
REGULATORY OVERVIEW

OVERVIEW

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 suburban areas are, unless otherwise specified by law, collectively owned. The State has the right to resume its ownership of land or of land use rights in accordance with law if required for the public interest, but must pay compensation to do so.

Although all land in the PRC is owned by the State or by collectives, individuals and entities may obtain land use rights for development purposes. Individuals and entities may acquire land use rights from land granted by local land authorities and land transferred by land users who have already obtained land use rights.

LAND GRANTS

National and Local Legislation

On April 12, 1988, the National People's Congress (the "NPC") passed an amendment to the Constitution of the PRC. The amendment allowed the transfer of land use rights for consideration in accordance with law. In December 1988, the Standing Committee of the NPC also amended the Land Administration Law of the PRC (《中華人民共和國土地管理法》) to permit the transfer of land use rights for consideration.

On May 19, 1990, the State Council (國務院) enacted the Provisional Regulations of the PRC Concerning the Grant and Assignment of the Right to Use State-Owned Land in Urban Areas (《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》). These regulations, generally referred to as the Urban Land Regulations, formalized the process of granting and transferring land use rights for consideration. Under this system, the State retains ultimate ownership of land in urban areas. However, the right to use certain land, referred to as land use rights, can be granted by the State and local governments at or above the county level for up to 70 years, depending on the specific uses, pursuant to a land grant contract and upon payment to the State of a premium for the grant of these land use rights.

The Urban Land Regulations prescribe different maximum durations of land use rights for different purposes as follows:

<u>Use of land</u>	<u>Maximum duration</u>
	(Years)
Commercial, tourism, entertainment.	40
Residential.	70
Industrial.	50
Educational, scientific, cultural, public health and sports.	50
Comprehensive utilization or others.	50

REGULATORY OVERVIEW

Under the Urban Land Regulations, domestic and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The State may not resume possession of lawfully granted land use rights before the grant term expires. Should the public interest require the resumption of possession by the State under special circumstances during the grant term, compensation shall be paid by the State, based on how long the land user has used the land, and on the extent to which the land has been developed and used. A holder of land use rights may, during the grant term, transfer, lease, mortgage or use the land for other economic activities.

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

On May 24, 2006, the General Office of the State Council further issued the Notice on Forwarding Opinions of the Ministry of Construction and Other Departments on Adjusting the Housing Supply Structure and Stabilizing Housing 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). The notice provides, among other things, for the following broad directives: (i) to encourage mass-market residential developments and curb the development of low-density, large-sized residential properties; (ii) to enforce the collection of the 5% business tax on property sales (business taxes will be levied on the entire sale price of any house sold within five years, or on the profit arising from any property sold after five years subject to possible exemptions for ordinary residential properties) by individual; (iii) to restrict personal housing mortgage loans to less than 70% of the total property price (for houses purchased for self-residential purposes and with an area of less than 90 sq.m., the owners are still permitted to apply for a housing mortgage of up to 80% of the total property price); (iv) to stop supplying land for villa projects and restrict the land supply for large-sized, low-density residential projects; (v) to moderate the progress and scale of demolition of old properties for re-development; (vi) to require local governments to ensure that at least 70% of the total development and construction area consists of units not exceeding 90 sq.m. (with any exceptions requiring the approval of the Ministry of Construction); and (vii) to prevent banks from providing loans to any property developer whose total capital fund is less than 35% of the total investment amount in an intended development project. Pursuant to this notice, local governments were required to adopt plans, no later than September 2006, for developing low-to mid-priced and small- to medium-sized properties to meet demand from owner-occupiers. This notice stipulates that beginning June 1, 2006, there would be a minimum down payment of 30% of the total purchase price for residential units with a floor area exceeding 90 sq.m. on all existing units and those yet to be completed, and a minimum down payment of 20% on residential units for occupation by the owner with a floor area under 90 sq.m. The notice requires that at least 70% of the residential units in residential housing projects approved or commenced after June 1, 2006 be not exceeding 90 sq.m. The notice continues to prohibit land provision for houses and to restrict land provision for the development of low-density and large-sized residential properties.

REGULATORY OVERVIEW

On June 13, 2006, the General Office of the State Council issued the Notice on Further Regulating and Controlling Investment in Fixed Assets and Strictly Controlling the Number of New Projects (國務院辦公廳關於轉發發展改革委等部門關於加強固定資產投資調控從嚴控制新開工項目意見的通知). The notice provides for (i) clearing and rectifying all new projects; (ii) strictly examining all planning projects by strengthening the supervision and examination of, among others, the implementation of industry policies, development plans, market access requirements and construction procedures across the country; and (iii) strictly controlling loans provided for infrastructure.

On July 6, 2006, the Ministry of Construction promulgated Certain Opinions Regarding the Implementation of 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) (the “**New Opinions**”). The New Opinions 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 that 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 property.

On July 13, 2006, the General Office of the State Council issued the Notice Regarding Relevant Matters on Establishing the State Land Supervision System (國務院辦公廳關於建立國家土地督察制度有關問題的通知). In accordance with this notice, the Ministry of Land and Resources established the State Land Supervision General Office (國家土地總督察辦公室) and sent its local counterpart, the State Land Supervision Bureau (國家土地督察局), to strengthen the supervision and management of land, and to manage the land as strictly as possible.

On August 31, 2006, the State Council issued the Notice Regarding Relevant Matters on Strengthening the Control of Land (國務院關於加強土地調控有關問題的通知) in order to mitigate the excessive increase in the aggregate amount of construction land, the excessive expansion of low-cost industrial land, the illegal use of land, and the abusive occupation of cultivated land. The notice implements the following major measures: (i) adjusting land approval measures for urban construction in accordance with the principle of sharing both rights and responsibilities; (ii) requiring that the social security fee for the land expropriated from farmers be guaranteed before the expropriation of land is approved; (iii) the total amount of money from the sale of State-owned land use rights shall be fully accounted for in the local budget and deposited into the local government treasury, and the “line of income and expenditure” shall be determined separately; (iv) raising the land use rights fee for newly added construction land, the urban land use tax, and the rural cultivated land use tax; (v) the State shall formulate and promulgate a unified minimum standard for granting industrial land across the country, and industrial land being granted by tender, auction or a bidding process; and (vi) prohibiting the conversion of agricultural land into construction land “in the name of leasing while actually expropriating”.

On November 7, 2006, the Ministry of Finance, the Ministry of Land and Resources, and the PBOC issued the Notice Regarding Relevant Matters on Adjusting the Land Use Fee Policy for Newly Created Construction Land (財政部、國土資源部、中國人民銀行關於調整新增建設用地土地有償使用費政策等問題的通知). The notice requires the land use fee on newly created construction land to be doubled beginning January 1, 2007.

REGULATORY OVERVIEW

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

On December 30, 2007, the General Office of the State Council issued the Notice on the Strict Implementation of the Laws and Policies Regarding Rural Collective Construction Land (國務院辦公廳關於嚴格執行有關農村集體建設用地法律和政策的通知). This notice states that residential land in rural areas shall be allocated only to residents of the relevant village residing in the area, and that no urban inhabitants shall be permitted to purchase any homesteads, peasants' dwellings or "houses with limited property rights" in rural areas. No organization or individual shall be permitted to illegally rent or occupy any land collectively owned by peasants for the development of real estate.

On February 7, 2008, the State Council issued the Land Investigation Regulations (Order No. 518 of the State Council of the PRC) (《土地調查條例(中華人民共和國國務院令第518號)》). This regulation provides that a nationwide land investigation shall be carried out every ten years and that a land status alteration investigation shall be carried out each year by a competent State land and resources department at the county level or above, and that these investigations shall be conducted in collaboration with the relevant departments at the same level of government. The regulation also specifies the requirements that a government department must meet in order to conduct the investigations. The regulation specifies that the purpose of land investigations is to determine what land resources are available and their utilization status.

On January 7, 2010, the General Office of the State Council issued the Notice on Promoting the Steady and Healthy Development of the Real Estate Market (國務院辦公廳關於促進房地產市場平穩健康發展的通知), which, among other things, provides that land resource authorities shall increase their supervision and shall:

- effectively increase the supply of social welfare housing and ordinary commodity residential properties, particularly low- and medium-priced and small- and medium-sized ordinary commodity residential properties;
- direct consumers to make reasonable purchases of residential properties and discourage investment and speculation in the housing market;
- strengthen market supervision and credit risk management for real estate projects;

REGULATORY OVERVIEW

- speed up the construction of social welfare housing projects; and
- carry out the responsibilities of provincial and local governments.

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

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

On September 21, 2010, the Ministry of Land and Resources and the Ministry of Housing and Urban-Rural Development (住房和城鄉建設部, “MOHURD”) jointly promulgated the Notice on Further Strengthening the Control and Regulation of Land and Construction of Property Developments (關於進一步加強房地產用地和建設管理調控的通知), which stipulates, among other things, that (i) at least 70% of land designated for the construction of urban housing must be used for social welfare housing, housing for the resettlement of shanty towns, and small- to medium-sized ordinary commodity housing; in areas with high housing prices, the supply of land designated for small- to medium-sized, price-capped housing must be increased; (ii) developers and their controlling shareholders are prohibited from participating in bidding processes before the rectification of certain misconduct, including (1) the illegal transfer of land use rights; (2) the failure to commence required construction within one year of the delivery of land under a land grant contract for reasons within the developer’s own control; (3) non-compliance with land development requirements specified in land grant contracts; and (4) crimes such as obtaining land by forging official documents and illegally speculating on land; (iii) developers are required to commence construction within one year of the date of delivery of the land under the relevant land grant contract, and complete construction within three years of commencement; (iv) development and construction of projects of low-density and large-sized housing must be strictly limited, and the plot ratio of the planned GFA to the total site area of residential projects must be more than 1:1; and (v) the grant of two or more bundled parcels of land and undeveloped land is prohibited.

REGULATORY OVERVIEW

On December 19, 2010, the Ministry of Land and Resources promulgated the Notice on the Strict Implementation of Policies Regarding the Regulation and Control of Real Property and the Promotion of the Healthy Development of Land Markets (國土資源部關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知), which, among other things, provides that (i) cities and counties that have less than 70% of their land supply designated for social welfare housing, redevelopment housing for shanty towns, or small- to medium-sized ordinary commodity residential units shall not provide land for large-sized and high-end commodity housing before the end of 2010; (ii) local land and resources authorities shall file a transaction report with the Ministry of Land and Resources and with provincial land and resources authorities, in relation to land sold via competitive bidding, auction, and listing for a premium of 50% or more; and (iii) for land designated for social welfare housing but used for the development of commodity houses, any illegal income derived therefrom shall be confiscated and the relevant land use rights terminated. In addition, unapproved changes to the plot ratio are strictly prohibited.

