amended in August 2001, a real estate owner may sell, bequeath or otherwise legally transfer real estate to another person or legal entity. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred together. The parties to a transfer must enter into a real estate transfer contract in writing and register the transfer with the real estate administration authority having jurisdiction over the location of the real estate within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by grant, the real property may only be transferred on the condition that:

- the land premium has been paid in full for the grant of the land use rights as provided by the land use rights grant contract and a land use right certificate has been properly obtained; and
- in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed; or
- in case of a whole land lot development project, construction works have been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been leveled and made ready for industrial or other construction purposes.
- in case of where the real property has been completed in construction, the property ownership certificate shall have been obtained.

If the land use rights were originally obtained by grant, the term of the land use rights after transfer of the real estate will be the remaining portion of the original term provided in the land use rights grant contract after deducting the time that has been used by the former land users. In the event that the assignee intends to change the use of the land provided in the original grant contract, consent must first be obtained from the original land use rights grantor and the planning administration authority at the relevant city or county and an agreement to amend the land use rights grant contract or a new land use rights grant contract must be signed in order to, inter alia, change the use of the land and adjust the land premium accordingly.

If the land use rights were originally obtained by allocation, such allocation may be changed to land use rights grant if approved by the government vested with the necessary approval power as required by the State Council. After the government authorities vested with the necessary approval power approve such change, the grantee must complete the formalities for the grant of the land use rights and pay the land premium according to the relevant statutes.

### **LEASES OF BUILDINGS**

The National People's Congress promulgated the Contract Law of the PRC in March 1999, which takes effect from October 1999. The Contract Law defines a leasing contract as a contract whereby the lesser delivers to the lessee the lease item for it to use or accrue benefit from, and the lessee pays the rent.

The lease term may not exceed 20 years. If the lease term exceeds 20 years, the portion of the lease term beyond the initial twenty year period is invalid. At the end of the lease term, the parties may renew the lease, provided that the renewed term may not exceed 20 years commencing on the date of renewal. Where the lease term is six months or longer, the lease shall be in writing. If the parties fail to adopt a writing form, the lease is deemed an indefinite lease.

Under the Urban Real Estate Law and the Measures for Administration of Leases of Commodity Buildings 《商品房屋租賃管理辦法》 promulgated by the Ministry of Housing and Urban-Rural Development in December 2010, being effective from February 2011, parties to a lease of a building must enter into a lease contract. China has adopted a system to register the leases of real properties. When a lease contract is signed, amended or terminated, the parties must register the details with the real estate administration authority at the city or county in which the building is situated.

**MORTGAGES OF REAL ESTATE**

Under the Property Law of the PRC 《中華人民共和國物權法》, the Urban Real Estate Law, the Security Law of PRC 《中華人民共和國擔保法》 promulgated by the Standing Committee of the National People's Congress in June 1995, and the Measures for Administration of Mortgages of Urban Real Estate 《城市房地產抵押管理辦法》 promulgated by the Ministry of Construction in May 1997, as amended in August 2001, when a mortgage is created on the ownership of a building legally obtained, a mortgage must be simultaneously created on the land use rights of the land on which the building is situated. When a mortgage is created on land obtained by way of grant, a mortgage must be simultaneously created on the ownership of the building which is on the land. The mortgagor and the mortgagee must sign a mortgage contract in writing. China has adopted a system to register mortgages of real estate. Within 30 days after a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority at the location where the real estate is situated. If a mortgage is created on the real estate in respect of which a property ownership certificate has been obtained legally, the registration authority will, when registering the mortgage, make an entry under “third party rights” on the original property ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on the commodity building put to pre-sale or on works in progress, the registration authority will, when registering the mortgage, record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved will re-register the mortgage of the real property after issuance of the certificates evidencing the rights and ownership to the real estate.

