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## LAWS AND REGULATIONS

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*This section contains a summary of certain laws and regulations currently relevant to our operations in the PRC and the U.S. Having made all reasonable enquiries and to their best knowledge, our Directors confirm that save as disclosed in this section and in “Risk Factors” and “Business” in this prospectus, we have complied with all applicable laws and regulations in the PRC and the U.S., where we operated during the Track Record Period and as of the Latest Practicable Date and have obtained all necessary permits, licences and certificates for our operations.*

### REGULATIONS ON REAL ESTATE DEVELOPER IN THE PRC

#### Establishment of a Real Estate Developer

Pursuant to the Law of the PRC on Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》) (the “Urban Real Estate Law”) promulgated by the Standing Committee of the National People’s Congress, effective January 1, 1995 and revised in 2007, a “real estate developer” refers to an enterprise which engages in the development and sale of real estate for profit-making purposes. Under the Regulations on Administration of Development of Urban Real Estate (《城市房地產開發經營管理條例》) (the “Development Regulations”) promulgated by the State Council on July 20, 1998, an enterprise engaging in real estate development must satisfy the following requirements in addition to other enterprise establishment conditions provided in relevant laws and administrative regulations:

- (i) its registered capital must be RMB1 million or more; and
- (ii) 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 Development Regulations also stipulated that people’s governments of the provinces, autonomous regions and/or municipalities directly under the central government may impose more stringent requirements regarding the registered capital and qualifications of professional personnel of a real estate development enterprise according to the local circumstances.

Pursuant to the Regulations on Real Estate Developments of Hunan Province (《湖南省城市房地產開發經營管理辦法》), enacted by the People’s Government of Hunan Province on April 12, 2006 and enforced on June 1, 2006, the registered capital of a real estate development enterprise in Hunan Province (“Hunan”) shall not be less than RMB4 million, and real estate development enterprise with different qualification classification should accord to their respective requirements of full-time professional technicians.

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## LAWS AND REGULATIONS

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Pursuant to the Regulations on Real Estate Developments of Hubei Province (《湖北省城市房地產開發經營管理辦法》), enacted by the People's Government of Hubei Province on November 19, 1999 and enforced on November 19, 1999, the registered capital of a real estate development enterprise in Hubei Province ("Hubei") shall not be less than RMB2 million, and real estate development enterprise with one or more full-time professional real estate/construction management personnel, each of whom must hold the relevant qualification certificate.

Pursuant to the Regulations on Real Estate Developments of Jiangxi Province (《江西省城市房地產開發管理條例》), enacted by the Standing Committee of the People's Congress of Jiangxi Province on May 5, 1995 and enforced on June 1, 1995 and amended on June 1, 2002, and September 17, 2010 real estate development enterprise must have five or more full-time professional real estate/construction technicians.

Pursuant to the Development Regulations, to establish a real estate development enterprise, the developer must apply for registration with the department of industry and commerce administration of the people's government at or above the county level, which should, in examining the application for the registration, seek the views of the governmental department governing real estate development at the relevant level. The developer must also report its establishment to the department of real estate development in the location of its registration, within 30 days of the receipt of its business license.

### **Qualifications of a Real Estate Developer**

According to the Provisions on Administration of Qualifications of Real Estate Developers (《房地產開發企業資質管理規定》) (the "Provisions on Administration of Qualifications") promulgated by the Ministry of Construction on March 29, 2000, a real estate developer must apply for registration of its qualifications. An enterprise may not engage in the development and sale of properties without a qualification classification certificate. The Ministry of Construction is in charge of monitoring the qualifications of all real estate developers within the PRC, and local real estate development authorities at or above the county level are in charge of monitoring the qualifications of local real estate developers. In accordance with the Provisions on Administration of Qualifications, real estate developers are divided into four classes.

- (i) Class 1 qualifications are subject to preliminary examination by the construction authorities at the provincial level and the 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. Class 2, 3 or 4 qualifications are regulated by the construction authorities at the provincial level subject to delegation to lower level government agencies. A real estate developer of Class 2 or lower may undertake a project with a GFA of less than 250,000 sq.m., the detailed business scope of the developer of Class 2 or lower is determined by the construction authorities at the provincial level.

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## LAWS AND REGULATIONS

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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 mainly considering their registered capital and financial condition, lengths of time they have conducted real estate development business, professional personnel they employ, performance and operating results from past real estate operations and their quality control systems. 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 real estate developer shall only conduct the real estate development in compliance with the approved class of qualification.

For a newly established real estate developer, the real estate development authority will issue a provisional qualification certificate, if it is an eligible developer, within 30 days of receipt by the authority of the application. The provisional qualification certificate will be effective for one year from its date of issuance and may be extended for not more than two additional years with the approval of the real estate development authority. The real estate developer must apply for formal qualification classification certificate to the real estate development authority within one month before the expiration of its provisional qualification certificate. Failure to obtain the required provisional or formal qualification certificate may result in a fine ranging from RMB50,000 to RMB100,000 and, if such failure is not rectified, revocation of the developer's qualification certificate or business license.

Pursuant to the Provisions on Administration of Qualifications, the qualification of a real estate developer should be annually inspected. The construction authority under the State Council or the entrusted institution is responsible for carrying out the annual inspection of class 1 real estate developer's qualification. Procedures for annual inspection of developers of class 2 or lower qualifications shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

### **Foreign Investment in the PRC Real Estate Market**

On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, the State Administration for Industry and Commerce and SAFE issued the Opinion on Regulating the Access and Management 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》) (the “**171 Opinion**”), which states that, among other things, a foreign entity or individual investing in the PRC property other than for self-use, must apply for the establishment of a Foreign Invested Real Estate Enterprise (the “**FIREE**”) in accordance with the applicable PRC laws and can only conduct operations within the authorized business scope. The opinion attempts to impose additional restrictions on the establishment and operation of a FIREE by measures including regulating the amount of registered capital as a percentage of total investment in certain circumstances, limiting the validity of a FIREE or the transfer of its projects and prohibiting the borrowing of money from domestic and foreign lenders where, among other things, the registered capital is not paid up, land use rights are not obtained, or the capital fund is less than 35% of the total investment amount in the intended development project. In addition, the opinion also limits the ability of certain foreign individuals to purchase residential properties in China.

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## LAWS AND REGULATIONS

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On May 23, 2007, MOFCOM and SAFE issued the Circular on Further Reinforce and Standardize the Examination and Supervision on Foreign Direct Investment in Real Estate Industry (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》) (the “**May Circular**”), which states that, among other things, a foreign investor must apply to establish FIREE in accordance with PRC laws if it plans to develop or operate property business in the PRC. The May Circular states that foreign investors cannot bypass the examination and approval requirements applicable to foreign invested property businesses by changing the actual controllers of the domestic property enterprises in the PRC and the merger of or investment in domestic real estate enterprises by way of returning investment (返程投資) (including the same actual controller) shall be placed under strict control. If foreign-invested enterprises wish to engage in property development or operation business, or FIREEs wish to engage in new project development operations, they must apply to the relevant examination and approval authorities for their expansion of scope of business or scale of business operation. In addition, local examining and approving organs shall file the approval of the establishment of foreign-funded real estate enterprises with the Ministry of Commerce for record in a timely manner according to law.

On July 10, 2007, SAFE issued the Circular of the General Affairs Department of SAFE on the Distribution of the List of the First Batch of Foreign-Invested Real Estate Projects Filed with the Ministry of Commerce (《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》). According to this circular, local branches of SAFE must not register any foreign debt of a foreign-invested real estate enterprise if it obtained approval for its new establishment or capital increase from the local MOFCOM branches and filed with MOFCOM on or after June 1, 2007. The local SAFE must not process any foreign exchange registration (or amendment of registration) or foreign exchange settlement for capital account items for a foreign-invested real estate enterprise that has been approved by the relevant MOFCOM branches on or after June 1, 2007, but has not been filed with MOFCOM. This circular is another restrictive measure taken by the PRC Government to limit foreign investment in the PRC property market.