On January 26, 2011, the General Office of the State Council issued the Notice on Relevant Issues Relating to the Further Improvement of Controls on the Real Estate Market (國務院辦公廳進一步做好房地產市場調控工作有關問題的通知). On February 12, 2011, Guangdong's Provincial Government forwarded the notice. This notice, among other things, provides that:

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

REGULATORY OVERVIEW

On March 1, 2013, the General Office of the State Council of China released the Circular to Further Enhance the Regulation and Control 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 was adopted on February 26, 2013, and which orders subordinate governments to strictly implement the existing policies, which seek to rein in China's urban residential housing market, by introducing a policy, namely the PRC individual income tax at a rate of 20% to be imposed on home sellers on earnings from their sales.

The General Office of the People's Government of Guangdong Province forwarded the General Office of the State Council the Circular to Further Enhance the Regulation and Control of the Real Estate Market (廣東省人民政府辦公廳轉發國務院辦公廳關於繼續做好房地產市場調控工作的通知) on March 25, 2013, which dictates that areas with soaring house prices shall timely introduce specific measures to curb rising house prices and strictly enforce the individual income tax imposed on house purchases. Guangzhou and Shenzhen are required to make public their target house prices. Further, Guangzhou, Shenzhen, Zhuhai and Foshan are required to continue to strictly implement the restrictions on house purchases. Meanwhile, the circular calls for every city above the prefecture level (including Shunde District) to increase the supply of small- and medium-sized ordinary commodity houses not exceeding 90 sq.m. and to speed up the construction of affordable housing. Specifically, the construction of new affordable housing shall commence by the end of October 2013 and the construction of affordable housing commenced prior to 2012 shall be substantially completed by the end of 2013. Guangdong Province is set to complete construction of at least 116,000 affordable apartments in 2013, and the construction of another 78,400 is on schedule. The circular further demands the strengthening of the supervision of the real estate market.

On April 2, 2013, the General Office of the People's Government of Guangzhou released the Implementation Opinions to Enforce the General Office of the State Council Circular to Further Enhance the Regulation and Control of the Real Estate Market forwarded by the General Office of the People's Government of Guangdong Province (廣州市人民政府辦公廳關於貫徹廣東省人民政府辦公廳轉發國務院辦公廳關於繼續做好房地產市場調控工作通知的實施意見), which was adopted on March 31, 2013. According to these opinions, Guangzhou is set to provide more land for residential use than the average for the past five years. Further, the land supply for the construction of small- to medium-sized ordinary commodity houses will account for at least 70% of the total supply of land for residential use and a plot ratio lower than 1 for residential land shall be prohibited.

On November 18, 2013, the General Office of the People's Government of Guangzhou issued the Opinions on Further Enhancing the Regulation and Control of the Real Estate Market (廣州市人民政府辦公廳關於進一步做好房地產市場調控工作的意見). The opinions stipulate that non-Guangzhou resident families are permitted to purchase one property (including newly-built commodity properties and second hand properties) provided that such family have continuously paid individual income tax or social security in Guangzhou for at least three years in the five-year period prior to the purchase. Pursuant to the opinions, the Guangzhou Branch of People's Bank of China issued the Notice on Adjusting Differential Housing-Credit Policies in Guangzhou (關於調整廣州市差別化住房信貸政策的通知) on the same date. According to this notice, for the families purchasing their second residential property, the down payment of the purchase shall be 70% or more of the total purchase price.

REGULATORY OVERVIEW

Measures relating to non-agricultural construction on supplementary cultivated land in Guangdong Province (《廣東省非農業建設補充耕地管理辦法》) became effective on September 1, 2010. The People's Government of Guangdong Province set forth detailed provisions on managing non-agricultural construction on supplementary cultivated land to protect cultivated land and control the conversion of cultivated land to non-agricultural construction land.

The Department of Land and Resources of Guangdong Province issued the Notice on the Guangdong Province Land Requisition Compensation and Protection Standards, which was revised and adjusted in 2010 (《廣東省徵地補償保護標準(2010年修訂調整)》) and became effective on January 19, 2011. This notice sets new standards for land requisition compensation and protection for different regions in Guangdong Province.

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

Urban Redevelopment

To improve land efficiency, on August 25, 2009, the People's Government of Guangdong Province issued the Opinions on Promoting the Urban Redevelopment to Advance the Conservation of Land (《關於推進「三舊」改造促進節約集約用地的若干意見》) (the “**Urban Redevelopment Opinions**”) to promote the reformation of the three “olds,” namely, “old towns” (舊城鎮), “old factories” (舊廠房) and “old villages” (舊村莊). The following types of land fall into the scope of the Urban Redevelopment:

- Land in urban areas under the policy of “leave the second industry for the third industry” (which refers to adjusting the structure of industry by diverting industrial land for use in the service industry);
- Land used for factories belonging to industries that have been “prohibited” or “eliminated” pursuant to national industrial policy;
- Land used for factories that does not comply with safety production and environmental protection requirements;
- Towns and villages that are poorly organized and fall behind the times, and that have been selected for urban renewal; and
- Villages listed as example projects of the “Ten-Thousand-Village Restoration.”

REGULATORY OVERVIEW

Within the scope of old-town reformation and in compliance with urban and rural planning, certain entities (for example, land developers) may purchase several adjacent parcels of land, and apply for collective reformation based on the Urban Redevelopment planning and annual implementation schedule. The land regulation departments at the city and county levels may assemble the scattered parcels of land in accordance with these applications and register the resultant alteration of land for the applicants. A reformation plan shall be made for such purchase reformations and be reported to the government at the city and county levels for implementation approval after they have been approved by the land regulation departments and the planning department.

Environmental Protection

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law (《中華人民共和國環境保護法》), promulgated by the Standing Committee of the NPC and effective on December 26, 1989; the Prevention and Control of Noise Pollution Law (《中華人民共和國環境噪聲污染防治法》), promulgated by the Standing Committee of the NPC on October 29, 1996 and effective on March 1, 1997; the Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》), promulgated by the Standing Committee of the NPC on October 28, 2002 and effective on September 1, 2003; the Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》), promulgated by the State Council and effective November 29, 1998; and the Administrative Regulations on Environmental Protection for Acceptance Examinations Upon the Completion of Buildings (《建設項目竣工環境保護驗收管理辦法》), promulgated by the State Environment Bureau on December 27, 2001 and amended with effect on December 22, 2010. 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 verify compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

Modes of Land Grant

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

As of July 1, 2002, the grant of land use rights through competitive processes has been governed by the Regulations on the Grant of Usage Rights of State-Owned Land by Invitation of Tender, Auction or Listing-for-Sale (《招標拍賣掛牌出讓國有土地使用權規定》), issued by the Ministry of Land and Resources of the PRC on May 9, 2002 (the “**2002 Regulations**”) and

REGULATORY OVERVIEW

revised on September 28, 2007 with the name Regulations on Granting State-Owned Construction Land Use Rights Through Tenders, Auction and Putting Up for Bidding (《招標拍賣掛牌出讓國有建設用地使用權規定》) (the “**2007 Regulations**”) effective on November 1, 2007. Following the 2002 Regulations, the Ministry of Land and Resources and the Ministry of Supervision issued the Notice on Continuing the Review of the Implementation of the Grant of Land Use Rights for Commercial Uses By Soliciting Auction Bids or Listing on a Land Exchange (關於繼續開展經營性土地使用權招標拍賣掛牌出讓情況執法監察工作的通知) on March 18, 2004, which requires all local land administration authorities to strictly enforce the 2002 Regulations. In addition, the Ministry of Land and Resources required that beginning from August 31, 2004, no land use rights for commercial uses granted by way of agreement shall be dealt with strictly. In the Urgent Notice of the General Office of the State Council on Intense Regulation and Rectification of the Land Market and Strict Administration of Land (國務院辦公廳關於深入開展土地市場治理整頓嚴格土地管理的緊急通知), issued by the State Council on April 29, 2004, the approval process for the change of use from agricultural land to non-agricultural land for development was suspended for a period of approximately six months so that the PRC government could rectify irregularities in land development in China. The 2007 Regulations specifically provide that land to be used for industry, commerce, tourism, entertainment or commodity residential purposes, or where there are two or more intended users for a certain piece of land, must be granted through tender, auction or listing-for-sale processes. A number of measures in the 2007 Regulations ensure such grants of land use rights for commercial purposes are 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 county government. The grantee shall apply for land registration and obtain the State-owned land use rights certificate upon full payment of the land premium for the granted land according to the land grant contract. In the event that the land premium for the granted land is not paid in full, the grantee will not receive the land use rights certificate. In addition, the announcement of tender, auction or listing-for-sale must be made 20 days prior to the date on which such competitive process begins. Further, the 2007 Regulations stipulate that for listings on a land exchange, the time period for accepting bids must be no less than ten days. On May 13, 2011, the Ministry of Land and Resources promulgated the Opinions on Upholding and Improving the System for the Transfer of Land by Tender, Auction and Listing-for-Sale (《國土資源部關於堅持和完善土地招標拍賣掛牌出讓制度的意見》), which provides, among other things (i) how to correctly implement the land transfer policy through tenders, auctions and listing-for-sale; (ii) an explanation of improvements in the transparency of the system of tenders, auctions and listings for housing land; (iii) an explanation of adjustments and improvements to the land transfer policy through tenders, auctions and listing-for-sale, including (a) limitations on house prices and land prices, and on the transfer of policy-related housing land by listing or auction; (b) limitations on the GFA of allocated security housing, and on transfers of commodity housing land by listing or auction; (c) procedures for carrying out comprehensive assessments of conditions of land development, utilization and land transfer prices, as well as procedures for determining who is entitled to land use rights by tender; (iv) promotion of online operation of the transfer of land use rights; (v) improvement in contracts for land transfers through tenders, auctions and listing-for-sale.

REGULATORY OVERVIEW

In the case of tenders, the local land bureau granting the land use rights should examine the qualifications of the intended bidders and encourage those who are 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 through tenders, a tender evaluation committee consisting of odd number of members of at least five (including a representative of the grantor and relevant expert) shall be formed by the land bureau which is responsible for opening the tenders and deciding on the successful bidder. The successful bidder will then sign the land grant contract with the land bureau and pay the balance of the land premium before obtaining a State land use rights certificate. See “— Documents of Title and Registration of Property Interests.”

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

Where land use rights are granted through a listing administered by the local government, a public notice will be issued by the local land bureau to specify the, among other things, location, the area, purpose of use of the land and the period for receiving bids. The land use rights are granted to the bidder with the highest bid who satisfies the terms and conditions. The successful bidder will enter into a land grant contract with the local land bureau and pay the relevant land premium within a prescribed period.