PBOC issued a Circular on Further Strengthening the Management of Loans for Property Business 《關於進一步加強房地產信貸業務管理的通知》 in June 2003 to tighten the requirements for banks to provide loans for the real property business as follows:

- Property development loans may be granted to property developers who are qualified for property development, rank high in credibility and have no overdue payment for construction. Such loans shall be given in full support of residential housing projects which conform to the purchasing capacity of families with medium-to-low income, and shall be property restricted where projects involve building properties of large size and/or cover large area, such as luxury commodity houses and villas. For property developers with commodity houses of high vacancy rate and debt ratio, strict approval procedures must be applied for their new property development loans and their activities must also be subject to close monitoring.
- Commercial banks may not grant loans to property developers without “State-Owned Land Use Rights Certificate”, “Construction Land Planning Permit”, “Construction Work Planning Permit” and “Construction Work Commencement Permit”.
- While property developers apply for bank loans, their own capital, i.e. owner's equity, shall not be less than 30% of the total investment required for the project. Commercial banks are prohibited from lending to property developers solely for the payment of land premiums. A loan for real estate development made by a commercial bank may only be used for a local real estate development project, and shall not be used in a cross-region way.
- Commercial banks may only provide housing loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the down-payment by the borrower remains to be 20%. In respect of his loan application for additional purchase of residential unit(s), the percentage of the down-payment by the borrower should be approximately increased.

- When a borrower applies for a mortgage loan for an individual commercial use building, the mortgage ratio may not be more than 60%. In addition, the term of loan may not be more than 10 years and the commodity building must be duly completed and accepted after the relevant governmental inspection.

The down-payment requirement was subsequently increased to 30% of the property price for residential units with a unit floor area (套型建築面積) of 90 square meters or more, effective on June 1, 2006. See “— Measures on Stabilizing Housing Price” below.

In a Circular on Facilitating the Continuously Healthy Development of Property Market 《關於促進房地產市場持續健康發展的通知》 issued by the State Council in August 2003, a series of measures were adopted by the government to control the property market. They included, among others, strengthening the construction and management of low-cost affordable houses, increasing the supply of ordinary commodity residential houses and controlling the construction of high quality commodity houses. Besides, the government also staged a series of measures on the lending for residential development.

They included, among others, strengthen efforts in housing provident fund collection and the granting of loans, improving the guarantee mechanism of individual home loans and strengthening the monitoring over property loans. It is expected that the circular will have a positive effect on the development of the PRC property market in the long run by facilitating a continuously healthy growth of the property market in China.

Pursuant to the Guidance on Risk Management of Property Loans Granted by Commercial Banks 《商業銀行房地產貸款風險管理指引》 issued by China Banking Regulatory Commission in August 2004, commercial banks may not provide any loan in any form for a project without the State-owned Land Use Rights Certificate, Construction Land Planning Permit, Construction Work Planning Permit and Construction Work Commencement Permit. Any property developer applying for property development loans must have invested at least 35% of capital required for the development and a commercial bank should maintain a strict project approval mechanism for processing applications for property development loans.

Under the Notice of the People’s Bank of China on Adjusting the Housing Credit Policies of Commercial Banks and Deposit Interest Rate of the Excess Part of the Reserve 《中國人民銀行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》 issued by PBOC on March 16, 2005 and effective from March 17, 2005, the minimum amount of down payment for an individual residence shall be increased from 20% to 30% of the purchase price for properties in cities where the property market is considered to be overheating.

In May 2006, the General Office of the State Council issued an opinion developed by the Ministry of Construction (and relevant departments) on Adjustment of Housing Supply Structure and Stabilization of Property Prices 《關於調整住房供應結構穩定住房價格的意見》. According to the opinion, in order to curtail the rapid rise in property prices, from June 1, 2006, the minimum amount of down payment for individual housing shall not be less than 30%. However, considering the housing needs of low- and middle-income earners, the minimum down payment for self-occupied housing with a GFA of less than 90 square meters per unit remains unchanged, and shall not be less than 20%.