### REGULATIONS ON THE REAL ESTATE PROJECT DEVELOPMENT

#### Obtaining of Land Use Rights

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

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

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## LAWS AND REGULATIONS

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### *Grant of Land Use Rights*

Under the Interim Regulations of the People's Republic of China on Assignment and Transfer of the State-owned Land Use Rights in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》) (the "Interim Regulations on Assignment and Transfer") promulgated and enforced by the State Council on May 19, 1990, a system of assignment and transfer of the right to use State-owned land is adopted. A land user shall pay a premium to the State as consideration for the assignment of the land use rights within certain terms, and a land user may transfer, lease, mortgage or otherwise commercially exploit the land use right within his terms of use. Under the Interim Regulations on Assignment and Transfer and the Urban Real Estate law, the land administration authority under the local government of the relevant city or county shall enter into an assignment contract with the land user for an assignment of land use right. The land user shall pay the assignment price as stipulated in the assignment contract. After paying the assignment price in full, the land user shall register with the land administration authority and obtain a Land Use Rights Certificate. The Certificate is an evidence of the acquisition of land use rights. The Development Regulations provide that the land use rights for a site intended for real estate development shall be obtained by way of an assignment except for those land use rights which may be obtained by way of allocation pursuant to the PRC laws or the stipulations of the State Council.

The grant of land use rights by way of competitive processes is subject to the Regulations on the Grant of State-owned Land Use Rights by Invitation of Tender, Auction or Listing-for-bidding (《招標拍賣掛牌出讓國有土地使用權規定》), issued by the Ministry of Land and Resources of the PRC on May 9, 2002 (2002 Regulations) and revised as of September 21, 2007 by Regulations on Granting State-owned Construction Land Use Right through Tenders, Auction and Putting up for Bidding (《招標拍賣掛牌出讓國有建設用地使用權規定》), or the 2007 Regulations. In addition, the Ministry of Land and Resources required that with effect from August 31, 2004, the grant of land use rights must be made pursuant to auctions or listing at a land exchange and that no land use rights for commercial uses may be granted by way of agreement. The 2007 Regulations specifically provide that land to be used for industrial, commercial, tourism, entertainment or commodity residential purposes, or where there are two or more intended users for the certain piece of land, must be granted by way of competitive processes. A number of measures are provided by the 2007 Regulations to ensure such grant of land use rights for commercial purposes is conducted openly and fairly. For instance, the local land bureau must take into account various social, economic and planning considerations when deciding on the use of a certain piece of land, and its decision regarding land use designation is subject to approval of the city or provincial government. The grantee shall apply for land registration and obtain the State-owned land use rights certificate upon full payment of the land premium of the granted land according to the State-owned land use right granting contract. In the event that the land premium of the granted land is not paid in full, the grantee will not receive the land use rights certificate. In addition, the announcement of tender, auction or listing-forbidding must be made 20 days prior to the date on which such competitive process begins. Further, it also stipulated that for listing at a land exchange, the time period for accepting bids must be no less than 10 days.

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## LAWS AND REGULATIONS

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

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

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

Land use rights are granted by way of bilateral agreement is subject to the Regulation Concerning the Grant of Land Use Right Through Bilateral Agreement (《協議出讓國有土地使用權規定》) promulgated by the Ministry of Land and Resources, effective August 1, 2003, only when the methods of tender or auction are not required by the laws, regulations and rules may land use rights be granted by bilateral agreement between the relevant land authority and the grantee party. The land grant fees carried out in agreement should not be lower than the minimum price set by the central government. For land in areas with standard land prices, the purchase price of land pursuant to any bilateral agreement should not be less than 70% of the standard land price of the relevant land category. If the price guidelines are not followed, the validity of the provision of land grant fees in the land grant contract may be deemed invalid. Only when there is only one prospective land user on the land to be granted may the land authority grant the land use right through bilateral agreement, with the exception of land used for business, tourism, entertainment, commodity properties and others. After payment in full of the land grant fee, the land user may register with the land administration authority and obtain a Land Use Rights Certificate as evidence of the acquisition of the land use right.

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## LAWS AND REGULATIONS

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### *Land Transfer from Current Land User*

In addition to a direct grant from the government, an investor may also acquire land use rights from land users that have already obtained the land use rights by entering into an assignment contract or a joint-develop agreement with the land user. The assignment contract or joint-develop agreement must be registered with the relevant local land bureau at the municipal or county level for land use right title change purposes. Upon a transfer of land use rights, all rights and obligations contained in the land grant contract are deemed to be incorporated as part of the terms and conditions of such transfer.

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

### **Pre-examination of the Construction Sites**

Under the Measures for Administration of Examination and Approval for Construction Sites (《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 Sites (《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 on November 12, 2008, when carrying out the feasibility study for a construction project, a real estate developer must make a preliminary application for construction to the relevant land administration authority. After receiving the preliminary application, the land administration authority will carry out a preliminary examination of various aspects of the construction project in compliance with the overall zoning plans and land supply policies of the government, and will issue a preliminary approval if its examination proves satisfactory. The opinions derived from this preliminary examination are requisite documents for the approval and notification of the construction project. The construction standards and the total scale of the land to be used are set forth in the opinions issued after the preliminary examination and shall be taken into full consideration during the initial design phase of the construction project.

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## LAWS AND REGULATIONS

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### **Obtaining Planning Permits and Construction Commencement Permits**

Under the Measures for Planning of Granting and Transfer 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》) enacted by the Ministry of Construction on December 4, 1992 and effective January 1, 1993 and the Notice on Strengthening the Planning Administration of Granting and Transferring Right to Use State-Owned Land (《建設部關於加強國有土地使用權出讓規劃管理工作的通知》) enacted by the Ministry of Construction on December 26, 2002 and effective on the same date, after signing a grant contract, a real estate developer shall apply for an Opinion on Site Selection of Construction Project and a Permit for Construction Land Planning from the city and county planning authorities. After obtaining a Permit for Construction Land Planning, the real estate developer shall organize the necessary planning and design work in accordance with planning and design requirements and a planning and design proposal in respect of the real estate project shall be submitted to the municipal planning authority following the requirements and procedures under the Urban and Rural Planning Law of the PRC (《城鄉規劃法》), which was issued on October 28, 2007, and a construction work planning permit must be obtained from the municipal planning authority.

In addition, a real estate developer shall apply for a Construction Commencement Permit from the construction administrative authority under the local people's government above the county level pursuant to the Measures for the Administration of Construction Work Permit of Construction Projects (《建築工程施工許可管理辦法》) enacted by the Ministry of Construction on October 15, 1999 and revised on and effective as of July 4, 2001.

### **Completion of a Real Estate Project**

Construction projects shall be delivered for use only after passing the inspection and acceptance under the Construction Law (《中華人民共和國建築法》) which was promulgated in November 1997 and amended in 2011. A real estate development project must comply with various laws and legal requirements concerning planning, construction quality, safety and environment and technical guidance on architecture, design and construction work, as well as provisions of the relevant contracts. After construction of a project is complete, the real estate developer must organize an acceptance examination by relevant government authorities and experts according to the Regulations on the Administration of Quality of Construction Works (《建設工程質量管理條例》) promulgated and implemented by State Council on January 10, 2000 and the Interim Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure (《房屋建築工程和市政基礎設施工程竣工驗收暫行規定》) promulgated by the Ministry of Construction on June 30, 2000. The developer must also file details of the acceptance examination pursuant to the Measures for Filing 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 on April 7, 2000 and amended on October 19, 2009. A real estate development project may only be occupied after passing the inspections and acceptances by the competent authorities. For a housing estate or building complex, an acceptance examination shall be conducted upon completion of the entire project. In the case of a cluster of real estate development projects, such as a residential area developed in phases, separate acceptance examinations may be carried out for each completed phase.



### **Sale of Commodity Properties**

Under the Measures for Administration of Sale of Commodity Properties (《商品房銷售管理辦法》) promulgated by the Ministry of Construction in April 2001, the sale of commodity houses can include both sales prior to the completion of the buildings i.e. pre-sale of commodity properties and sales after the completion of the buildings.