On June 11, 2003, the Ministry of Land and Resources promulgated the Regulations on the Grant of State-Owned Land Use Rights by Agreement (《協議出讓國有土地使用權規定》), or the 2003 Regulations, to regulate the grant of land use rights by agreement when there is only one party interested in the land, and where the designated uses of the land are for non-commercial purposes. According to the 2003 Regulations, the local land bureau, together with other relevant government departments, including the city planning authority, will formulate the plan concerning the grant, including the specific location, boundaries, purpose of use, area, term of grant, conditions of use, conditions for planning and design, and the proposed land premium, which shall not be lower than the minimum price determined by the State. This plan will then be submitted to the relevant government for approval. Afterward, the local land bureau and the relevant party will negotiate and enter into the land grant contract based on the above mentioned plan. If two or more parties are interested in the land use rights proposed to be granted, these land use rights shall be granted by way of tender, auction or listing at a land exchange in accordance with the 2007 Regulations.

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

REGULATORY OVERVIEW

According to the Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of the Examination and Approval of Land Use in Urban Construction (關於加強城市建設用地審查報批工作有關問題的通知) enacted by the Ministry of Land and Resources on September 4, 2003 (the “**Notice**”), from the day of promulgation, land use for luxurious commodity houses shall be stringently controlled, and applications for land use rights to build villas shall be denied. On May 30, 2006, the Ministry of Land and Resources issued the Urgent Notice of Further Strengthening the Administration of the Land (關於當前進一步從嚴土地管理的緊急通知). It provides that (i) land use shall not violate the overall land use plan or the annual land use plan, and no entity or individual shall change or occupy basic agricultural land (Strict prohibitions shall be imposed on any illegal attempts to avoid the examination and approval procedures to occupy basic agricultural land by, for example, amending the overall land use plan, and no one shall increase the use of construction land without authorization and approval); (ii) stricter examination and approval procedures shall be implemented with respect to the use of various non-agricultural construction land, and strict limitations shall be imposed on the supply of land for projects that fall under restricted categories (No land pre-approval, examination and approval, and land supply shall be granted for prohibited projects. Application and approval procedures must be undertaken in accordance with relevant laws for any non-agricultural construction using tidal-flat areas, barren hills or wasteland); and (iii) the Circular of the General Office of the State Council on Forwarding the Notice of the Ministry of Construction, the NDRC and the Ministry of Supervision on Adjusting the Housing Supply Structure and Stabilizing the Housing Price (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) shall be strictly implemented. This circular provides, among other things, that (a) land used for real estate development must be granted through tender, auction or listing-for-sale and the area of land shall be ascertained reasonably; (b) land supply priority shall be given to low- to mid-priced and small- to medium-sized ordinary commodity houses (including affordable housing) and to affordable rental housing; (c) the land supply plan shall be known to the public; and (d) the land supply for low-density and large-sized housing shall be strictly controlled, and the rules on prohibiting land from being supplied for villa real estate development shall be resolutely implemented. From May 30, 2006, all land use supply and relevant procedures for villa projects shall cease and an overall rectification shall be carried out.

On May 23, 2012, the Ministry of Land and Resources and the NDRC promulgated the Catalog of Restrictive Land Supply Items (2012 Version) and the Catalog of Forbidden Land Supply Items (2012 Version) (限制用地項目目錄(2012本)和禁止用地項目目錄(2012本)). These catalogs provide that new office buildings of the Chinese Communist Party and of government agencies, large-scale commercial establishments, motor-racing fields, motor vehicle training fields, burial grounds, and large-sized housing projects (referring to residential projects with a plot ratio of less than 1.0 and where the gross floor area for a single house exceeds 144 sq.m.) are listed in the restrictive land supply items, and that villas, golf courses, horse-racing courses, and new training centers of the Party and government agencies, State-owned enterprises and institutional agencies are classified as forbidden land supply items.

REGULATORY OVERVIEW

The Urban and Rural Planning Law of the People's Republic of China (《中華人民共和國城鄉規劃法》) was promulgated by the Standing Committee of the NPC on October 28, 2007 and implemented on January 1, 2008. This law provides, among other things, that if land use rights are obtained by way of allocation, the developer shall apply to the relevant urban and rural planning authorities for a site selection opinion before applying to other relevant authorities for approval or consent. This law also specifies that if the land use rights were obtained by way of allocation within the planning zones of cities or towns, the developer shall, before applying to land administration authorities at or above the county level for land use rights, apply for a construction land planning permit from the relevant urban and rural planning authorities of that city or town, after obtaining the approval or consent of other relevant authorities. Further, if land use rights were obtained by way of grant within the planning zones of cities or towns, relevant urban and rural planning authorities shall, before granting land use rights, specify planning requirements such as the location, nature of use and permitted density of the development, and integrate these requirements into the grant contract of the land use rights. Land without planning requirements cannot be granted. After a land grant contract is executed, the developer needs to apply to the relevant urban and rural planning authorities of the city or county for a construction land planning permit along with the other required documents. If a development is within the planning zones of a city or town, the developer needs to apply to the relevant urban and rural planning authorities or to the township government specified by the provincial level government for a construction land planning permit. The development of projects must comply with the planning requirements and an application must be filed with the urban and rural planning authorities of the relevant city or county if any amendments to the planning requirements are necessary. Within six months of the project's completion, the developer needs to file documents with the urban and rural planning authorities describing the government's inspection and assessment of the completed project.

Model Land Grant Contract

To standardize land grant contracts, on April 29, 2008, the Ministry of Land and Resources and the SAIC re-issued the model land grant contract in the Notice on Publishing the Model Text of Land Grant Contracts (關於發佈《國有建設用地使用權出讓合同示範文本》的通知). The model land grant contract contains terms such as the location of land, the use of land, the land premium and its payment schedule, the condition of land upon delivery, the term of grant, land use conditions and restrictions (including GFA, plot ratio and height and density limitations), the construction of public facilities, submission of building plans for approval, the deadline for commencement of construction, payment of idle fees, the deadline for completion of construction, application for extension of the stipulated construction period, restrictions on subsequent transfers, delegation of responsibility for obtaining supply of utilities, restrictions against alienation before payment of the land premium and before the completion of the prescribed development, application of renewal, force majeure, breach of contract, and dispute resolution.

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

REGULATORY OVERVIEW

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

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

Transfer of Land Use Rights of Collectively Owned Construction Land

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

TERMINATION

Pursuant to the Property Rights Law, when the term of the land use rights for the construction of residential buildings expires, it shall be renewed automatically.

The State generally will not withdraw a land use right before the expiration of its term of grant. Under special circumstances, such as when required for the public interest, the state shall pay proper compensation for the properties on such land, and the corresponding land premium shall be returned.

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

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

REGULATORY OVERVIEW

According to the Law of Administration of Urban Real Property (《中華人民共和國城市房地產管理法》) (the “**Urban Real Property Law**”), issued on July 5, 1994 by the Standing Committee of the NPC and amended on August 30, 2007, when a real property development is carried out on land for which the land use rights were acquired by means of a grant, the land must be developed in line with the specified use for the land, and the deadline for commencement of the development must be set out in the land use rights grant contract. Where development does not commence within one year of the date specified in the land use rights grant contract, an idle land fee may be charged at a rate of not more than 20% of the relevant land premium. Where development does not commence within two years of the specified date, the relevant land use rights may be withdrawn without compensation, except where the commencement of construction was delayed due to force majeure, an act of the government or relevant government departments, or delays in the preliminary work necessary for the commencement of development.

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

According to the Measures on the Disposal of Idle Land (《閒置土地處置辦法》), promulgated by the Ministry of Land and Resources on April 26, 1999, “idle land” refers to land granted for use but that is lying idle because the land user failed to commence development and construction before the specified commencement date without the consent of the government that approved the use of the land. The amended Measures on the Disposal of Idle Land, which became effective on July 1, 2012, expanded the definition of idle land to include land lying idle due to government action. See “— Idle Land” below. When certain land is deemed “idle land,” relevant municipal or county land administrative departments (“**Land Administrative Authorities**”) shall inform the land user and prepare a plan for disposing of the idle land. When the land is mortgaged, the mortgagee shall be invited to participate in the preparation of the disposal plan.

The methods of disposing of idle land include, among others:

- (i) extending the development and construction period by a maximum of one year;
- (ii) changing the use of the land, and continuing development and construction afterward; or
- (iii) arranging for the temporary use of the land and re-approving the development after the original project satisfies the construction requirements.

On January 3, 2008, the State Council issued the Notice on Promoting the Economisation and Intensive Use of Land (國務院關於促進節約集約用地的通知). This notice states, among other things, that (i) State policies relating to the forfeiture of land use rights of land that has

REGULATORY OVERVIEW

remained idle for more than two years without compensation shall be strictly implemented; (ii) if any land remains idle for one year, an idle land fee of 20% of the relevant land premium shall be levied; (iii) before June 2008, local governments shall submit to the State Council reports on the status of the clearance and handling of idle land; (iv) the prohibition on supplying land for villa projects shall continue; (v) the authorities shall research and commence drafting implementation rules concerning the levy of land appreciation fees on idle land; (vi) in relation to the supply of residential land, planning requirements such as minimum plot ratio limits and the number and type of flats that can be constructed shall be taken into account in land grant contracts and allocation decisions to ensure that at least 70% of the total land grants for residential developments consists of low-cost rental housing, affordable housing, limited pricing housing and units less than 90 sq.m.; and (vii) financial institutions shall exercise caution when approving financing for any property developer who fails to commence construction for one year or more after the commencement date stipulated in the land grant contract, complete at least one-third of the development of the project, or inject at least 25% of the total investment in the project.

On November 18, 2009, the Ministry of Finance, Ministry of Land and Resources, the PBOC, the Ministry of Supervision and the National Audit Office issued the Circular on Further Tightening Control Over Income and Expenses from Land Transfers (關於進一步加強土地出讓收支管理的通知), which, among other things, limits to one year the period for full payment of the land premium prescribed under the land grant contract entered between a municipal- or county-level Ministry of Land and Resources and a land right transferee. There is an exception for special projects approved by all relevant local land transfer authorities, for which full payment of the land premium must be paid within two years with a first installment of at least 50% of the total land premium. The circular also provides that local governments should strictly enforce relevant regulations to impose penalties on property developers that have delayed payment of land premiums or construction for reasons other than force majeure, and restrict such property developers from acquiring new land before the land premiums have been paid.