In September 2007, PBOC and CBRC jointly issued the 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通知》 to further regulate the management of credit loans for commercial real estate. These measures include:

- prohibiting commercial banks from lending to projects with an internal capital ratio (owners’ equity) of less than 35%, or without a land use rights certificate, construction land planning permit, construction work planning permit and a construction permit;



- prohibiting commercial banks from lending to property developers solely for the payment of land premiums;
- for commodity housing that has been vacant for three years, a commercial bank shall not accept them as collateral for a loan. In principle, a loan for real estate development made by a commercial bank may only be used for a local real estate development project, and shall not be used in a project of different location. For a loan, the use of which is really needed in a non-local real estate development project and for which the relevant risk control measures have been implemented, a commercial bank shall report on it to the regulatory authority for archival purposes before the loan is made.
- requiring banks to support funding needs of borrower purchasing their first small and medium self-occupied flat, and to grant loans only to individuals who have purchased flats the main structure of which have been topped out;
- the minimum down payment for a first unit of self-occupied flat with a GFA of less than 90 square meters per unit shall not be less than 20%. The minimum amount of down payment for a first unit of self-occupied flat with a GFA of over 90 square meters per unit shall not be less than 30%. The minimum down payment for the second unit or more payable by an individual who has obtained a mortgage to purchase the first flat shall not be less than 40%, the loan interest rate shall not be less than 1.1 times the prevailing basis rate issued by PBOC, and the minimum amount of down payment and interest rate shall significantly increase with the number of flats purchased;
- commercial properties purchase by loans shall have been completed and passed completion acceptance inspection; and for commercial properties, the minimum down payment shall not be less than 50%, the loan term shall not exceed 10 years and the loan interest rate shall not be less than 1.1 times the prevailing basis rate issued by PBOC. For combined commercial and residential properties, the minimum down payment shall not be less than 45% and the term and interest rate shall be determined according to the administrative regulations of commercial property loans.

According to the Supplementary Notice of the People's Bank of China and China Banking Regulatory Commission on Strengthening the Administration of Commercial Real Estate Loans issued in December 2007, the number of loans granted to a borrower shall be determined on the basis of loans granted to the borrower's family (including the borrower, his/her spouse and his/her underage children).

According to the requirement under a notice issued by POBC and CBRC on Promoting Economical and Intensive Utilization of Land Through Financing 《關於金融促進節約集約用地的通知》 in July 2008, when the land and resource authority confirms that a developer has only developed less than 1/3 of the whole area or has only invested less than 1/4 of the total investment after the lapse of one full year from the date of commencing the construction of a real estate project as stipulated in the land transfer contract, a financial institution shall be prudent in granting loans to it and rigidly control extended loans or rolling credits to it. When the land and resource authority confirms that the construction use land for a real estate project has been idled for two years or longer, it is prohibited to grant any loan a real estate development for the given project or other loans with the construction use land of such project as collateral (including the asset protection business).

On October 22, 2008, PBOC promulgated the Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Commercial Individual Housing Loans 《關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》, which provides that, effective from October 27, 2008, the float-down range for interest rate for individual residential mortgage loans is expanded and the ratio of down payments is adjusted. As a result, the minimum interest rate for individual residential mortgage loans is 70% of the benchmark loan interest rate and the minimum down payment ratio is adjusted to 20%.

In December 2008, the General Office of the State Council issued the Opinion on Promoting the Healthy Development of Real Estate Market 《關於促進房地產市場健康發展的若干意見》. The opinion provides that in order to expand domestic demand and encourage purchase of ordinary residential housing, residents who purchase ordinary self occupied housing for the first-time by borrowing a mortgage loan shall enjoy preferential policies in relation to loan interest rates and down payment. For residents who have already borrowed a mortgage loan and purchased self-occupied housing for the first-time, if the GFA per person of that first housing is lower than the local average, such residents may still enjoy the preferential policies in relation to loan interest rates and down payment when they purchase a second self occupied house. For any other application on mortgage loans for purchasing a second or subsequent housing unit, the interest rate shall be determined by the commercial banks based on the benchmark interest rate and their the banks' risk assessments.

According to an opinion on Adjusting the Portion of Capital for Fixed Assets Investment 《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 in May 2009, the capital ratio for protected housing projects and ordinary commodity housing projects is adjusted from 35% to 20%, and the capital ratio for other real estate projects is adjusted from 35% to 30%.

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》, provides that 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%.

In April 2010, the State Council issued the Notice on Resolutely Curbing the Soaring of Housing Prices in Some Cities 《關於堅決遏制部分城市房價過快上漲的通知》, which increases (i) the amount of down payment to 30% of the property price for the purchase of the first property over 90 sq. m.; (ii) the amount of down payment to 50% of the property price for the purchase of the second property and the mortgage interest rate to be no less than 1.1 times the benchmark rate in China and (iii) the amount of down payment and the mortgage interest rate for additional properties significantly as determined by the banks in accordance with their risk management policies.