#### *Pre-Sale of Commodity Properties*

Any pre-sale of commodity properties must be conducted in accordance with the Measures for Administration of Pre-sale of Commodity Properties (《城市商品房預售管理辦法》) (the “Pre-sale Measures”) promulgated by the Ministry of Construction in November 1994, as amended in August 2001 and July 2004. The Pre-sale Measures provide that any pre-sale of commodity properties is subject to specified procedures. The pre-sale of commodity properties shall be subject to a licensing system. Where a real estate developer intends to sell commodity properties in advance, it shall apply to the real estate administrative department to obtain a Pre-sale Permit (《商品房預售許可證》). The pre-sale of commodity properties is required to meet the following conditions:

- (i) the related land grant fee must be fully paid up and a Land Use Rights Certificate obtained;
- (ii) a Construction Project Planning Permit and a Construction Commencement Permit must have been obtained;
- (iii) the funds invested in the development of the commodity properties intended for pre-sale must represent 25% or more of the total investment in the project and the progress of construction and the completion and delivery dates must have been properly determined; and
- (iv) the pre-completion sale has been registered and a Pre-sale Permit has been obtained.

The proceeds of pre-sale of commodity properties must be used to develop the relevant project so pre-sold.

Pursuant to the Regulations on Real Estate Development of Hunan Province enacted by the People’s Government of Hunan on April 12, 2006 and enforced on June 1, 2006, the following conditions shall be fulfilled for pre-completion sale of commodity properties in Hunan province: (a) the “Land Use Permit for State-Owned Land”, the “Construction Work Planning Permit” and the “Permit for Construction of Work” have been obtained; (b) the progress of high-rise construction projects has reached or has exceeded one-third of the design’s progress, the progress of other construction projects has reached or has exceeded one-half of the design’s progress; and (c) the construction schedule and the date for completion and delivery have been determined.

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## LAWS AND REGULATIONS

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Pursuant to the Circular of the General Office of the State Council on Forwarding the Opinion of Such Departments as the Ministry of Construction on Stabilizing Housing Prices (《國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知》) promulgated by the General Office of the State Council on May 9, 2005, the purchaser of a pre-sale commodity property is prohibited from transferring such property prior to the completion of its construction. Prior to the completion and delivery of a pre-sold commodity property and the obtaining of the Property Ownership Certificate, the administrative department of real estate shall not conduct any transfer formalities for the pre-sale purchaser. Property developers are required to carry out an immediate archival filing network system for pre-sales contracts of commodity properties with the local authorities on a real name and real time basis.

On April 13, 2010, the Ministry of Housing and Urban-Rural Development 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 sets forth certain measures to enhance the regulation of pre-sale of commodity property. Property developers are strictly prohibited from pre-sale commodity property without obtaining pre-sale permits. Within 10 days after obtaining the relevant pre-sale permits, property developers are required to make a public announcement on all information relating to units available for pre-sale and the price of each unit.

On March 16, 2011, NDRC promulgated the Regulation on Price of Commodity Property (商品房銷售明碼標價規定), which took effect on May 1, 2011. According to the regulation, property developers are required to make public the sale price of each of apartment of the commodity properties for sale or pre-sale and the number of apartments available for sale or pre-sale within a certain time period. Property developers are also required to state factors that would affect housing prices and relative charges before the property transaction, such as commission fee and property management fee. No additional charge beyond what is stated in the price tag or made public by the property developers is permitted.

Commodity buildings may be put to post-completion sale after they have passed the clearance examination and otherwise satisfy 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.

### *Sales after the Completion of Commodity Properties*

Under the Regulations for the Administration of Sale of Commodity Properties (《商品房銷售管理辦法》), commodity properties may be put to post-completion sale only when the following preconditions have been satisfied:

- (i) the real estate development enterprise offering to sell the post-completion buildings shall have a enterprise legal person business license and a qualification certificate of a real estate developer;

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## LAWS AND REGULATIONS

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- (ii) the enterprise has obtained a Land Use Rights Certificate or other approval documents of land use;
- (iii) the enterprise has obtained the Construction Project Planning Permit and the Construction Commencement Permits;
- (iv) the commodity properties have been completed and been inspected and accepted as qualified;
- (v) the relocation of the original residents has been well settled;
- (vi) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc. have been made ready for use, and other supplementary essential facilities and public facilities have been made ready for use, or the schedule of construction and delivery date of have been specified;
- (vii) the property management plan has been completed.

Before the post-completion sale of commodity properties, a real estate developer shall submit the real estate development project manual and other documents showing that the preconditions for post-completion sale have been fulfilled to the real estate development authority for making a record.

### **Lease of Properties**

Under the Administrative Measures for Commercial Housing Leases and Urban Real Estate Administration Law of the PRC (《中華人民共和國城市房地產管理法》) promulgated by the Standing Committee on July 5, 1994 which became effective on January 1, 1995 and as amended on August 30, 2007 and August 27, 2009 and the Administrative Measures for Commercial Housing Leases (《商品房租賃管理辦法》) promulgated by the MOHURD on December 1, 2010, which became effective on February 1, 2011, illegal properties cannot be leased. Further, a lease must be filed with the real estate administrative department.

### **Loan for Real Estate Developer**

The PBOC issued the 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的通知》) in June 2003 to tighten the requirements on banks for the provision of loans for the purpose of residential development, individual home mortgage and individual commodity properties as follows:

- (i) Property development loans may be granted to property developers who are qualified for property development, are ranked high in credibility and have no overdue payment for construction. For property developers with commodity properties with a large amount of idle land and high vacancy rate and high debt ratio, strict approval procedures must be applied for their new property development loans and their activities must also be subject to close monitoring.

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## LAWS AND REGULATIONS

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- (ii) Commercial banks are not allowed to grant loans to property developers to pay off land grant premium.
- (iii) Commercial banks may only provide housing loans to individual buyers when the roofing of the main structural buildings has been completed. When a borrower applies for individual housing loans for a first residential unit, the down payment by the borrower must be at least 20% of the purchase price. In respect of a loan application for the additional purchase of residential unit(s), the percentage of the down payment by the borrower is increased.
- (iv) When a borrower applies for mortgage loan for an individual commercial use building, the mortgage ratio may not be more than 60% of the purchase price of the property. In addition, the term of the loan may not be more than 10 years and the commodity property must be completed and delivery accepted after inspection.

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指引》) issued by the CBRC in September 2004 and 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》) issued by the PBOC and CBRC, with a supplement issued on December 5, 2007, commercial banks are banned from providing loans in any form for a property development project that has not yet obtained the State-owned Land Use Rights Certificate, Construction Land Planning Permit, Construction Works Planning Permit and Construction Commencement Permit and the portion of the real estate developer's own capital among the total project investment shall be no less than 35%. In addition, a commercial bank is required to maintain a strict loan evaluation system for processing applications for property development loans for property development and are not allowed to use borrowings obtained from local banks to fund property developments outside of such bank's respective local regions.

### **Mortgages of Real Estate**

Under the Urban Real Estate Law and the Security Law of PRC (《中華人民共和國擔保法》) promulgated by the Standing Committee of the NPC 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 placed on the ownership of a building, the mortgage must be simultaneously placed on the land use rights of the land on which the building is attached. After a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority within 30 days of its execution. A real estate mortgage contract becomes effective on the date of registration of the mortgage.

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## LAWS AND REGULATIONS

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### Idle Land

According to the Measures on Disposing Idle Land (《閒置土地處置辦法》) enacted and enforced by the Ministry of Land and Resources on April 28, 1999 and amended on June 1, 2012, the land can be defined as idle land under any of the following circumstances:

- (i) development and construction of the land is not commenced after one year of the prescribed time limit in the contract of granting the land use right; or
- (ii) the development and construction of the land has been commenced but the area of the development and construction that has been commenced is less than one-third of the total area to be developed and constructed or the invested amount is less than 25% of the total amount of investment, and the development and construction have been continuously suspended for one year or more without an approval.

If the delay of commencement is caused by the activities of the government, the municipality or county-level land administrative department shall negotiate with the concerned land user and conclude a proposal on methods of disposal of the idle land for the local government's approval, including but not limited to extending the time period for development and construction (provided that the extension shall be no longer than one year), changing the use of the land, arranging for temporary use, replacing with another land and withdrawing the land with a compensation. If the delay of commencement is caused by other reasons, if the work has not been commenced after one year from the prescribed date of commencement, a surcharge on idle land equivalent to no more than 20% of the land grant premium may be levied; if the work has not been commenced after two years from the prescribed date of commencement, the land can be confiscated without any compensation.