On September 6, 2012, the Ministry of Land and Resources promulgated the Notice on Strictly Carrying Out Land Use Standards and Vigorously Promoting the Economical and Intensive Use of Land (國土資源部關於嚴格執行土地使用標準大力促進節約集約用地的通知), which provides, among other things, that (i) if lands for construction are in the catalog of prohibited land projects, or fail to comply with the requirements in the catalog of restricted land projects, i.e., fails to comply with industrial project control index requirements relating to investment intensity, plot ratios, building coefficients, administrative office and living service area ratios and green ratios; or the total area of engineering construction projects; or one or several functional partitions exceeds the land quota control limit; or the parcel area or plot ratio fail to meet requirements for residential land, then the project shall not be permitted to apply for land approval, supply and use; and (ii) for commercial lands like industrial, commercial, tourism, entertainment, and commodity residential land, which must be granted by tender, auction or listing, municipal and county land and resources departments must state explicitly the control requirement and use standards for such land when formulating land grant plans and land grant documents, implementing national regulations and publishing the standards for the public.

REGULATORY OVERVIEW

LAND TRANSFERS FROM CURRENT LAND USERS

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

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

The assignment contract or the joint-development agreement is subject to terms and conditions specified in the land grant contract. For residential construction projects, Urban Real Estate Administration Law (《城市房地產管理法》) (the “**Urban Real Estate Law**”) requires that at least 25% of total construction costs, excluding land premiums, be expended before assignment can take place. All rights and obligations of the current holder under a land grant contract will be transferred contemporaneously to the assignee of the land use rights. The relevant local government has the right to acquire the land use rights to be assigned if the assignment price is significantly lower than the market price. Relevant local governments may also acquire the land use rights from a land user in the event of a change in town planning. The land user will then be compensated for the loss of his land use rights.

LAND RESERVE AND PRIMARY DEVELOPMENT

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

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

REGULATORY OVERVIEW

DOCUMENTS OF TITLE AND REGISTRATION OF PROPERTY INTERESTS

According to the Land Registration Regulations (《土地登記辦法》), issued by the Ministry of Land and Resources on December 30, 2007 and effective on February 1, 2008, and the Buildings Registration Regulations (《房屋登記辦法》), issued by the Ministry of Construction on February 15, 2008 and effective on July 1, 2008, all land use rights and building ownership rights which are duly registered are protected by the law. A land use rights certificate is the evidentiary legal document that establishes that the registered land user has the lawful right to use the land during the term stated in the certificate. Upon completion of the construction of a building (including passing the acceptance tests by various government departments), a property ownership certificate will be issued to the owner of the building. The holder of land use rights who is issued a property ownership certificate holds the land use rights, and owns the building erected thereon. All holders of land use rights, and other rights related to the land, such as the right to buildings erected on the land, must register their lawful State-owned land use rights, as well as their ownership rights to the buildings. To this end, real estate registries have been established in every city in China. In most cities, there are separate registries for land use rights and building ownership rights. In places where there are separate registries, the holder of land use rights will be issued a property ownership certificate for the building and a land use rights certificate for the underlying land. In the other places where registries are combined, the land use rights certificate and the property ownership certificate are combined into a single certificate.

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

MORTGAGE AND GUARANTEE

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

REGULATORY OVERVIEW

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

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

IDLE LAND

According to the Measures on Disposing Idle Land (《閒置土地處置辦法》), enacted and enforced by the Ministry of Land and Resources on April 26, 1999, land can be defined as idle land under any of the following circumstances: (i) development and construction of the land has not commenced within the prescribed time limit after the land use rights were obtained, and the delay is without consent from the people's government that approved the use of the land; (ii) where the "Contract on Paid Use of the Right to Use State-Owned Land" or the "Approval Letter on Land Used for Construction" has not prescribed the commencement date for development and construction, development and construction of the land has not commenced one year after the "Contract on Paid Use of the Right to Use State-Owned Land" became effective, or one year after the Ministry of Land and Resources issued the "Approval Letter on Land Used for Construction"; (iii) the development and construction of the land has commenced, but the area of development and construction commenced is less than one-third of the total area to be developed and constructed, or the amount invested is less than 25% of the total amount of investment, and development and construction have ceased for one year or more without approval; or (iv) other circumstances prescribed by the laws and the administrative regulations.

On June 1, 2012, the Ministry of Land and Resources promulgated the Further Measures on the Disposal of Idle Land (《閒置土地處置辦法》) (the "**Further Measures**"), which became effective on July 1, 2012. The Ministry of Land and Resources extended and clarified the definition of idle land to include any land that has become idle as a result of government-related or non-government-related acts. Government actions may cause land to become idle when (i) the government fails to deliver land parcels to the grantee in accordance with the time limit specified under the relevant land grant contract or related documents; (ii)

REGULATORY OVERVIEW

the grantee of the land use rights cannot develop the land in accordance with the contracted purposes due to recent land or urban planning adjustments; (iii) there are changes in the land or urban planning requirements due to changes in relevant national policies; and (iv) there are mass demonstrations, instances of military-imposed order, the protection of cultural relics, natural disasters, and other related issues, that delay the development schedule of the land parcels.

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

The Further Measures provide clear procedures for investigating idle land. When the municipal- or county-level land administrative department suspects a land to be an idle land, it shall, within 30 days, begin investigating the status of the land, and issue an “Idle Land Investigation Notification Memorandum” (閒置土地調查通知書) (the “**Notification Memorandum**”) to the grantee of the land use rights. The grantee of the land use rights shall, within 30 days of receiving the Notification Memorandum, provide materials outlining the status of the land development, the reason for the land being idle and other related explanatory materials to the above mentioned administrative department. The municipal or county land administrative department shall, after determining that certain land is idle land, notify the concerned land user and draft a proposal on methods of disposing of the idle land including, but not limited to, extending the time period for development and construction (provided that the extension not exceed one year), changing the use of the land, arranging for temporary use, or finding a new land user through competitive bidding or a public auction. The administrative department of land under the municipal or county government shall, after the proposal on disposal has been approved by the government that approved the use of the land, arrange for implementation of the proposal.

With respect to any land parcel obtained under a land grant contract within the scope of city planning and becoming idle due to non-government-related acts, if work has not commenced one year after the prescribed date of commencement, a surcharge on idle land of no more than 20% of the land grant premium may be levied (such surcharge cannot be listed as a manufacturing cost); if the work has not commenced two years after the prescribed date of commencement, the land can be confiscated without any compensation. However, the preceding stipulations shall not apply if the delay is caused by force majeure, acts of the government or acts of other relevant departments under the government, or by the indispensable preliminary work. The Further Measures provide that, with respect to any land parcel becoming “idle” as a result of government-related acts, the grantee of the relevant land use rights shall explain to the municipal or county land administrative department the reasons for the land becoming idle, consult the relevant government authority, and rectify the situation accordingly (the “**Rectification Procedures**”). The means of rectification include but are not limited to extending the period permitted for commencing development, adjusting the land use

REGULATORY OVERVIEW

and planning requirements, or substituting the relevant land parcels with other land parcels. To better control land hoarding and land speculation, the Further Measures also require the Ministry of Land and Resources not to accept or process any application for a title transfer transaction, a lease transaction, a mortgage transaction or a land registration application for any idle land parcel before completing the required Rectification Procedures. To strengthen the regulation of idle land, the Further Measures require the Ministry of Land and Resources to copy the relevant finance authorities on all of its communications with the grantee of land use rights regarding idle government-owned land.

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

PROPERTY DEVELOPMENT

Under the Regulations on the 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 seeking to develop real estate shall satisfy certain requirements including: (i) its registered capital shall exceed RMB1 million; and (ii) it has four or more full-time professional real estate/construction technicians, and two or more full-time accounting officers, each of whom shall hold the relevant qualification certificate.

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

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

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

REGULATORY OVERVIEW

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

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

PLANNING AND CONSTRUCTION PERMITS

Under the Regulations on the Planning and Administration of the Granting and Transfer of State-Owned Land Use Rights in Urban Areas (《城市國有土地使用權出讓轉讓規劃管理辦法》), promulgated by the Ministry of Construction on December 4, 1992, real estate developers shall apply for a construction land planning permit (建設用地規劃許可證) from the municipal planning authority. After obtaining a construction land planning permit, the real estate developer shall organize the necessary planning and design work in accordance with relevant planning and design requirements. A planning and design proposal for the real estate project shall be submitted to the municipal planning authority in accordance with the Urban and Rural Planning Law of the People's Republic of China (《中華人民共和國城鄉規劃法》), which was issued on October 28, 2007, and a construction work planning permit (建設工程規劃許可證) must be obtained from the municipal planning authority.

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

- buildings can be expropriated under certain circumstances for the public interest, but only government authorities may conduct resettlement activities. Real estate developers are prohibited from engaging in relocation procedures;

REGULATORY OVERVIEW

- compensation shall be paid before resettlement;
- compensation to owners of properties to be demolished cannot be less than the market value of similar properties on the date of announcement of the expropriation. The market value of property shall be determined by qualified real estate appraisal institutions in accordance with the appraisal rules relating to the expropriation of property. If an owner disagrees with the appraised market value of his property, he may apply to the real estate appraisal institution for review; and
- neither violence nor coercion may be used to force homeowners to leave. In addition, certain measures such as illegally cutting water and power supplies may not be used.

The Measures Regarding the Expropriation and Evaluation of Properties on State-Owned Land (國有土地上房屋徵收評估辦法), promulgated by MOHURD and implemented on June 3, 2011, provides that, among other things:

- the value of the expropriated property is the sum that would have been reached in the case of regular trading of the land use right of the expropriated property by informed and willing parties in an arm's length transaction, excluding factors such as leases, pledges and seizures;
- except for the special requirement of the Government, the market value of the expropriated property shall be determined by evaluation. The benchmark date of evaluation of the expropriated property is the date when the property expropriation decision is announced;
- the evaluation of expropriated property shall consider location, property use, construction structure, condition, building area, floor area, land use rights and other factors that might affect the value of the property; and
- business shall be conducted through negotiations by the relevant parties; if the parties fail to reach an agreement, the value may be determined by a real estate evaluation institution appointed by the parties.

Upon obtaining a Permit for Housing Demolition and Resettlement, the real estate developer may appoint a qualified third party to carry out the demolition and removal within the land area and period specified in the Permit for Housing Demolition and Resettlement. Subject to a written agreement entered into by the real estate developer and the parties relevant to the demolition and resettlement, the real estate developer shall pay compensation and resettlement fees to the inhabitants of the housing to be demolished. Compensation may be effected by way of monetary compensation or exchange of property rights. In addition to paying the demolition and resettlement compensation, the real estate developer shall pay a resettlement allowance to the parties subject to demolition and resettlement. After (i) a real estate developer has carried out the above work; (ii) the site is ready for construction to

REGULATORY OVERVIEW

commence; (iii) the progress of the demolition of existing buildings has been determined to comply with construction needs; (iv) funds required for the construction have been made available; (v) the contractor has been determined; and (vi) the design for construction has been examined and approved by the relevant government authorities, the real estate developer shall then apply for a construction work commencement permit (建築工程施工許可證) from the relevant construction authority in accordance with the Regulations on the Administration of Permissions for the Commencement of Construction Work (《建築工程施工許可管理辦法》) promulgated by the Ministry of Construction on October 15, 1999 and amended on July 4, 2001.