According to the Notice on Issues concerning the Improvement of Differential Housing Credit Policies jointly issued by of the PBOC and China Banking Regulatory Commission 《關於完善差別化住房信貸政策有關問題的通知》, all commercial banks shall suspend granting housing loans to families for purchasing the third or more housing units; commercial banks shall also suspend the granting of housing loans to non-local residents who cannot provide local tax payment proof or proof of social insurance payment for one year or longer.

For the purchase of commodity housing with loans, the down payment shall be adjusted to more than 30% of the total price. For the real estate developers which leave any land idle, change the usage and nature of land, delay the time of initiating project and completion of construction, hold back housing units for future sale, or have other records of violations of laws or regulations, all commercial banks shall suspend granting loans to them for new projects development and suspend the extension of loans.

On January 26, 2011, the General Office of the State Council issued the Notice on Further Promoting the Adjustment and Control of Real Estate Market 《關於進一步做好房地產市場調控工作有關問題的通知》, according to which, the minimum down payment in respect of mortgage loans on purchases of second residential properties by families is increased to 60% of the purchases price and the applicable mortgage rate must be at least 1.1 times of the relevant benchmark lending rate published by the PBOC.

## **TRUST FINANCING**

Pursuant to the Measures on Administration of Trust Companies 《信託公司管理辦法》, which became effective on March 1, 2007, "trust companies" shall mean the financial institutions which are

incorporated in accordance with the Company Law of the People's Republic of China and are engaged mainly in trust business in the PRC. "Trust business" shall mean the business operation that the trust company undertakes as a trustee of a trust and handles the trust matters under a fiduciary capacity for the purpose of operating business and receiving remunerations. The minimum amount of registered capital of a trust company shall be RMB300 million or the equivalent value in a freely convertible currency.

On October 28, 2008, the CBRC issued the Notice on Strengthening Regulation over the Operation of the Real Estate Business and the 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》. On November 12, 2010, the CBRC issued the Notice on Risk Alert for Trust Companies' Real Estate Business 《關於信託公司房地產信託業務風險提示的通知》 and on February 11, 2010 the General Office of CBRC promulgated the Notice on Strengthening the Supervision of Trust Companies' Real Estate Business 《關於加強信託公司房地產業務監管有關問題的通知》. These rules require all trust companies to conduct self-examination immediately on the compliance risk of the real estate trust business. Business compliance and risk exposure shall be analyzed on case-by-case basis, including whether the real estate development projects to which loans were issued by trust companies have satisfied the conditions such as the availability of all the "Four Permits" (namely, the land use rights certificate, construction land planning permit, construction work planning permit and construction work commencement permit), whether the real estate developer or its controlling shareholder have obtained Class 2 qualification, and whether capital ratio of the project has reached the national minimum requirement. All banking regulatory bureaus shall strengthen compliance supervision and risk control over real estate business of trust companies within their jurisdiction. If problems are discovered during self-examination and inspection, measures shall be taken immediately to order the trust company for rectification and non-compliance behavior shall be penalized in accordance with the relevant rules and regulations.

Pursuant to the Notice on Strengthening the Supervision of Trust Companies' Real Estate Business 《關於加強信託公司房地產業務監管有關問題的通知》, trust companies may not offer loans for land acquisitions or early-stage land development and may only grant loans to eligible property developers who satisfy all the specific requirements.

## **REAL ESTATE MANAGEMENT**

According to the Regulation on Property Management 《物業管理條例》 promulgated by the State Council in June 2003 and amended in August 2007, an enterprise engaging in property management activities shall have the independent corporation capacity. The State applies the system of qualification administration to the enterprises engaging in property management activities.

Under the Measures for the Administration of Qualifications of Property Management Enterprises 《物業服務企業資質管理辦法》 promulgated by the Ministry of Construction in March 2004 and amended in November 2007, a property service enterprise must apply for assessment of its qualification by the relevant qualification approval authority. An enterprise which passes such a qualification assessment will be issued a qualification certificate. No enterprise may engage in property management without undertaking a qualification assessment conducted by the relevant authority and obtaining a qualification certificate. The qualifications of a property service enterprise shall be classified as the first, second and third grades.