On September 8, 2007, the MLR promulgated the Notice on Strengthening the Disposing of Idle Land (《關於加大閒置土地處置力度的通知》) providing that the surcharge on idle land shall be 20% of the land grant premium in principle and where the confiscation measure is required in accordance with the law, such measure shall be strictly implemented.

On January 3, 2008, the State Council issued the Notice on Promoting the Saving and Intensive Use of Land (《國務院關於促進節約集約用地的通知》). This notice strictly enforces the policies for dealing with idle land. If a piece of land has been idle for two years or more, it must be taken back free of charge resolutely and rearranged for other uses; if the land does not meet the statutory conditions for recovery, it must be timely dealt with and fully used through changing its uses, replacement by parity value, temporary use or incorporation into government reserves. If a piece of land has been idle for more than one year but less than two years, the idle land surcharge must be collected at 20% of the land grant premium. If the land premium has not been completely paid off according to the contract, no land certificate may be granted, and it is also prohibited to grant the land certificate by dividing the land based on the proportion of the paid land grant fee.

### Measures on Stabilizing Property Prices

In March 2005, the General Office of the State Council promulgated the Circular on Effectively Stabilizing Housing Prices (《國務院辦公廳關於切實穩定住房價格的通知》), which is aimed at restraining housing prices from increasing too rapidly and promoting stable development of the real estate market. On May 9, 2005, the General Office of the State Council issued the Circular of the General Office of the State Council on Forwarding the Opinions of the Ministry of Construction and other Departments on Stabilizing Property Prices (《國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知》) which was followed by a series of corresponding measures which constitute a set of policies by the PRC Government to tackle the perceived overheating of the PRC property market, including:

- (i) Where housing prices grow too rapidly at a time when the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, construction projects should mainly involve the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses. The construction of low-density, high-end houses should be strictly controlled.
- (ii) Where the price of land for residential use and the price of residential housing grow too rapidly, land supply for residential use as a proportion of 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-end residential property construction should be strictly restricted.
- (iii) Idle land fee must be imposed on land that has not been developed for one year from the contractual construction commencement date. Land use rights of land that has not been developed for two years must be revoked without compensation.
- (iv) Commencing from June 1, 2005, a business tax upon the transfer of a residential property by an individual within two years from his or her purchase will be levied on the gain from such transfer. If an individual transfers his or her ordinary residential property more than two years after its purchase, the business tax will be exempted. For an individual who transfers a property other than an ordinary residential house more than two years after from its purchase, the business tax will be levied on the difference between the price of such transfer and the original purchase price.
- (v) Ordinary residential houses with medium or small GFA and at medium or low prices may be granted certain preferential treatment in relation to planning permits, land supply, credit and taxation. Properties enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio of the residential development is above 1.0, the GFA of one single unit is less than 120 sq.m., and the

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## LAWS AND REGULATIONS

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actual transfer price is lower than 120% of the average transfer price of comparable properties at comparable locations. Local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential properties that can enjoy the preferential policies.

- (vi) 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 pre-sale contract of commodity property must also be filed with the relevant government agencies electronically immediately after its execution.

On May 24, 2006, the General Office of the State Council issued the Circular of the General Office of the State Council on Forwarding the Opinions of the Ministry of Construction and other Departments on Adjusting the Housing Supply Structures and Stabilizing Property Prices (《國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知》) (“Circular No. 37”) which was jointly prepared by nine ministerial departments, including the MOHURD, the NDRC, the MLR and the SAT. Circular No. 37 was aimed at guiding and promoting sustainable and healthy development of the real estate industry through adjusting housing supply structure and curbing soaring housing prices. Circular No. 37, among other things:

- (i) 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-sized units or low-cost rental properties;
- (ii) requiring that at least 70% of the units in the residential projects approved or constructed on or after June 1, 2006 must be smaller than 90 sq.m. in terms of GFA 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 conform with this new requirement. However, 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 MOHURD;
- (iii) increasing the minimum amount of down payment from 20% to 30% of the purchase price of the underlying residential property if the underlying property has a GFA of 90 sq.m. or more, as effective from June 1, 2006;
- (iv) 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 grant or extension 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 loans; and

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## LAWS AND REGULATIONS

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- (v) imposing a business tax levy on the entire sales proceeds from the re-sales 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 more than five years after his or her purchase, the business tax will be levied on the difference between the resale price and the original purchase price.

On May 30, 2006, the MOHURD, NDRC, Ministry of Supervision, MOF, MLR, PBOC, State Bureau of Statistics, State Taxation Bureau and CBRC jointly issued the 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》) (“Notice No. 17”). Notice No. 17 emphasized that local governments must adhere to their annual overall land use planning and land supply plans and tighten the control on land supply for non-agricultural use. Notice No. 17 requires local governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing and to strictly enforce the regulations applicable to the holding of idle land.

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

On December 22, 2009, the MOF and the SAT issued the Notice on Adjusting the Business Tax Policy on Transfers of Residential Properties by Individuals (《關於調整個人住房轉讓營業稅政策的通知》) to discourage speculative activities in the secondary property market and control soaring housing prices. For example, effective from January 1, 2010:

- (i) transfers of non-ordinary residential properties by individuals who have held them for less than five years are subject to business tax calculated on a gross basis;
- (ii) transfers of (i) non-ordinary residential properties by individuals who have held them for five years or more or (ii) ordinary residential properties by individuals who have held the more for less than five years are subject to business tax calculated on a net basis; and
- (iii) transfers of ordinary residential properties by individuals who have held them for five years or more are exempted from business tax.



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## LAWS AND REGULATIONS

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On January 7, 2010, the State Council issued the Circular on Promoting the Stable and Sound Development of the Real Estate Market (《關於促進房地產市場平穩健康發展的通知》) to further regulate the real estate market. This circular provides for 11 measures addressing the following objectives:

- (i) effectively increasing the supply of social welfare housing and ordinary commodity residential properties;
- (ii) directing consumers to make reasonable purchases of residential properties and discouraging investment and speculation in the housing market;
- (iii) strengthening credit risk management for real estate projects and market supervision;
- (iv) speeding up the construction of social welfare housing projects; and
- (v) setting or clarifying the responsibilities of provincial and local governments.

On April 17, 2010, the State Council also issued the Notice on Strictly Control of the Escalation of Property Prices 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》), which further increased the minimum down payment in respect of mortgage loans on purchases of second residential properties by individuals to 50% of the purchase price and provides that the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate published by the PBOC. The minimum down payment in respect of mortgage loans on purchases of third or more residential properties by individuals may be substantially increased at the commercial bank's discretion and based on its risk control policies. The notice also specifies that the down payment for first owner-occupied residential properties with a GFA of more than 90 sq.m. must be at least 30% of the purchase price. Further, in those areas where property prices have escalated and property supply is tight, commercial banks may, depending on the level of risk, suspend granting mortgage loans to buyers purchasing their third or more residential properties or to those non-local residents who cannot provide documentation evidencing their payment for over one year of tax or social security in the locality.

On April 30, 2010, the Beijing Municipal Government issued the Notice on Implementation of State Counsel's Rules on Strictly Control of the Escalation of Property Prices in Certain Cities (《北京市人民政府貫徹落實國務院關於堅決遏制部分城市房價過快上漲文件的通知》), under which the commercial banks are required to stop grant loans to those households who purchase their third or more houses or those non-Beijing residents not capable of providing a local tax payment certificate or social security payment certificate for more than one year. In addition, each household is providing a local allowed to purchase only one new residential unit in Beijing since the issuance of such Notice.

On May 26, 2010, the MOHURD, PBOC, and the CBRC jointly issued the Circular on Standardizing the Assessing Criteria of the Second Home for Personal Mortgage Loans (《關於規範商業性個人住房貸款中第二套住房認定標準的通知》), under which a stricter standard

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## LAWS AND REGULATIONS

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will be adopted in assessing whether a house to be bought is a second home when granting mortgage loans. The new standard will be based on property ownership, not mortgage history, and the unit for the number of the houses will be determined in terms of family (including the borrower, his spouse and minor children), rather than individuals. Home buyers are required to provide a registration record from the local housing registration system when applying for mortgage loans. If it is impossible to check the purchasing record, loan applicants are required to submit a certification listing the number of homes owned by the applicant's family. The banks will examine both the number of the homes owned by the applicant's family and the applicant's previous mortgage and purchasing record in order to counter speculative activities. The banks will define a loan applicant as a second-home buyer as long as the applicant has taken out a mortgage loan previously, or his family has a home ownership record in the housing registration system, or it is confirmed that his family has owned a property based on due diligence.