ACCEPTANCE AND EXAMINATION UPON COMPLETION OF A REAL ESTATE PROJECT

Pursuant to the Regulations on the Administration of the Quality of Construction Work (《建設工程質量管理條例》), promulgated by the State Council on January 30, 2000; the Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (《房屋建築工程和市政基礎設施工程竣工驗收備案管理辦法》), promulgated by the Ministry of Construction on October 19, 2009; and the Interim Provisions for Reporting Details Regarding the Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure (《房屋建築工程和市政基礎設施工程竣工驗收暫行規定》), promulgated and implemented by the Ministry of Construction on June 30, 2000, upon completion of the real estate development project, the real estate developer shall submit an application, including the filing form for the Examination Upon Completion of Construction Projects (工程竣工驗收備案表), to the control department of real estate development of the local people's government at the county level or above, where the project is located, for examination upon completion of the building and for filing purposes. A real estate project may not be delivered unless it passes the acceptance examination and a completion certificate has been obtained.

SALES/PRE-SALES OF COMMODITY BUILDINGS

Commodity buildings may be sold before or after their completion. These sales are regulated by and conducted in accordance with the Regulations for the Administration of the Sale of Commodity Buildings (《商品房銷售管理辦法》) promulgated by the Ministry of Construction on April 4, 2001; the Measures for the Administration of the Pre-sale of Commodity Buildings (《城市商品房預售管理辦法》) (the “**Pre-sale Measures**”) amended by the Ministry of Construction on July 20, 2004; and the Development Regulations.

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

- the premium for the land use rights has been paid in full and the land use rights certificate has been obtained;

REGULATORY OVERVIEW

- the construction work planning permit and the construction work commencement permit have been obtained;
- at least 25% of the total amount of the project investment fund has been injected into the development of the project, and the progress of construction and the expected completion date of the project have been ascertained; and
- the pre-sale permit has been obtained.

Under the Regulations for the Administration of the Sale of Commodity Buildings (《商品房銷售管理辦法》), commodity buildings may be sold post completion only when the following preconditions have been satisfied: (i) the real estate development enterprise offering to sell the post-completion buildings shall have an enterprise legal person business license and a real estate developer qualification certificate; (ii) the enterprise has obtained a land use rights certificate or other land use approval documents; (iii) the enterprise has the construction project planning permit and the construction permit; (iv) the commodity buildings have been completed and been inspected and accepted as qualified; (v) the relocation of the original residents has been completed; (vi) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc. are ready for use, and other supplementary essential facilities and public facilities are ready for use, or the schedule of construction and the delivery date have been specified; and (vii) the property management plan has been completed. Before the post-completion sale of a commodity building, a real estate developer shall submit the real estate development project manual, and other documents showing that the preconditions for a post-completion sale have been fulfilled, to the real estate development authority for record keeping purposes.

Various local governments have enacted local regulations to supplement the national requirements.

According to the Administration of the Pre-sale of Commodity Premises Regulations of Guangdong Province (《廣東省商品房預售管理條例》) promulgated by the Standing Committee of the Guangdong Provincial People's Government on August 22, 1998, revised on October 14, 2000 and July 23, 2010, the following preconditions must be fulfilled for the pre-sale of commodity premises in Guangdong Province:

- the pre-seller has obtained a real property development qualification certificate and a business license;
- the land premium has been paid in accordance with the relevant provisions of the land administration department and land use rights certificate has been obtained;
- a construction planning license and construction works license have been obtained and the procedures for monitoring construction quality and safety have been carried out;
- the work schedule, time of completion and time of delivery for use have been set;

REGULATORY OVERVIEW

- the foundation and structure of commodity premises of less than three stories have been completed. In the case of commodity premises of four or more stories that have a basement, the foundation and the first story of the structure have been completed; if such premises do not have a basement, the foundation and structure of four stories have been completed;
- a special property pre-sale account has been opened with a commercial bank where the project is located;
- the commodity premises pre-sale project and its land use rights are free from third party rights; and
- any other conditions stipulated in laws and regulations have been met.

According to the Hunan Province Provisional Regulations on the Administration of the Pre-sale of Commodity Premises (《湖南省商品房預售管理暫行辦法》) promulgated by the Construction Committee of the Hunan Provincial People's Government on July 1, 1994, the following preconditions must be fulfilled for the pre-sale of commodity premises in Hunan Province:

- the pre-seller has obtained a real property development qualification certificate and a business license;
- a construction planning license and construction works license have been obtained;
- the foundations have been completed, or 20% or more of the total investment have been injected with valid documents have been provided as proof;
- an agreement of supervision on pre-sale revenue has been executed by the pre-seller and a commercial bank where the project is located;
- there is a commodity premises pre-sale plan; and
- the pre-seller owns the commodity premises for pre-sale, and such ownership is free from security.

Under the Regulations on the Administration of Dealings in Urban Real Estate in Changsha City (《長沙市城市房地產交易管理辦法》), enacted by the People's Government of Changsha City on January 19, 2004 and enforced on March 1, 2004, to acquire a permit for the pre-completion sale of commodity properties, a Changsha City real estate developer must fulfill the following requirements: (a) a land use right certificate has been obtained; (b) a construction work planning permit and a permit for constructing commodity properties have been obtained; (c) 50% or more of the civil engineering construction work has been completed, or the roofs of the multi-story buildings have been completed, or in the case of high-rise building, ten floors of the building have been completed, while the construction schedule and

REGULATORY OVERVIEW

the date for completion and delivery have been determined (including the environmental and supporting facilities construction); (d) a plan on the pre-sale of commodity properties has been adopted; (e) a bank account for monitoring the pre-completion sale proceeds has been opened in Changsha and an agreement for monitoring the pre-completion sale proceeds with the bank has been signed; and (f) a plan of property management has been adopted.

According to the Property Rights Law, parties can apply for a caveat by agreement to secure future property rights. After registration of such caveat, without permission of the persons who hold the caveat, any disposal of the relevant real estate shall have no effect on property rights.

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

On April 13, 2010, MOHURD issued the Notice on Further Strengthening the Supervision of the Real Estate Market and Improving the Pre-Sale System of Commercial Housing (住房和城鄉建設部關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知). It provides, among other things, that within ten days of obtaining a pre-sale permit, real estate developers shall release to the public information regarding the number of properties authorized for pre-sale and the prices of these pre-sale units. They shall sell the properties to the public at the published price and in strict accordance with the pre-sale permit.

Local authorities are required to improve existing regulations or implement new regulations regarding the supervision of capital from pre-sales. All proceeds from pre-sales must be deposited into an account supervised by the relevant regulatory authorities and must be used for the construction of commodity housing.

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

On March 16, 2011, the NDRC promulgated the Regulations on the Sales of Commodity Houses at Expressly Marked Prices (《商品房銷售明碼標價規定》) (“**the Regulation**”), effective on May 1, 2011, which provides that real estate development enterprises and intermediary agencies (collectively, “**the Sellers and the Agencies**”) shall, when selling new-built commodity houses, publish and mark the prices of the commodity houses and publish factors affecting the prices. The Regulation stipulates that the Sellers and the Agencies shall mark each commodity house with one price only (一套一標). For real estate development projects that have obtained pre-sale permits or that are registered as finished houses, the Sellers

REGULATORY OVERVIEW

and the Agencies shall, within a specified time frame, publish the availability of all houses that are permitted to be sold and the price of each house. The Sellers and the Agencies shall not sell the house at a price higher than the marked price and shall not collect charges which are not specified, and intermediary agencies shall sell second-hand commodity houses in accordance with the Regulation. In the event that the Sellers and the Agencies do not expressly mark the price or publish their charges, or commit fraud when marking prices, local competent authorities at the county level or above shall have the right to penalize the Sellers and the Agencies accordingly.

According to the Notice on Conducting Special Inspections of the Sale of Commodity Houses with Marked Prices (關於開展商品房銷售明碼標價專項檢查的通知), promulgated by the General Office of the NDRC and implemented on May 11, 2011, real estate developers who fail to mark a price on each unit in accordance with the relevant regulations will incur a fine of RMB5,000 for each unit sold. If real estate developers are found to have committed price fraud or order of correction, illegal gains will be confiscated and fines will be imposed. In serious cases, real estate developers will be ordered to suspend business.

The Ministry of Finance and the State Administration of Taxation 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), which became effective on January 28, 2011, to discourage speculation in the secondary real estate market and to control soaring housing prices. The notice provides, among other things:

- Transfers of residential properties by individuals who have held them for less than five years are subject to business tax calculated on the transacted price.
- Transfers of (i) non-ordinary residential properties by individuals who have held them for five years or more or are subject to business tax calculated on the difference between the transacted price and original purchasing price.
- Transfers of ordinary residential properties by individuals who have held them for five years or more are exempted from business tax.

On April 22, 2013, Guangzhou Municipal Land Resources and Housing Administration Bureau issued Notice on Implementation of Guangzhou City Real Estate Market Regulation-and-Control Policy and Strengthening Supervision over Real Estate Market (《關於落實廣州市房地產市場調控政策加強房地產市場監管的通知》) (Hui Guo Fang Zi [2013] No. 411) (穗國房字[2013]411). According to this notice, from April 24, 2013, Guangzhou city (including ten districts directly under Guangzhou government, Conghua city and Zengcheng city) requires online filing of prices of pre-sale commodity houses. The real estate developers are required to file pre-sale prices online before selling pre-sale commodity houses, and must follow the pricing guidelines from the land resources and housing administration authorities. Issuance of pre-sale permits shall be suspended, if the real estate developers have not filed the prices online, or the prices filed are too high and the pricing guidelines from the land resources and housing administration authorities are not accepted. Online execution of commodity houses sale contracts shall be suspended if the commodity houses are sold at a price higher than the filed one.

REGULATORY OVERVIEW

On October 31, 2011, General Office of People's Government of Zhuhai City issued Notice on Thoroughly Conducting Real Estate Market Regulation and Control (《關於深入開展房地產市場調控工作的通知》) (Zhu Fu Ban [2011] No. 45) (珠府辦[2011]45號). According to this notice, from November 1, 2011, real estate developers should file pre-sale prices with price administration authorities pursuant to Guangdong Province Administration of Commodity Prices Regulation on Clearly Marking Price of Commodity Houses (《廣東省物價局關於商品房銷售明碼標價的規定》), and should present documents proving approval of filing to commodity houses pre-sale administration authorities when apply for pre-sale. If the average prices of pre-sale commodity houses project are higher than the target price of Zhuhai commodity houses price control in 2011 (RMB11,285 per square meter of construction area), the price administration authorities shall suspend filing and commodity houses pre-sale administration authorities shall suspend issuance of commodity house pre-sale permits.