The qualification grade of a newly established property service enterprise shall be checked and ratified according to the minimum grade, with an interim effective period of one year. The property service enterprises with the first grade qualification may undertake various property management projects. The property service enterprises with the second grade qualification may undertake the property management business of residential projects of less than 300,000 square meters and the non-residential projects of less than 80,000 square meters. The property service enterprises with the

third grade qualifications may undertake the property management business of residential projects less than 200,000 square meters and non-residential projects less than 50,000 square meters.

Pursuant to the Measures for the Administration of Qualification of Property Management Service Enterprises, the conditions of qualifications of each class of property management enterprises are as follows:

- **Class 1 qualification:** (1) the registered capital shall be not less than RMB5 million; (2) there shall be not less than 30 property management professionals and full-time management and technical personnel in the relevant fields such as engineering, management and economics. At least 20 of them shall possess the intermediate professional qualification or above. Persons-in charge of engineering and finance shall possess corresponding professional qualification or above; (3) property management professionals shall have obtained the vocational qualification certificate in accordance with the relevant provisions of the State; (4) the enterprise shall be engaged in the management of at least two types of properties and the sum of the percentages of GFA managed for each type of properties calculated based on the following bases shall not be less than 100%: (a) 2 million sq.m. managed for multi-story residential buildings; (b) 1 million sq.m. for high rise residential buildings; (c) 150,000 sq.m. for detached houses (villas); (d) 500,000 sq.m. for office buildings, industrial premises and other properties; (5) the enterprise shall have established and strictly enforced company policies and standards with respect to service quality and service fees and established the enterprise credit record system, and have proven track record in operation and management.
- **Class 2 qualification:** (1) the registered capital shall be not less than RMB3 million; (2) there shall be not less than 20 property management professionals and full-time management and technical personnel in the relevant fields such as engineering, management and economics. At least 10 of them shall possess the intermediate professional qualification or above. Persons-in charge of engineering and finance shall possess corresponding professional qualification or above; (3) property management professionals shall have obtained the vocational qualification certificate in accordance with the relevant provisions of the State; (4) the enterprise shall be engaged in the management of at least two types of properties and the sum of the percentages of GFA managed for each type of properties calculated based on the following bases shall not be less than 100%: (a) 1 million sq.m. managed for multi-story residential buildings; (b) 500,000 sq.m. for high rise residential buildings; (c) 80,000 sq.m. for detached houses (villas); (d) 200,000 sq.m. for office buildings, industrial premises and other properties; (5) the enterprise shall have established and strictly enforced company policies and standards with respect to service quality and service fees and established the enterprise credit record system, and have proven track record in operation and management.
- **Class 3 qualification:** (1) the registered capital shall be not less than RMB500,000; (2) there shall be not less than 10 property management professionals and full-time management and technical personnel in the relevant fields such as engineering, management and economics. At least 5 of them shall possess the intermediate professional qualification or above. Persons-in charge of engineering and finance shall possess corresponding professional qualification or above; (3) property management professionals shall have obtained the vocational qualification certificate in accordance with the relevant provisions of the State; (4) the enterprise shall have commissioned property management projects; (5) the enterprise shall have established and strictly enforced company policies and standards with respect to service quality and service fees, and have established the enterprise credit record system.

Pursuant to the Measures for the Administration of Qualification of Property Management Service Enterprises, newly-established property management enterprises shall be granted the lowest qualification (class 3 qualification) with one-year provisional period.

Pursuant to the Measures for the Administration of Qualification of Property Management Service Enterprises, application of a property management enterprise for the approval of qualification shall not be approved by the qualification approval authorities if such enterprise has carried out any of the following actions within one year before the date of application: (1) engaging any personnel without professional certificate in property management to carry out property management activities; (2) outsourcing all property management businesses in respect of any single property it manages to another party; (3) misappropriating special maintenance funds; (4) changing the use of any premise for property management without approval; (5) changing the use of common facilities and utilities built in accordance with the construction plan within the area of property it manages without approval; (6) occupying or digging roads and sites in the area of property it manages without approval and causing harm to the interest of property owners as a whole; (7) occupying public area and facilities for business operation without approval; (8) failing to hand over the premise for property management and relevant information in accordance with the requirements upon the termination of property management services contract; (9) colluding with tenderee or other bidders for the property management service to win the bid in improper means; (10) failing to perform property according to the services contract and receiving numerous complaints from property owners which were proved to be true; (11) undertaking property management business which falls beyond the permitted scope applicable to the relevant class of qualification; (12) leasing, lending or assigning qualification certificates; and (13) being liable for any major accident.