On September 21, 2010, the MLR and the MOHURD jointly promulgated the Notice on Further Strengthening the Administration and Control of the Lands for Real Estates and the Construction of Real Estates (《關於進一步加強房地產用地和建設管理調控的通知》) to tighten the examination of qualifications of land bidders.

On September 29, 2010, the PBOC and the CBRC issued the Notice of the People's Bank of China and China Banking Regulatory Commission on Issues concerning the Improvement of Differential Housing Credit Policies (《中國人民銀行、中國銀行業監督管理委員會關於完善差別化住房信貸政策有關問題的通知》), which requires commercial banks to suspend the extension of loans to individuals for the purchase of third or subsequent residential properties. All commercial banks are also required to suspend the extension of loans for the purchase of residential properties by non-residents who cannot provide certificates evidencing the payment of local taxes or social insurance for more than one year. In addition, commercial banks are prohibited from extending loans to real estate developers, which hold idle land, who have changed the land use and land status, delayed the commencement date or completion date of construction or delayed the commencement of sales of property for speculative purposes.

On November 2, 2010, the MOF, the MOHURD, the CBRC and the PBOC jointly issued the Circular on Issues Concerning Policies on Regulation of Personal Housing Provident Fund Loan (《關於規範住房公積金個人住房貸款政策有關問題的通知》), which provides that where personal housing provident fund loan is used to buy the first ordinary self-use house and the floor area of the house is no more than 90 sq.m., the down-payment proportion shall not be lower than 20%; where the floor area of the house is more than 90 sq.m., the down-payment proportion shall not be lower than 30%. Only the housing provident fund-paying families whose floor area per capita is less than local average shall have access to personal housing provident fund loan which is used to buy the second house, and the loan shall be used to buy ordinary self-use house so as to improve dwelling conditions. Where the personal housing provident fund loan is used to buy the second house, the down-payment proportion shall not be lower than 50%, and the interest rate of such loan shall not be less than 1.1 times of the interest rate of the personal housing provident fund loan for the purchase of the first house. Personal housing provident fund loan for the purchase of a third or more houses by housing provident fund-paying families shall be suspended.

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## LAWS AND REGULATIONS

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On January 26, 2011, the State Council further issued the Notice of the State Council on Issues relating to Further Well Managing the Central Control of the 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》) which specifies that:

- (i) individuals who resell a residential property within five years of purchase would be subject to a business tax on the proceeds from the resale;
- (ii) if a property developer fails to obtain the relevant construction permits and fails to commence construction within two years from the designation of land for property development, the relevant land use rights granted would be forfeited and an idle land penalty would be imposed;
- (iii) transfer of land and property development projects is prohibited if the amount of property development investment (excluding the land premium) incurred is less than 25% of the total investment amount in respect of the project;
- (iv) in the cities where the real estate market price is under rapidly growth, families holding local residency and owning two or more residential properties and families holding non-local residency and owning at least one residential property or who cannot provide a local tax payment certificate or a social security certificate are prohibited from purchasing additional residential properties in the local district.

In connection with the said Notice issued by the State Council on January 26, 2011, various municipal governments have promulgated measures to further control the property markets in their respective cities which include:

### *Beijing*

On February 15, 2011, the Beijing Municipal Government issued the Notice on Implementation of the Spirit of the State Counsel's Rules and Further Intense the City's Real Estate Market Control Work (《北京市人民政府辦公廳關於貫徹落實國務院辦公廳文件精神進一步加強本市房地產市場調控工作的通知》), under which the properties are not allowed to sell to the Beijing households who have already purchased two or more residential properties or non-Beijing households who have already purchased one or more residential property or non-Beijing households without a valid temporary living permit and a local tax payment certificate or social security certificate for over 5 consecutive years (including 5 years).

### *Taiyuan*

On January 11, 2011, the Taiyuan Municipal Government issued Several Measures on Further Implementation of Real Estate Central Control Policies and Help the Stable and Health Growth of the Real Estate Market (《太原市人民政府關於進一步貫徹落實房地產宏觀調控政策促進房地產市場平穩健康發展的若干意見》), under which each household is allowed to purchase only one new residential properties in the six downtown area of the city after the effective of the rules. Besides, the commercial banks are required to stop grant loans to those

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## LAWS AND REGULATIONS

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households who purchase their third or more houses or those non-Taiyuan residents without a local tax payment certificate or social security payment certificate for more than one year. For purchase with loans, the minimum down payment in respect of mortgage loans on purchase of first residential properties is 30% of the purchase price and of the second residential properties is 50% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate.

On February 19, 2011, the Taiyuan Municipal Government further issued Taiyuan Municipal Government's Opinion on Further Conduct the Real Estate Market Control Work (《太原市人民政府關於進一步做好房地產市場調控工作的意見》), which further increased the minimum down payment for purchasing second residential properties to 60% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate. No properties situated in the six areas under the administration of the city are allowed to sell to Taiyuan resident households who have already purchased two or more residential properties in the six area under the administration of the city or non-Taiyuan resident households who have already purchased one or more residential properties in the six area under the administration of the city or non-Taiyuan resident households who are not able to provide a local tax payment certificate or social security certificate for more than one year.

### *Nanchang*

On January 20, 2011, the Nanchang Municipal Government Issued the Notice on Further Implementation of the Supplemental Opinions on Central Real Estate Control Policies and Help the Stable and Health Growth of the Real Estate Market (《關於進一步貫徹落實國家宏觀調控政策促進房地產市場平穩健康有序發展的補充意見的通知》), under which each household is allowed to purchase only one new residential properties in the five downtown area of the city since February 1, 2011.

On February 20, 2011, Nanchang Municipal Government further issued Opinions on Nanchang Municipal's Implementation of State Counsel's Notice on Further Conduct Real Estate Market Control Work (《南昌市貫徹落實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的意見》), under which the minimum down payment in respect of mortgage loans on purchase of the second residential properties is 60% of the purchase price and the applicable mortgage rate must be at least 1.1 times the relevant benchmark lending rate. In addition, properties are not allowed to sell to the Nanchang resident household who have already purchased two or more residential properties or non-Nanchang resident households who have purchased one or more residential properties or non-Nanchang resident households who are not able to provide a local tax payment certificate or social security certificate for more than one year.

### *Wuhan*

On February 21, 2011, the Wuhan Municipal Government issued Notice on the Issues Relating to the Municipal Real Estate Bureau Adjust the City's Property Purchase Restriction Polices (《市房管局關於調整我市住房限購政策有關問題的通知》), according to which the

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## LAWS AND REGULATIONS

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Wuhan resident households who have already purchased one residential property, non-Wuhan resident who are able to provide one year's tax payment and social security payment are allowed to purchase only one residential property. No properties are allowed to sell to Wuhan resident households who have already purchased two or more residential properties or non-Wuhan resident households who have already purchased one or more residential properties or who are not able to provide the one year's local tax payment or social security payment certificate.

### *Changsha*

On March 4, 2011, Changsha Municipal Government issued Notice on Further Intense the Real Estate Market Administration (《關於進一步加強房地產市場管理有關問題的通知》), under which Changsha resident households who have already purchased one residential property in the prime area of the city, non-Changsha resident households who have not purchased any residential property in the prime area of the city and can also provide city living permit are allowed to purchase only one residential property with the GFA below 90 sq.m. in the prime area of the city. No properties are allowed to sell to Changsha resident households who have already purchased two residential properties situated in downtown area (the five areas under the administration of the city) or non-Changsha resident households who have already purchased one residential properties situated in downtown area (the five areas under the administration of the city) or who are not able to provide the living permit.

On January 27, 2011, the MOF and the SAT issued 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》) pursuant to which prescribed business tax is charged at a higher scale on residential housing which is sold within five years of purchase; while a lower scale is charged to residential housing which is sold beyond five years of purchase (including the fifth year).