INDIVIDUAL HOUSING LOANS

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

The Circular on Regulations of Policies Concerning Individual Housing Provident Fund Loans (住房和城鄉建設部、財政部、中國人民銀行等關於規範住房公積金個人住房貸款政策有關問題的通知) was jointly promulgated by MOHURD, the Ministry of Finance, the PBOC and the CBRC on November 2, 2010 and regulates individual housing provident fund loans. The circular provides that individual housing provident fund loans can be used only to purchase, build, re-build and repair the ordinary and privately used residential properties of labors, with the aim of meeting their basic need for housing. Using individual housing provident fund loans to carry out the speculative purchase of properties is strictly prohibited. To purchase one's first residential property for private use with an individual housing provident fund loan, the down payment of the purchase shall be 20% or more of the total purchase price if the gross floor area of the property is not more than 90 sq.m. (inclusive). If the gross floor

REGULATORY OVERVIEW

area of the property is more than 90 sq.m., the down payment shall be 30% or more of the total purchase price. To purchase one's second residential property, individual housing provident fund loans are available only to labors whose families' per-capita gross floor area is lower than the local average, and these loans can be used only to purchase ordinary and privately used residential properties that help to improve the living condition of the labors. The down payment for the purchase of one's second residential property shall be 50% or more of the total purchase price, and the interest rate of the loan shall be at least 1.1 times the interest rate of the individual housing provident fund loan for the first residential property during the same period. The individual housing provident fund loans are not available to labors and their families for purchasing their third or subsequent residential property.

RESIDENTIAL PROPERTY QUALITY WARRANTY

On May 20, 1998, the Ministry of Construction promulgated the Regulation for the Adoption of Residential Property Quality Warranties and the Residential Building User Guide for Commodity Residential Properties (《商品住宅實行住宅質量保證書和住宅使用說明書制度的規定》), which became effective on September 1, 1998. This regulation provides that the residential property quality warranty shall include the following: (1) quality grading as verified by a construction quality supervision authority; (2) guaranteed repair of the foundation and main structure within their reasonable use life; and (3) the contents and term of guaranteed repairs of all parts and components under normal usage. The term of guaranteed repair of residential buildings shall commence at the date of delivery by the developers of the residential buildings that have passed the check and acceptance procedure.

LEASING

Both the Urban Land Regulations and the Urban Real Estate Law permit the leasing of granted land use rights and of buildings or homes. On December 1, 2010, MOHURD promulgated the Measures for the Administration of Leases of Commodity Buildings (《商品房屋租賃管理辦法》) (the “**New Lease Measures**”), which became effective on February 1, 2011 and replace the Measures for the Administration of Leases of Buildings in Urban Areas (《城市房屋租賃管理辦法》), which were promulgated by the Ministry of Construction on May 9, 1995. Pursuant to the New Lease Measures, within 30 days after a lease contract is entered into, the parties thereto shall file with the local property administration authority. Any failure to comply with this filing requirement shall lead to a fine. According to the Urban Real Estate Law, rental income derived from any building situated on allocated land, or on land for which the landlord has acquired only allocated land use rights, must be turned over to the State.

INSURANCE

There are no mandatory provisions in the PRC laws, regulations or government rules that require real estate developers to take out insurance policies for real estate projects.

REGULATORY OVERVIEW

According to the Construction Law of the People's Republic of China (《中華人民共和國建築法》) promulgated by the Standing Committee of the NPC on November 1, 1997 and became effective on March 1, 1998, and amended with effect on April 22, 2011, construction enterprises must take out accident and casualty insurance for workers engaged in occupationally hazardous operations and pay an insurance premium. In the Opinions of the Ministry of Construction on Strengthening the Insurance of Accidental Injury in Construction (建設部關於加強建築意外傷害保險工作的指導意見) promulgated by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasized the importance of insuring accidental injuries on construction sites and provided detailed guidance.

According to the Rules of Guangdong Province for Implementing the PRC Fire Control Law (廣東省實施《中華人民共和國消防法》辦法) revised on July 23, 2010 by the Standing Committee of the Guangdong Provincial People's Government, public gathering places must carry public liability insurance for fire accidents.

REAL ESTATE LOANS

Commercial Bank Loans

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

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

On May 31, 2006, the PBOC promulgated the Notice on Relevant Matters Regarding Adjusted Housing Credit Policies (中國人民銀行關於調整住房信貸政策有關事宜的通知). The notice provides that, beginning June 1, 2006, the first installment payment for an individual house purchased using a mortgage loan must be at least 30% of the purchase price. However, for houses purchased for self-residential purposes and with a gross floor area of not more than 90 sq.m., the 20% first installment payment regulation continues to apply.

REGULATORY OVERVIEW

On July 29, 2008, the PBOC and the CBRC issued the Notice on Financially Promoting the Economisation and Intensive Use of Land (中國人民銀行、中國銀行業監督管理委員會關於金融促進節約集約用地的通知), which among other things,

- prohibits PRC commercial banks from granting loans to property developers for the purpose of paying land premiums;
- regulates secured loans for land reserves in various respects including a requirement to obtain a land use certificate, a requirement to secure up to 70% value of security's appraised value, and limiting the length of maturity to no more than two years;
- prudently grants or extends loans to property developers who (i) delay the commencement of development date specified in the land transfer agreement for more than one year; (ii) has not finished one-third of the intended project; or (iii) has not invested one-fourth of the intended total project investment;
- prohibits granting loans to property development projects that have been idle for two years; and
- prohibits accepting land that has been idle for two years as security for loans.

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

- For families (including debtors, their spouses and their minor children) who have bought a residential house using loans and are applying for loans to buy a second residential house or subsequent residential houses, the down payments of the loans must be at least 40%, and interest rates should be strictly commensurate with the credit risks.
- Banks are prohibited from offering loans for a property development project or to a property developer that is not in compliance with credit loan regulations or policies.

On April 17, 2010, the State Council issued the Notice on Strictly Restraining the Excessive Growth of the Property Prices in Some Cities (國務院關於堅決遏制部分城市房價過快上漲的通知), according to which a stricter differential housing credit policy shall be enforced. It provides, among other things, that (1) for first-time family buyers (including the borrower, his spouse and his minor children) of apartments larger than 90 sq.m., a down payment of at least 30% of the purchase price must be paid; (2) the down payment requirement on second-home mortgages was raised from 40% to at least 50% of the purchase price and the interest rate of the loan must be at least 1.1 times the benchmark rate; and (3) for home buyers who buy three or more houses, even higher requirements on both down payments and interest rates shall be levied. In addition, the banks can suspend housing loans to home buyers who are buying their third or subsequent homes in places where house prices have risen too rapidly and the housing supply is insufficient.

REGULATORY OVERVIEW

On September 29, 2010, the PBOC and the CBRC jointly issued the Notice on Relevant Issues Regarding the Improvement of Differential Mortgage Loan 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通知), which (i) raised the minimum down payment to 30% of the purchase price for all first-home purchases using mortgage loans; (ii) required commercial banks in China to suspend mortgage loans (1) to customers buying their third or subsequent residence; and (2) to non-local residents who cannot provide documentation certifying payment of local tax or social security for more than one year; and (iii) prohibited the granting of new project bank loans or the extension of loans for all property companies with records of non-compliance regarding, among other things, holding idle land, changing the land use to a use beyond the scope of the designated purpose, postponing the commencement or completion of construction, or hoarding properties.

TRUST FINANCING

On October 1, 2001, The Trust Law of the People's Republic of China (《中華人民共和國信託法》) (the “**Trust Law**”), promulgated by the Standing Committee of the NPC on April 28, 2001, came into effect. The Trust Law regulates settlers, trustees and beneficiaries that engage in civil, business or public welfare trust activities within the PRC. For purposes of the Trust Law, a trust exists when a settler, based on his faith in the trustee, entrusts his property rights to the trustee and allows the trustee to, according to the will of the settler and in the name of the trustee, administer or dispose of such property in the interest of a beneficiary or for any other intended purpose. The trust property shall be segregated from the property owned by the trustee. If the trustee dies or the trustee as a corporate body is dissolved, removed or is declared bankrupt according to applicable law, and the trusteeship is accordingly terminated, the trust property shall not form part of his estate or liquidation property.

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

On March 1, 2007, The Management Measures for Trust Companies (《信託公司管理辦法》) promulgated by the CBRC on January 23, 2007 came into effect. For the purposes of these measures, “trust financing company” shall mean any financial institution established pursuant to the PRC Company Law and these Measures, and that primarily engages in trust activities; and the term “trust activities” shall mean any activities of a trust financing company through which it accepts a trust and handles trust affairs as a trustee and obtains remuneration. A trust financing company engaging in trust activities shall comply with the law, administrative regulations and with the trust document, and may not harm the interests of the State or the public, or the legal rights and interests of third parties. To become a trust financing company, a financial institution shall be approved by the CBRC and shall obtain a financial business license. A trust financing company may apply to engage in cash trusts, movable property trusts, real estate property trusts or any other business regulated by PRC laws and regulations or approved by the CBRC. When a trust financing company manages or disposes of trust property,

REGULATORY OVERVIEW

it must be honest, prudent and efficient in carrying out its responsibilities. Meanwhile, trust property is not part of the trust financing company's own property and does not constitute a liability of the trust financing company toward the beneficiary. When a trust financing company is terminated by way of liquidation or dissolution, trust property shall not be part of its property subject to liquidation.

On February 4, 2009, the amended Measures for the Administration of Trust Companies' Trust Plans of Assembled Funds (《信託公司集合資金信託計劃管理辦法》) promulgated by the CBRC came into effect. This regulation is applicable to the establishment of trust plans of assembled funds (“**Trust Plan**”) in the PRC. Trust Plans must be established according to relevant industry policies, laws and regulations, and shall have an explicit investment target and strategy. For the purposes of this regulation, “Trust Plan” includes any trust activity in which the trust financing company acts as a trustee, according to the will of the settler, or administers or disposes of the settler's property in the interest of a beneficiary. The property in a Trust Plan is segregated from property owned by the trust financing company. A trust financing company is prohibited from mixing the property in a Trust Plan with its own property. When a trust financing company is dissolved, deregistered or declared bankrupt according to the law, property in Trust Plans shall not form part of the liquidation property.