## **INSURANCE**

There is no mandatory provision in PRC laws, regulations and government rules which require a property developer to take out insurance policies for its real estate developments.

According to the common practice of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies must pay for the insurance premium at their own costs and take out insurance to cover their liabilities, such as third party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and other kinds of risks associated with the construction and installation works throughout the construction period. The insurance coverage for all these risks will cease immediately after the completion and acceptance upon inspection of construction.

## **MEASURES ON STABILIZING HOUSING PRICE**

The General Office of the State Council promulgated a Circular on Stabilizing Housing Price 《關於切實穩定住房價格的通知》 in March 2005, introducing measures to be taken to restrain the housing price from increasing too fast and to promote a stable development of the real estate market. In April 2005, the Ministry of Construction, NDRC, the Ministry of Finance, the Ministry of Land and resources, PBOC, the State Taxation Bureau and the China Banking Regulatory Commission jointly issued the Opinions on Stabilizing Housing Prices 《關於做好穩定住房價格工作的意見》 with the following guidance:

- Where the housing price is growing too fast, while the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, the housing construction should mainly involve projects of ordinary commodity houses at medium or low prices and low cost affordable houses. The construction of low-density, high quality houses should be strictly controlled. The relevant local government authorities are authorized to impose conditions on planning and design such as building height, plot ratio and green space and to impose such requirements as sale price, type and GFA as preconditions on land assignment. The local governments are also required to strengthen their supervision of real estate developments in their jurisdictions.

- Where the price of land for residential use and the price for residential housing are growing too fast, the proportion of land supply for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high quality housing property construction should be strictly restricted.
- Commencing from June 1, 2005, a business tax upon transfer of a residential house by an individual within two years from his/her purchase will be levied on the gain from such sale. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted. For an individual to transfer a property other than an ordinary residential house after two years from his/her purchase, the business tax will be levied on the difference between the price of such sale and the original purchase price.
- Ordinary residential houses with medium or small GFAs and at medium or low prices may be granted preferential treatment such as planning permits, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio is above 1.0, the GFA of one single unit is less than 120 square meters, and the actual transfer price is lower than 120% of the average transfer price of comparable houses at comparable locations. The local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential houses that may enjoy the preferential policies.
- Transfer of uncompleted commodity properties by any pre-sale purchaser is forbidden.

In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale contract must also be filed with the relevant government agencies electronically immediately after its execution.

On May 24, 2006, the Ministry of Construction, NDRC, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the State Bureau of Statistics, the State Taxation Bureau and CBRC jointly issued Opinions on Adjusting Housing Supply Structure and Stabilization of Housing Prices 《關於調整住房供應結構穩定住房價格意見的通知》. The Opinions reiterated the existing measures and introduced new measures to further curb fast increase in property prices in large cities and to promote healthy development of the PRC property market. These measures, among the others, include:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low to medium-cost and small to medium-size units and low-cost rental properties;
- requiring that at least 70% of GFA of residential projects approved or constructed on or after June 1, 2006 must consist of units with a unit floor area (套型建築面積) less than 90 square meters per unit (including affordable housing) and that projects which have received project development approvals prior to that date but have not obtained construction permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration of the PRC central government and provincial capitals and certain cities may deviate from such ratio under special circumstances upon approval from the Ministry of Construction;
- prohibiting commercial banks from lending funds to real estate developers with an internal capital ratio, calculated by dividing the internal funds by the total project capital required for the relevant projects, of less than 35%, restricting the extension of loans and the grant of

revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties, and prohibiting commercial banks from taking commodity properties which have been vacant for more than three years as security for their loans; and

- imposing a business tax levy on the entire sales proceeds from re-sale of properties if the holding period is shorter than five years, effective from June 1, 2006, as opposed to two years as such levy was initially implemented from June 2005; where an individual transfers a property other than an ordinary residential property after five years from his/her purchase, the business tax will be levied on the difference between the price for such re-sale and the original purchase price.