On February 5, 2011, the MLR issued the Notice on Implementation Measures on Urban Housing Land Management and Regulation in 2011 (《關於切實做好2011年城市住房用地管理和調控重點工作的通知》) which requires that 10 million units of affordable housing units shall be developed in 2011. It also requires that not less than 70% of land supply shall be restricted for the development of affordable housing units, redevelopment of squatter areas and small and medium-sized commercial housing units and the target total supply of urban housing land shall not be lower than the annual average supply for the preceding two years. The land allocated by local governments for the development of commercial housing units shall not exceed a certain area and shall not be allocated together with another plot of land. The plot ratio of a land for housing development shall not be less than one. No registration of land shall be accepted if the investment of a real estate development project (exclusive of land premium) is less than 25% of the value of the project. Lands sold through auction at prices exceeding 50% of the base prices or the total prices or unit prices hit the record high shall be promptly reported to the provincial offices of the MLR vide the Schedule of Abnormal Land Transactions (房地產用地交易異常情況一覽表) with explanatory notes giving reason for the abnormality. The provincial offices of the Ministry of Land and Resources shall conduct interviews with the buyers. The interview may also be attended by representatives from the MLR if it thinks necessary.

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## LAWS AND REGULATIONS

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On March 8, 2011, CBRC issued the Notice of the General Office of China Banking Regulatory Commission on Doing a Good Job in Housing Financial Services and Strengthening Risk Management (《中國銀監會辦公廳關於做好住房金融服務加強風險管理的通知》), which emphasize that banks and financial institutions shall strictly observe the Notice of the State Council on Issues relating to Further Well Managing the Central Control of the Real Estate Market, when handling the individual housing loan business, strictly observe the provision that “the down payment for families that purchase a second housing unit with loans shall not be less than 60%, and the loan rate shall not be less than 1.1 times the benchmark rate”, and cooperate with the relevant departments in strictly implementing the purchase restriction policies of the local governments and do well in the communication and interpretation work.

On March 16, 2011, NDRC promulgated the Regulation on Price of Commodity Property (《商品房銷售明碼標價規定》), which took effect on May 1, 2011. According to the regulation, property developers are required to make public the sale price of each of apartment of the commodity properties for sale or pre-sale and the number of apartments available for sale or pre-sale within a certain time period. Property developers are also required to state factors that would affect housing prices and relative charges before the property transaction, such as commission fee and property management fee. No additional charge beyond what is stated in the price tag or made public by the property developers is permitted.

On February 26, 2013, the State Council issued the Notice of the State Council on Continuity to Well Manage the Central Control Work of the Real Estate Market (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》) which stipulates:

- (i) Improve the mechanism of work responsibility of stability of the real estate price, measures including requiring the relevant departments under the State Council to strengthen the supervision and inspection of the stability of prices. The provincial people’s government shall conduct interviews if local governments in its jurisdiction fail to implement housing purchase restrictions.
- (ii) Stick to suppress the investment purchasers, measures including continuing to implement and improve the purchase restriction measures; using the effect of tax to adjust the real estate price, the tax bureau and housing construction departments shall closely coordinate and shall levy individual income tax at a tax rate of 20% according to the regulations.
- (iii) Increase the land supply for residential commercial properties, measures including that the total land supply for residential land in 2013 in principle shall be no less than the average land supply in the past five years.
- (iv) Accelerate the planning and construction of affordable housing project. Fully implement the task of basically built of 4.7 million units, new construction of 6.3 million sets of affordable housing projects in 2013.

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## LAWS AND REGULATIONS

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- (v) Improve the market supervision and anticipation management. Strengthen the administration on the credibility of real estate development enterprises; To study the establishment of shared credit management system among housing and urban construction, development and reform, land and natural resources, finance, taxation, industry and commerce, statistics and other departmental, timely records, released the illegal behavior of the real estate enterprises. If real estate enterprises conduct activities or have idle land, land speculation, keep the properties out of markets, drive up prices and other illegal acts, the relevant departments shall establish a linkage mechanism and intensify punishment. The land and resources department shall prohibit the enterprise from participating in land bidding, the banking financial institutions shall not grant new loans for development projects, the securities regulatory authorities shall suspend the approval of its listing, refinancing or significant asset restructuring and the banking supervision departments shall prohibit the enterprises from financing through trust scheme, etc.

On March 30, 2013, Beijing Government Office issued a Notice on Implementation of Notice of the State Council on Continuity to Well Manage the Central Control Work of the Real Estate Market and Further Improve the Work of Control Beijing Real Estate Market (《北京市人民政府辦公廳貫徹落實《國務院辦公廳關於繼續做好房地產市場調控工作的通知》精神進一步做好本市房地產市場調控工作的通知》). Pursuant to this notice, Beijing will continue to strictly implement the restriction on real estate properties purchase measures. Starting from the next day of the issuance of this notice, each of Beijing Residents who is single is allowed to purchase one properties if he/she has not purchased any properties and is prohibited from purchasing another properties if he/she already owns properties. In addition, for the individual income tax levied on individuals, if the original purchase price can be verified through the registration information in tax authority or house administration authority, the individual transferor shall be strictly subject to individual income at the tax rate of 20%. If original purchase price is not able to be verified, individual income tax shall be subject to the approved levy methods. For individuals transfer properties which the families lived in for more than 5 years and are the sole property for the whole family, the individual income tax shall continue to be exempt.

### REGULATIONS ON TAXATION

#### Enterprise Income Tax

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the “EIT Law”) effective from January 1, 2008, and its Implementation Rules, domestic enterprises and foreign owned enterprises are subject to the same enterprise income tax rate of 25%.

Moreover, under the new EIT Law, enterprises organized under the laws of jurisdictions outside China with their “de facto management bodies” located within China may be considered PRC resident enterprises and therefore subject to PRC enterprise income tax at the rate of 25% on their worldwide income. The Implementing Rules define the term “de facto management body” as the management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise.

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## LAWS AND REGULATIONS

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### **Dividend Withholding Tax**

Pursuant to the new EIT Law and its Implementing Rules which are effective as of January 1, 2008, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise to its foreign investors will be subject to a 10% withholding tax if the foreign investors are considered as non-resident enterprises without any establishment or place within China or if the dividends payable have no connection with the establishment or place of the foreign investors within China, unless any such foreign investor's jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

According to the Arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion in August 2006, or the Mainland and the Hong Kong Taxation Arrangement (《內地和香港特別行政區關於對所得規避雙重徵稅和防止偷漏稅的安排》), dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5% (if the foreign investor owns directly at least 25% interest in the foreign-invested enterprise). On August 24, 2009, the State Administration of Taxation released the Administrative Measures for Non-Residents Enjoying Tax Treaty Benefits (Trial Implementation) (《關於印發非居民享受稅收協定待遇管理辦法(試行)的通知》), or the Measures, which took effect on October 1, 2009. Under the Measures, our Hong Kong subsidiary needs to obtain approval from the competent branch of the State Administration of Taxation in order to enjoy the preferential withholding tax rate of 5% in accordance with the Mainland and the Hong Kong Taxation Arrangement. In addition, the State Administration of Taxation promulgated the Notice of the State Administration of Taxation on How to Understand and Determine "Beneficial Owner" in Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》) or Circular 601 on October 27, 2009, which provides that tax treaty benefits will be denied to "conduit" or shell companies without substantial business activities, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits.

We have complied and will continue to comply with all relevant withholding tax regulations in the PRC.

### **Prepay Enterprise Income Tax**

On April 11, 2008, the State Administration of Taxation issued the Notice of the Prepayment of Enterprise Income Tax of the Real Estate Development Enterprises (《關於房地產開發企業所得稅預繳問題的通知》), requiring the real estate developers to prepay enterprise income tax by quarter (or month) according to the current actual profit. Under the Notice, for the incomes generated from the pre-sale before completion of the construction of the properties for residence or commerce use or other kinds, the tax prepayment thereof shall be paid upon calculation of the estimated quarterly or monthly profit according to the preset estimated profit rate, which shall be readjusted according to the actual profit after the completion of the construction of the buildings and settlement of the taxable cost.



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## LAWS AND REGULATIONS

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### Deed Tax

Under the PRC Provisional Regulations on Deed Tax (《中華人民共和國契稅暫行條例》) of 1997, a deed tax is chargeable to transferees of land use rights and/or ownership in real properties within the territory of China. The deed tax rate is between 3% to 5% subject to determination by local governments at the provincial level in light of local conditions.

### Business Tax

Pursuant to the Interim Regulations of the People's Republic of China on Business Tax (《中華人民共和國營業稅暫行條例》) enacted by the State Council on November 10, 2008 and enforced on September 1, 2009 and its Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax (《中華人民共和國營業稅暫行條例實施細則》) issued by the Ministry of Finance and State Administration of Taxation on December 15, 2008, the tax rate on transfer of immovable properties is 5%.

The Ministry of Finance and the State Administration of Taxation promulgated the Pilot Proposals for levying the VAT in Lieu of Business Tax (營業稅改徵增值稅試點方案) on November 16, 2011 and the Pilot Work of Levying VAT in Lieu of Business Tax in the Transportation Industry and Some Modern Service Industries in Beijing and Other Seven Provinces and Cities (財政部、國家稅務總局關於在北京等8省市開展交通運輸業和部分現代服務業營業稅改徵增值稅試點的通知) on July 31, 2012. Pursuant to the Pilot Proposals, since January 1, 2012, certain economic regions are selected as pilot areas to carry out the change from business tax to VAT for productive services industries such as transportation and part of the modern service industries. Since August 1, 2012, the selected pilot areas have been extended from Shanghai, by phases, to cover Beijing City, Tianjin City, Jiangsu Province, Anhui Province, Zhejiang Province (including Ningbo), Fujian Province (including Xiamen), Hubei Province and Guangdong Province (including Shenzhen). Our Directors expect the pilot proposals will not materially impact our Group's business.

### Land Appreciation Tax

Under the Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) of 1994 and its implementing rules of 1995, the LAT applies to both domestic and foreign investors in real properties in mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting certain "deductible items" that include the following:

- (i) payment made to acquire land use rights;
- (ii) costs and charges incurred in connection with land development;
- (iii) construction costs and charges in the case of newly constructed buildings and facilities;

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## LAWS AND REGULATIONS

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- (iv) assessed value in the case of old buildings and facilities;
- (v) taxes paid or payable in connection with the transfer of land use rights, buildings or other facilities on such land; and
- (vi) other items allowed by the Ministry of Finance.

Land appreciation tax shall be subject to a regime of four level progressive rates: 30% on the appreciation amount not exceeding 50% of the sum of deductible items; 40% on the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% on the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% on the appreciation amount exceeding 200% of the sum of deductible items.

On December 28, 2006, the State Bureau of Taxation promulgated the Notice of the State Administration of Taxation on the relevant Issues Concerning the Settlement Management of Land Appreciation Tax on Real Estate Enterprises (《關於房地產開發企業土地增值稅清算管理有關問題的通知》), effective beginning February 1, 2007. According to the Notice, the LAT assessment amount shall be derived from the entire value of the real estate development project if the project was approved by the relevant authority as a unit; and for a project developed in stages, the LAT assessment amount shall be derived from the value of each individual stage of the project.

A taxpayer should pay the LAT if one of the following circumstances occurs:

- (i) a construction project has been completed and its commodity houses sold;
- (ii) an uncompleted real estate development project is transferred; or
- (iii) a direct transfer a land use right.

The tax authority may require the taxpayer to pay the LAT in one of the following circumstances:

- (i) the floor area of the real estate sold is in excess of 85% of the saleable GFA of the entire project or, if the proportion is less than 85%, the residual saleable floor area has been leased out or is held for self-use;
- (ii) the Pre-sale Permit has been held for three years, but the commodity houses of the project still have not been sold;
- (iii) the taxpayer applies for cancellation of tax registration but has yet to carry out the procedures for the LAT settlement; or
- (iv) others circumstances provided by tax authorities at the provincial level.

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## LAWS AND REGULATIONS

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On May 25, 2010, the State Administration of Taxation promulgated the Notice on Strengthening the Levy and Administration of Land Appreciation Tax (《關於加強土地增值稅徵管工作的通知》) to impose further requirements on the collection of LAT. This notice provides that, except for social security housing, the minimum LAT prepayment rate shall be no less than 2% for properties in East China, no less than 1.5% for properties in Central or Northeast China and no less than 1% for properties in West China. The LAT prepayment rate shall be determined by the local authorities based on different property types in the locality.

### **Urban Land Use Tax**

Pursuant to the Provisional Regulations of the PRC on Urban Land Use Tax (《中華人民共和國城鎮土地使用稅暫行條例》) promulgated by the State Council in September 1988, urban land use tax is levied according to the area of the urban land plot and the annual tax rate on urban land was set at between RMB0.2 and RMB10 per sq.m.. On December 31, 2006, the Provisional Regulations of the PRC on Urban Land Use Tax were amended by the State Council. As of January 1, 2007, on the basis of the amended regulations, the urban land use tax is charged at a rate three times higher than the previous rate and foreign invested enterprises are no longer exempt.

### **Building Tax**

Under the Provisional Regulations of the PRC on Buildings Tax (《中華人民共和國房產稅暫行條例》) promulgated by the State Council in September 1986, building tax applicable to domestic enterprises is 1.2% if it is calculated on the basis of the residual value of a building and 12% if it is calculated on the basis of the value of a rental lease.

### **Stamp Duty**

Under the Provisional Regulations of the PRC on Stamp Duty (《中華人民共和國印花稅暫行條例》) promulgated by the State Council in August 1988 applying to building property transfer instruments, including property ownership transfer instruments, the duty rate is 0.05% of the amount stated therein. For permits and certificates relating to rights, including Property Ownership Certificates and Land Use Rights Certificates, stamp duty is levied on an item-by-item basis at a rate of RMB5 per item.

### **Municipal Maintenance Tax**

Under the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax (《中華人民共和國城市維護建設稅暫行條例》) enacted by the State Council on February 8, 1985, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county and a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

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## LAWS AND REGULATIONS

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### **Education Surcharge**

Under the Interim Provisions on Imposition of Education Surcharge (《徵收教育費附加的暫行規定》) enacted by the State Council on April 28, 1986 and revised on June 7, 1990 and August 20, 2005, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas (《國務院關於籌措農村學校辦學經費的通知》).

### **Regulations on Offshore Investment by PRC Residents**

Pursuant to the State Administration of Foreign Exchange's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), generally known in China as State Administration of Foreign Exchange Circular No. 75, issued on October 21, 2005, (i) a PRC citizen residing in the PRC shall register with the local branch of the State Administration of Foreign Exchange before it establishes or controls an overseas special purpose company, for the purpose of overseas equity financing (including convertible debts financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an overseas special purpose company, or engages in overseas financing after contributing assets or equity interests into a special purpose company, such PRC resident shall register his or her interest in the special purpose company and the change thereof with the local branch of the State Administration of Foreign Exchange; and (iii) when the special purpose company undergoes a material event outside of China, such as change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of the State Administration of Foreign Exchange.

### **Regulations on Environment Protection**

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

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## LAWS AND REGULATIONS

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### REGULATION ON LABORS

#### Labor Laws

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》) promulgated on July 5, 1994 and amended on August 27, 2009 and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) promulgated on June 29, 2007 and effective on January 1, 2008, if an employment relationship is established between an entity and its employees, written labor contracts shall be signed. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the State on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

#### Social Security Laws

Under applicable PRC laws, rules and regulations, including the Interim Measures Concerning the Maternity Insurance of Enterprises Employees (《企業職工生育保險試行辦法》) which became effective on January 1, 1995, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》) promulgated and became effective on January 22, 1999, The Regulation on Work-Related Injury Insurance (《工傷保險條例》), which was promulgated on January 1, 2004 and amended on December 20, 2010, and the Regulations on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) promulgated on April 3, 1999 and amended on March 24, 2002, employers are required to make contributions to the basic pension insurance fund, unemployment insurance, basic medical insurance fund, work-related injury insurance fund, maternity leave insurance fund and housing accumulation funds for their employees.