In December 2008, the General Office of the State Council issued the rules on the Opinion on Promoting the Healthy Development of Real Estate Market 《關於促進房地產市場健康發展的若干意見》，which provides that in order to expand domestic demand and encourage consumption in ordinary residential housing, a business tax relief policy for real property transfers will be implemented for one year in relation to residential property conveyance. Business tax is exempted for any transfer of ordinary housing purchased and held by individuals for at least two years, as opposed to five years previously; any transfer of ordinary housing purchased by individuals for less than two years is subject to business tax based on the difference between the sale price from such transfer and the original purchase price, as opposed to the full sale price. Any transfer of non-ordinary housing purchased by individuals for at least two years, as opposed to five years previously, is subject to business tax based on the difference between the gain from such transfer and the original purchase price. Any transfer of non-ordinary housing purchased by individuals for less than two years remains subject to business tax based solely on the sale price from such transfer. The above-mentioned policy is tentatively scheduled to be enforced until December 31, 2009.

On October 22, 2008, PBOC promulgated the Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Commercial Individual Housing Loans 《關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》 which provides that, as of October 27, 2008, the float-down range for interest rate for commercial individual housing loans will be expanded and the ratio of down payments will be modified. The minimum interest rate for commercial individual housing loans will be 70% of the benchmark loan interest rate and the minimum down payment ratio will be adjusted to 20%. Related matters are as follows:

- Loan interest rate and down payment ratio granted by the financial institutions to their clients shall be determined based on the following factors: whether or not it is the first time for the borrower to buy the house, whether or not the house is used for self occupancy, whether or not the house type and GFA conform to an ordinary residential house, and other risk factors such as the borrower's credit record and repayment capacity.
- Financial institutions may provide preferential treatments on loan interest rate and down payment ratio to residents for their first purchase of ordinary self-occupied houses and improved ordinary self-occupied houses. For non-self-occupied houses and non-ordinary residential houses, financial institutions may properly raise the loan conditions.
- As to commercial individual housing loans granted, financial institutions shall determine the interest rate for the outstanding portion thereof, in accordance with Section 1 of this notice, on the basis of reasonable assessment of loan risks and according to the original loan contracts. The down payment ratio under the original loan contracts shall remain effective.
- The policy that the borrower's monthly expenditure on repayment of housing loans shall not exceed 50% of his/her monthly income remains unchanged.

Pursuant to the Circular of the General Office of the State Council on Issues concerning Regulation and Control of Real Estate Market 《國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知》 dated January 26, 2011, generally, municipalities, provincial capitals and cities with high housing prices will implement purchase restrictions for a specified period. In principle, (i) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one additional house (including the new commodity residential house or a second hand one); and (ii) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses or a non-local residential family that cannot provide the local payment of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses.

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation promulgated the Notice on Adjusting the Business Tax Policies on Individual Housing Transfer 《關於調整個人住房轉讓營業稅政策的通知》, which provides that, effective from January 28, 2011, if any individual sells residential housing within five years from his purchase, the business tax thereon shall be collected based on the full sales price; if any individual sells non-ordinary residential housing more than five years (including the 5th year) after his purchase, the business tax thereon shall be collected on the basis of the difference between the sales price and the original purchase price; if any individual sells an ordinary housing unit more than five years (including the 5th year) after its purchase, it shall be exempted from business tax.

The State Council General Office of the PRC promulgated the Notice on Further Regulation and Control of Real Estate Market 《關於繼續做好房地產市場調控工作的通知》 on February 26, 2013, introducing six policy measures to control the real estate market, including: a) improving the accountability system for stabilization of house prices; b) strictly controlling over house purchase for speculation; c) increasing the supply of ordinary residential houses and the land supply of residential houses; d) accelerating the planning and construction of subsidized housing projects; e) tightening the market regulations and forecast management; and f) accelerating the establishment and optimization of the long-term mechanism for the healthy development of the real estate market.

The highlights of the measure for “control over house purchase for speculation” under the notice are as follows:

- Continuous enforcement of stringent restrictions on commodity housing purchases;
- For cities with soaring house prices, the local branches of the PBOC may further increase the proportion of down payments and interest rates for second-home buyers according to the price control targets and policy requirements for newly-constructed commodity housing of the local governments;
- The taxation department and the housing and urban-rural development department shall work closely together to impose personal income tax on the sales of self-owned houses. A tax rate of 20% on the proceeds from the transfer shall be strictly levied upon verification of the value of the houses based on tax collection and housing registration data.

The notice also stipulated that if the number of small- and medium-sized units of a general commodity housing project accounted for more than 70% of the total units to be constructed, the banking financial institutions shall give priority to the financing need of the development of the project subject to credit conditions. In addition, the local authorities shall strengthen the pre-sale fund management and improve their regulatory systems. For overpriced pre-sale commodity housing projects in breach of the guidance of the housing and urban-rural development department or the regulations on pre-sale fund, the approval and issuance of the pre-sale permits may be suspended.



**LICENSING REQUIREMENTS FOR HOTEL OPERATION**

## (1) Special Business Licence for the Hotel Industry (旅館業特種行業許可證)

Pursuant to the Administrative Measures on Security of the Hotel Industry 《旅館業治安管理办法》, which was effective on November 10, 1987 and amended on January 20, 2006 and January 8, 2011, and the Administrative Regulations on Security of Special Business in Jiangsu 《江蘇省特種行業治安管理条例》, which was effective on May 1, 2010, a special business licence shall be obtained from the public security offices for engaging in hotel business and the following requirements on public security and fire safety must be complied with:

- requirements on public security: (i) the entity shall operate in a legal and permanent place of business with necessary operation facilities. A hotel shall be equipped with necessary security facilities. Video surveillance equipment shall be installed at gateways, lobbies, main passages, safe deposit vaults and parking lots; (ii) the entity shall be equipped with a security management system. There shall be a security panel or full-time or part-time security guards as well as a register of employees; (iii) the entity shall provide safe deposit boxes or chests or storerooms with designated personnel taking care of guests' property. Necessary facilities for property safety and a sound security control system shall be in place; (iv) the entity shall have facilities for identification and security information collection as required; (v) the entity shall comply with other security requirements as required by laws.
- requirements on fire safety: buildings, fire prevention equipment, gateways and passages shall meet the requirements of laws and regulations on fire safety. Fire safety inspection certificate shall be obtained for the place of business.

## (2) Health Permit (衛生許可證)

Pursuant to the Regulations on Health Administration in Public Places 《公共場所衛生管理条例》, which was effective on April 1, 1987 and the Implementation Rules for the Regulations on Health Administration in Public Places 《公共場所衛生管理条例实施细则》, which was effective on May 1, 2011, the operator of a public place shall apply for the health permit from the health administration department of the People's Government at or above the county level in accordance with relevant requirements before the commencement of operation. Enterprise engaging in hotel business shall fulfil the following public health requirements:

- Location, design and decoration of public places shall meet national standards and regulations.
- Health management department shall be established or full-time or part-time employees for health management shall be appointed. A sound health management system shall be set up with proper health management filing. Health training system shall also be established.
- Ventilation of public places shall be adequate. Indoor air quality shall comply with national standards and requirements. If a public place is equipped with central air conditioning system, the system shall be in compliance with relevant regulations and requirements.
- The quality of drinking water provided to customers shall fulfil national standards. Water quality of swimming pools (pavilions) and public bathing rooms shall meet the national standards and requirements.
- The hotel shall fulfil national standards and requirements regarding illumination and noise level. Public places shall adopt natural light as much as possible. If natural light is insufficient, the operator shall ensure sufficient illumination based on the size of its premises.

- Supplies and appliances provided to customers shall be hygienic and safe. Public places shall be equipped with cleaning equipment, disinfection equipment, sanitary equipment, washrooms and public toilets based on the size of the premises.
- Operator of a public place shall set up a maintenance system for sanitary facilities and equipment. Safe and effective facilities and equipment for preventing and controlling vectors and for refuse disposal shall be equipped.