On October 28, 2010, the Social Security Law of the People's Republic of China (《中華人民共和國社會保險法》) (the "Social Security Law") was passed during the 11th session of the Standing Committee of the National People's Congress of China and took effect as of July 1, 2011. The Social Security Law is the first comprehensive law in China to address social securities and related administrative issues. In addition to consolidating various existing social security rules and regulations, the Social Security Law also introduces some new provisions and policies. Key provisions of the Social Security Law are as follows:

- (i) The Social Security Law allows for an employee to transfer his or her pension, basic medical and unemployment insurance relationships with him or her when the individual decides to move to another city to take up new employment, which was not possible in the past.
- (ii) If the employer fails to make social security registration and refuses to rectify within the ordered time limits, in addition to a standard penalty of anywhere between RMB500 to RMB3,000 imposed directly on the responsible persons which are directly in charge and involved, the employer will also be subject to a penalty which is calculated based on one to three times of the outstanding social security contributions.

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## **LAWS AND REGULATIONS**

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### **LAWS AND REGULATIONS PERTAINING TO REAL PROPERTY LOCATED IN THE U.S.**

We are subject to numerous local, state, federal and other laws, statutes, ordinances, rules and regulations concerning various matters which may affect our business including, but not limited to, zoning, development, building design, construction and similar matters which impose restrictive zoning, density or other development requirements. Specifically, principal current land use regulations that apply in the jurisdictions in which our property is located (Pearland, Texas and situated partially in Harris County and Brazoria County, Texas) are set out below.

#### **Zoning**

Our property is subject to the zoning ordinances of the City of Pearland, Texas. Our property is currently zoned according to the Water Lights District Planned Development created under City Ordinance No. 2000M-47 which has become inactive due to the prior owner's failure to submit a site development plan for approval by the City of Pearland within two years from the effective date of the establishment of the planned development district. Prior to commencing any development on our property, we would need to apply to the City of Pearland to have our property rezoned so that it may be developed for its ultimate intended purpose. There is no assurance that the City of Pearland would approve the intended use, and the process can be costly and lengthy, and may be opposed by community groups or members of the public. Nevertheless, we currently do not expect any major difficulty in obtaining necessary approval for rezoning and the intended use of the land in the U.S.

#### **Subdivision**

Our property is also subject to state and local laws and regulations that require separately owned parcels of land to be subdivided as platted lots and comply with various development regulations to ensure that each lot is properly configured and has the proper street access, drainage, utility connections and other infrastructure.

#### **Utilities**

There are laws and regulations regarding the availability and delivery of water, wastewater, electricity, gas, telecommunications and other utility service to the property.

#### **Development impact**

Certain laws and regulations may require the owner of real property to pay impact fees or provide public improvements to mitigate the adverse effects of new development on the existing streets, parks, schools and other public facilities.

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## LAWS AND REGULATIONS

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### **Minerals**

In Texas, the mineral estate can be severed from the surface estate to create two separate estates that each has its own rights of use and disposition. If severed, the mineral estate owners' rights are dominant to the rights of the surface estate absent a waiver of surface rights in the conveyance document. The mineral estate has been severed from the surface estate for our property in Pearland, Texas. Although we own the surface of the property, we do not own any rights to minerals beneath the property. Our ability to develop the surface of the property is not affected by the fact that the surface estate has been severed from the mineral estate because the conveyance documents all contain a waiver of surface rights. Accordingly, the third party mineral interest owners are not entitled to access the surface of the property; however, such third parties may extract minerals under the property from locations adjacent to the property.

### **Fire and safety requirements**

We will also be subject to certain state and local fire and safety requirements. We must obtain licenses, permits and approvals from various governmental agencies for any development activities.

### **Ad valorem and other taxes**

Currently, our subject property will be subject to ad valorem taxes which include taxes on the fair market value of the property as determined by a special appraisal district, payable annually and which are applicable to both real property and personal property owned by and used in connection with the business. Ad valorem taxes may increase or decrease as tax rates change and as our subject property is assessed and reassessed by the applicable taxing authorities. Until disposition of the property or the occurrence of any other taxable event, there is currently no additional annual tax associated with the appreciation in value of the property. Our property may also be subject to fees and taxes payable to city, county, local or other quasi-governmental entities including certain Municipal Utility Districts in the State of Texas which provide infrastructure services to the property. As the owner of this property, we will be ultimately responsible for the payment of all taxes and fees to the applicable government authorities. Upon disposition or sale of the property we may be subject to U.S. income taxation to the extent we have an overall gain in relation to all other income or loss from taxable events during the year of disposition. The Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) imposes a withholding requirement on purchasers who acquire U.S. property from foreign sellers. If we are determined to be a foreign seller (as defined under FIRPTA) the purchaser of our property must withhold a statutorily determined dollar amount from the purchase price for the payment of U.S. income taxes. We may also be subject to an annual franchise tax imposed on each taxable entity organized or doing business in the state of Texas. However, all taxes are subject to change from year to year depending on changes in federal and state tax laws.

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## **LAWS AND REGULATIONS**

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### **Health and environment**

We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. We must comply with laws regulating the release of hazardous substances and other emissions into the air, soil and water including, among other things, air emissions, wastewater discharges and the handling and disposal of wastes. We must also comply with laws governing the protection of endangered or threatened species and other environmental laws that may limit or prevent development in certain environmentally sensitive areas. We must comply with any flood plain restrictions, native plant regulations, protection of endangered species, cultural resource protections and view restrictions. We may be subject to environmentally sensitive land ordinances that mandate open space areas with public elements in any development and prevent development on hillsides, wetlands or other protected areas.

### **Contamination and damage**

Pursuant to federal, state and local environmental laws and regulations, we may be required to investigate, remove and/or remediate a release of hazardous substances or other regulated materials at, or emanating from, our property. Under certain circumstances, we may be held liable for property damage, personal injury and/or natural resource damage resulting from or arising in connection with such releases. Certain of these laws have been interpreted to lead to joint and several liability unless the harm is divisible and there is a reasonable basis for allocation of responsibility. We may also be liable under certain laws for contamination and damage that occurred prior to our ownership of our property. Such laws often impose liability regardless of whether we knew, or were responsible for, the presence of the hazardous materials or toxic substances that caused the contamination.

### **Energy efficiency standards**

Additionally, there are a variety of new legal requirements being enacted, or considered for enactment, at the federal, state and local levels relating to energy and climate change. These requirements relate to items such as carbon dioxide emissions control and building codes that impose energy efficiency standards. New building code requirements that impose stricter energy efficiency standards could significantly increase our cost to develop our property.

### **Americans with Disabilities Act**

We are also required to comply with the provisions of the Americans with Disabilities Act. This act requires places of public accommodation to meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants.



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## **LAWS AND REGULATIONS**

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### **Fair Housing Amendment Act of 1988**

We are also subject to the Fair Housing Amendment Act of 1988. This law, its state law counterparts and regulations promulgated by the U.S. Department of Housing and Urban Development and various state agencies prohibit the discrimination in housing on the basis of race or color, national origin, religion, sex, familial status (including children under the age of 18 living with parents or legal custodians, pregnant women and people securing custody of children under the age of 18) or disability and, in some states, financial capability.

### **Housing programs offered by federal and state government agencies**

We may also be subject to additional federal and state laws and regulations administered by numerous federal and state government agencies. These include eligibility and other requirements for participation in programs offered by the Federal Housing Administration, the Department of Veteran Affairs, Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and the United States Department of Agriculture (USDA). These laws and regulations require compliance with consumer lending laws and other regulations governing disclosure requirements, prohibitions against discrimination and real estate settlement provisions. These laws would subject our operations to examination by the applicable agencies.

### **Laws regarding shareholder and member liability**

We have formed a number of subsidiaries in the United States in connection with our existing and possible future operations there. Some of our United States subsidiaries are a form of business organization known as a “limited liability company,” and others are a form of business organization known as a “corporation.” These limited liability company and corporation subsidiaries are organized under the laws of the State of Delaware or the State of Texas. Generally, the owner of an equity interest in a limited liability company or a corporation is not directly personally liable for the liabilities of the limited liability company or corporation beyond the value of the owner’s investment in such limited liability company or corporation. However, in certain circumstances, the owner may be held directly personally liable. These include instances of fraudulent or reckless behavior by the owner, the undercapitalization or flagrant disregard for the operations and governance formalities of the limited liability company or the corporation, or a violation of law by the owner or limited liability company or corporation, in connection with the business or operations of the limited liability company or corporation.