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

From October 2008 to November 2010, the CBRC issued several regulatory notices in relation to real estate activities conducted by trust financing companies, including a Circular on Relevant Matters Regarding Strengthening the Supervision of the Real Estate and Securities Businesses of Trust Companies (關於加強信託公司房地產、證券業務監管有關問題的通知), promulgated by the CBRC on October 28, 2008 and effective beginning the same date, pursuant to which trust financing companies are restricted from providing trust loans, in form or in nature, to (i) property projects that have not obtained the requisite land use rights certificates, construction land planning permits, construction work planning permits and construction work commencement permits; (ii) property developers that have not been issued Class 2 (or higher class) qualification certificates by the relevant competent construction authorities; (iii) property projects of which less than 35% of the total investment is funded by the property developers' own capital (the 35% requirement was changed to 20% for affordable housing and ordinary commodity apartments, and to 30% for other property projects as provided by the Notice on Adjusting the Capital Ratio of Fixed Assets Investment Projects (國務院關於調整固定資產投資項目資本金比例的通知) issued by the State Council on May 25, 2009; and (iv) property developers for paying land premiums or for working capital purposes.

REGULATORY OVERVIEW

LOCAL LEGISLATION

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

ESTABLISHMENT OF REAL ESTATE ENTERPRISES

In accordance with the Urban Real Estate Law, which was revised on August 30, 2007, “real estate development enterprise” is defined as any enterprise that engages in developing and operating real estate. In accordance with the Administrative Regulations on the Development and Operation of Urban Real Estate (《城市房地產開發經營管理條例》), which were promulgated and implemented on July 20, 1998 by the State Council, the establishment of a real estate development enterprise shall, in addition to the conditions for the establishment of enterprises prescribed by the relevant laws and administrative regulations, fulfill the following conditions:

1. The registered capital shall exceed RMB1 million; and
2. The enterprise shall have more than four full-time technical personnel who hold certificates of qualification in real estate and construction engineering, and more than two full-time accountants who hold certificates of qualifications.

People’s governments of the provinces, autonomous regions and municipalities directly under the central government may, in light of the conditions of their respective localities, establish requirements for registered capital and specialized technical personnel more stringent than those in the preceding paragraph.

Pursuant to the Regulations on Real Estate Development in Guangdong Province (《廣東省房地產開發經營條例》), which were revised by the Standing Committee of the Guangdong Provincial People’s Congress and enforced on October 16, 1997, the self-owned current capital of a real estate development enterprise in Guangdong Province shall be at least RMB3 million, and real estate development enterprises with different qualification classifications should adhere to the appropriate requirements regarding full-time professional technicians.

Pursuant to the Regulations on Real Estate Development in Hunan Province (《湖南省城市房地產開發經營管理辦法》), which were 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 shall be at least RMB4 million, and real estate development enterprises with a different qualification classification should adhere to the appropriate requirements regarding full-time professional technicians.

REGULATORY OVERVIEW

In accordance with the Urban Real Estate Law, establishing a real estate development enterprise requires registering with the Administration for Industry and Commerce. The Administration for Industry and Commerce shall handle the registration procedures for, and issue licenses to, only those registrants who comply with this law. Those which establish a limited liability company or limited stock company to engage in real estate development and operations shall also comply with the relevant provisions of the Corporate Law. A real estate enterprise shall report its establishment to the department of real estate development designated by a people's government above the county level where the registration department is located within one month of obtaining its business license.

Qualifications of Real Estate Development Enterprises

Classification and Rating of Qualifications of Real Estate Development Enterprises

In accordance with the relevant provisions of the Administrative Regulations on the Development and Operation of Urban Real Estate (《城市房地產開發經營管理條例》), a real estate development enterprise should, within 30 days of obtaining a business license, report its establishment to the competent department of real estate development of the locality where the registration authority is located. The competent department of real estate development should, on the basis of the real estate enterprise's assets, specialized technical personnel, and development and management achievements, assess the competency level of the real estate development enterprise. The real estate development enterprise should, in accordance with its assessed level of competency, undertake appropriate real estate development projects.

On March 29, 2000, the Ministry of Construction promulgated the Regulations on Administration of the Qualifications of Real Estate Development Enterprises (《房地產開發企業資質管理規定》). Pursuant to the regulations, enterprises engaged in real estate development should apply for an enterprise qualification level. Enterprises that fail to obtain certificates of real estate investments (hereinafter referred to as qualification certificates) shall not engage in the real estate development business.

Enterprises engaged in real estate development are classified into four qualification levels, Level I, Level II, Level III and Level IV, in accordance with the enterprise's characteristics. The preliminary examination of the Level I qualification should be performed by administrative departments at the provincial level and then reported to the construction administrative departments of the State Council for approval. The examination measures for enterprises in Level II or lower should be developed by the construction administrative department at the provincial, autonomous region or municipal level. Those enterprises passing the qualifying examination should be awarded the corresponding levels of qualification certificates by the qualifying examination departments. Newly-established real estate enterprises should be recorded by a competent department of real estate development within 30 days of receiving a business license. The competent department of real estate development should verify and issue a provisional qualification certificate (《暫定資質證書》) to any enterprise that conforms to the conditions within 30 days of receiving its application. Provisional qualification certificates are valid for one year. A competent department of real

REGULATORY OVERVIEW

estate development may extend the valid period of a provisional qualification certificate for up to two years, depending on actual conditions. An enterprise engaged in real estate development shall apply to the competent department of real estate development for verification of its qualification level one month before the expiration of its provisional qualification certificate.

According to the Regulations on Real Estate Developments in Guangdong Province, a developer who seeks to establish a real estate development enterprise should obtain an approval from the provincial or municipal people's government or the construction authority authorized by them, and shall apply for a qualification certificate in accordance with the rules. The qualifications of real estate development enterprises are classified into four classes: class 1, class 2, class 3 and class 4.

Under the Regulations on Real Estate Developments in Hunan Province, real estate development enterprises are classified into five classes: class 1, class 2, class 3, class 4 and provisional qualification. The class 1 qualification shall be subject to preliminary assessment by the real estate development authority under the people's government of the province and to final approval by the construction authority under the State Council; classes 2, 3 and 4 and the provisional qualification shall be assessed by the real estate development authority under the people's government of the province. For classes 3 and 4 and the provisional qualification, the real estate development authority under the people's government of the province can entrust the real estate development authority under the municipal people's governments in cities with district divisions and autonomous prefectures to assess the qualifications and report to the relevant people's governments of the province. The qualification certificate is valid for three years. The provisional qualification certificate is valid for one year. The authority can extend the validity period of provisional qualification certificates for up to two years after considering the actual business situation of an enterprise.

Business Scope of Real Estate Development Enterprises

Pursuant to the relevant provisions of the Regulations on the Administration of the Qualifications of Real Estate Development Enterprises (《房地產開發企業資質管理規定》), an enterprise shall develop and manage real estate only within its prescribed business scope, and shall not undertake tasks beyond those appropriate to its level. Level I real estate development enterprises are not subject to restrictions on the scale of their projects. Real estate development enterprises in Level II and below may construct projects with an area smaller than 250,000 sq.m. The specific range of business is determined by the competent construction administrative department at the provincial level.

The Regulations on Real Estate Developments in Guangdong Province have not set out any express provisions addressing the permitted scope of real estate projects.

Under the Regulations on Real Estate Developments in Hunan Province, the gross floor area of a project to be developed by a class 1 real estate developers are not subject to restrictions on the gross floor area of projects they may develop. The gross floor area of projects developed by class 2 real estate developers should be smaller than 250,000 sq.m. Class 3 real estate developers may undertake projects with a gross floor area of up to 150,000 sq.m. The gross floor area of project to be developed by class 4 real estate developers and developers with a provisional qualification should be less than 50,000 sq.m.

REGULATORY OVERVIEW

Annual Inspection of the Qualifications of Real Estate Development Enterprises

Pursuant to the relevant provisions of the Regulations on the Administration of Qualifications of Real Estate Development Enterprises (《房地產開發企業資質管理規定》), an annual inspection system has been implemented to inspect the qualifications of real estate development enterprises. For enterprises that do not conform to the original qualification conditions or that have engaged in objectionable acts, their qualification certificates should be downgraded or canceled by the original qualification approval department. The annual inspection of real estate development enterprises with Level 1 qualification is the responsibility of a competent construction administrative department of the State Council or its authorized authority. For the annual inspection of real estate development enterprises in level II or below, the competent construction administrative department of provinces, autonomous regions and municipalities directly under the central government shall develop the administrative measures.

Under the Regulations on Real Estate Developments in Guangdong Province, the qualifications of a real estate developer should be annually inspected.

Under Hunan Province's Detailed Rules for the Implementation of the Administration of the Qualifications of Real Estate Development Enterprises (湖南省房地產開發企業資質管理實施細則), the qualifications of real estate developers should also be annually inspected.

FOREIGN INVESTMENT IN PROPERTY DEVELOPMENT

On July 11, 2006, the Ministry of Construction, MOFCOM, the NDRC, the PBOC, the SAIC and SAFE jointly issued the Options on Regulating the Entry and Administration of Foreign Investment into the Real Estate Market (關於規範房地產市場外資進入和管理的意見) (the “**171 document**”). The 171 document provides that: (i) foreign organizations and individuals who have established foreign invested enterprises are permitted to invest and purchase non-self-residential real estate in China; branches of foreign organizations established in China and foreign individuals who work or study in China for longer than one year are eligible to purchase, using their real names, commercial houses that match their actual needs for personal use or use as a home; (ii) the registered capital of foreign-invested real estate corporations with total investments of more than US\$10 million shall be at least 50% of its total investment; (iii) foreign-invested real estate corporations may apply for a foreign-invested enterprise approval certificate (外商投資企業批准證書) and business license (營業執照) only after they have fully settled their land premiums and obtained the State-owned land use rights certificate; (iv) foreign investors shall pay off the entire transfer price as a lump sum with their own funds if they acquire Chinese domestic real estate corporations; (v) no offshore or Chinese domestic loans are permitted and the foreign exchange administration shall not approve the conversion of foreign loans into RMB if the foreign-invested real estate corporations have not contributed their registered capital in full, or have not obtained the State-owned land use rights certificate, or if their capital for a development project is less than 35% of the total investment; and (vi) Chinese or foreign investors are prohibited from guaranteeing, in any contract, a fixed return or fixed revenue in disguised form.

REGULATORY OVERVIEW

On August 14, 2006, the General Office of MOFCOM promulgated the Notification on Relevant Issues on Implementing the Opinions on Regulating Foreign Capital Admittance and Management in the Property Market (商務部辦公廳關於貫徹落實《關於規範房地產市場外資准入和管理的意見》有關問題的通知). According to this notification, foreign-invested property enterprises with a total investment exceeding US\$3 million but not more than US\$10 million shall have registered capital of at least 50% of its total investment and its registered capital shall be at least 70% when the total investment is less than or equal to US\$3 million. Foreign investors that merge domestic property enterprises through stock equity transfers and other means shall appropriately arrange their staff, deal with banking debts, and pay off all transfer payments in a lump sum with its own funds within three months of the issuing date of their foreign-invested enterprise business license. Foreign investors that acquire stock equity of the Chinese side with a foreign-invested property enterprise shall appropriately arrange its staff, deal with banking debts, and pay off all consideration for the transfer in a lump sum with its own funds within three months of the issuing date of their foreign-invested enterprise business license.

MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Administration Regarding Foreign Direct Investment in the Real Estate Industry (商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知) (the “**No. 50 Notice**”) on May 23, 2007. Under the No. 50 Notice, local commercial authorities should reinforce the approval and supervision process applicable to foreign-invested real estate enterprises, and strictly control foreign funds from investing in high-end real estate development projects. Foreign-invested companies intending to engage in property development, should first obtain land use rights, or should at least have entered into a pre-contract purchase agreement for obtaining land use rights or property ownership with the relevant land administrative authorities, land developers, or the owners of the house or other buildings; otherwise, the proposed foreign-invested real estate company will not be approved by the authorities. An existing foreign-invested company that intends to expand its business operations or a company that intends to operate or develop a new real estate project should undertake the relevant procedures with the approval authorities.

The General Department of SAFE issued the Notice on Issuing the List of the First Batch of Foreign-Invested Real Estate Projects Having Passed the Procedures for Filing with the Ministry of Commerce (國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) (the “**No. 130 Rule**”) on July 10, 2007. The No. 130 Rule includes the list of the first batch of foreign-funded real estate projects that have passed MOFCOM’s filing procedures. In addition, according to the No. 130 Rule, real estate enterprises with foreign investment that has been filed with MOFCOM on or after June 1, 2007 shall not be permitted to borrow money from overseas, including through shareholder loans and foreign commercial loans. Further, for those that fail to file with MOFCOM after June 1, 2007, foreign exchange registrations, foreign exchange alteration registrations, and the sale and purchase of foreign exchange under capital account will not be effected by SAFE or its branches.

REGULATORY OVERVIEW

On December 24, 2011, MOFCOM and the NDRC jointly issued a revised Catalog, which became effective on January 30, 2012 and provides, among other things, that the development and construction of high-end hotels, high-end office buildings and international convention centers by foreign invested enterprises shall be restricted. The construction and operation of villas by foreign invested enterprises shall be prohibited. The real estate enterprises with foreign investment can be established as Sino-foreign joint ventures, sino-foreign cooperative ventures or as wholly foreign-owned enterprises. Prior to registering their establishment, enterprises shall be approved by MOFCOM or its local branches and obtain a certificate of approval for the establishment of enterprises with foreign investment (外商投資企業批准證書).

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

On April 6, 2010, the State Council issued the Opinions on Further Enhancing the Utilization of Foreign Investment (國務院關於進一步做好利用外資工作的若干意見), which provides that projects with a total investment (including capital increase) of less than US\$300 million in an industry in which foreign investment is encouraged or permitted as listed in the Catalog, may be approved by local governments, except for those that need to be approved by relevant departments of the State Council, as specified in the Catalog of Investment Projects Approved by the Government.

On June 10, 2010, MOFCOM issued the Notice Relating to Decentralizing the Examination of and Approval Power Regarding Foreign Investment (商務部關於下放外商投資審批權限有關問題的通知). It stipulates that for the establishment of foreign-invested enterprises with total investments of less than US\$300 million under the encouraged and permitted categories, and less than US\$50 million under the “restricted” category as specified in the Catalog, MOFCOM’s branches at the provincial, autonomous region or municipal level shall be in charge of examination and approval. For the establishment of foreign-invested enterprises with total investments of more than US\$300 million under the “encouraged” and “permitted” category, where there is no need for a comprehensive balance review by the State, institutions for approval are at the local authority level.

Moreover, on November 22, 2010, MOFCOM promulgated the Notice on Strengthening the Administration of the Approval and Registration of Foreign Investment in the Real Estate Industry (商務部辦公廳關於加強外商投資房地產業審批備案管理的通知), which provides, among other things, that when a real estate enterprise is established within the PRC with overseas capital, it is prohibited from purchasing and/or selling real estate properties completed or under construction in the PRC for arbitrage purposes. The local MOFCOM authorities are not permitted to authorize investment companies to engage in real estate development business.

REGULATORY OVERVIEW

PROPERTY SERVICE ENTERPRISES

Foreign-Invested Property Service Enterprises

Pursuant to the Catalog, property management services fall into the “permitted” category. Foreign-invested property service enterprises can be established in the form of Sino-foreign joint ventures, Sino-foreign cooperative ventures or wholly foreign-owned enterprises. Prior to registering its establishment, an enterprise shall be approved by MOFCOM or MOFCOM’s local branches, and shall obtain a certificate of approval for the establishment of enterprises with foreign investment.

Qualifications for Property Service Enterprises

Enterprises that engage in property management shall implement a qualifications management system pursuant to relevant state regulations in the Property Management Regulations (《物業管理條例》), which were implemented on September 1, 2003 and revised on August 26, 2007. Pursuant to the relevant regulations in the Measures on the Management of the Qualifications of Property Service Enterprises (《物業服務企業資質管理辦法》), which were implemented on May 1, 2004 and revised on November 26, 2007, newly-established property service enterprises shall submit files to competent departments in charge of municipal property directly under the central government and the People’s governments of cities with districts where commercial registrations are conducted for the application for qualifications within 30 days of receiving the registration certificates. The qualifications examination organs shall audit and issue qualifications certificates of a level appropriate to the enterprises.

In accordance with the Measures on the Administration of the Qualifications of Property Service Enterprises (《物業服務企業資質管理辦法》), the qualifications of property service enterprises are divided into level I, level II and level III. The competent construction department of the State Council is responsible for issuing and managing level I qualification certificates. Competent construction departments under the provincial and autonomous regional People’s Governments are responsible for issuing and managing level II qualification certificates, and competent real estate construction departments under the People’s Government of municipalities directly under the central government are responsible for issuing and managing level II and III qualification certificates, under the guidance and supervision of the competent construction departments of the State Council. The competent real estate construction departments of cities with districts are responsible for issuing and managing level III qualification certificates, under the guidance and supervision of competent construction departments under the provincial and autonomous regional People’s Governments.

Level I property service enterprises shall undertake various property management projects. Level II property service enterprises shall undertake property management of residence projects which are less than 300,000 sq.m. and non-residence projects which are less than 80,000. Level III property service enterprises shall undertake property management of residence projects which are less than 20,000 sq.m. and non-residential projects which are less than 50,000 sq.m. An annual check system has been implemented for property service enterprises.

REGULATORY OVERVIEW

Pursuant to relevant regulations in the Property Management Regulations in Guangdong Province (《廣東省物業管理條例》), which were implemented on October 1, 1998 and revised on November 28, 2008, during the period of pre-phase property management, construction companies shall recruit property service enterprises that have relevant qualifications through bidding; when the number of bidders is fewer than three or the total construction area is less than 50,000 sq.m., property management enterprises with relevant qualifications may be recruited through agreement, subject to the approval of the property management department of the district or the People's Government at the county level.

Recruitment of Property Service Enterprises

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

Regulation on property service charges

The Guangdong Price Control Bureau and the Guangdong Provincial Department of Housing and Urban-Rural Development established management procedures and provisions for charging property management service fees, which became effective on April 1, 2010, to safeguard the legitimate rights and interests of owners and of property services companies.

LANDSCAPING ENTERPRISES

Foreign-Invested Landscaping Enterprises

Pursuant to the provisions of the Catalog, the landscaping industry falls into the “permitted” category. In accordance with the relevant laws and regulations, foreign-invested landscaping enterprises may be established in the form of Sino-foreign joint ventures, Sino-foreign cooperative ventures or wholly foreign-owned enterprises. Prior to registering its establishment, an enterprise shall be approved by MOFCOM or by its local authorities and obtain a certificate of approval (外商投資企業批准證書) for the establishment of enterprises with foreign investment.

Qualifications of Landscaping Enterprises

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

REGULATORY OVERVIEW

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

The qualifications of landscaping enterprises can be categorized into level I, level II and level III. Newly established urban landscaping enterprises shall submit the required documents to the competent administrative department of urban landscaping to apply for the preliminary examination of qualification; a Qualifications Trial Implementation Certificate of Urban Landscaping Enterprises (城市園林綠化企業資質試行證書) will be issued after approval for the preliminary examination has been obtained. The competent administrative department of urban landscaping shall conduct an official qualification audit and investigation of the enterprise and issue a qualification certificate upon approval. Enterprises that have passed the audit and obtained the Qualifications Trial Implementation Certificate of Urban Landscaping Enterprises (城市園林綠化企業資質證書) shall be subject to annual inspections by the qualification inspection department.

EMPLOYMENT

The Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) was promulgated by the Standing Committee of the NPC on June 29, 2007 and implemented January 1, 2008. This law sets out specific provisions relating to the execution, contents and terms of employment contracts, and the rights and obligations of employees and employers (including minimum wage requirements). This law provides, among others, that at the time of hiring, the employer shall truthfully inform the employee as the scope of work, working conditions, place of work, occupational hazards, production safety conditions, compensation and as to other matters at the employee's request. In addition, unless otherwise prohibited by the PRC Labor Contract Law or objected to by the employees, the employer is also required to enter into non-fixed-term employment contracts with employees who have already entered into fixed-term employment contracts for two consecutive terms. Further, when an employment contract is terminated in accordance with the specific situations mentioned in the PRC Employment Contract Law, the amount of compensation shall equal the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer. The employer is also required to issue to the employee proof of termination of the employment contract and shall carry out the procedures for transferring the employee's file and social insurance account within 15 days. An employer needs to archive all terminated employment contracts for at least two years. The implementation of this law protects both employees and employers. Our Company shall comply with this law.

REGULATORY OVERVIEW

In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》), which were promulgated by the State Council on December 14, 2007 and became effective on January 1, 2008, employees who have worked continuously for more than one year are entitled to paid vacation ranging from five to 15 days, depending on the the duration of their employment. Employees who consent to waive such vacation at the request of employers shall be compensated in an amount equal to three times their normal daily salaries for each vacation day being waived.

The Employment Promotion Law of the PRC (《中華人民共和國就業促進法》), which was promulgated by the Standing Committee of the NPC on August 30, 2007, has been in force since January 1, 2008. This law mainly regulates the employment systems such as employment supporting services and human resource market. This law sets out specific provisions relating to the hiring practices of employers to ensure an equal opportunity environment for all candidates. This law provides that employers cannot apply different hiring criteria to men and women, or refuse employment solely on the basis of gender, background or disability. Further, an employer may not contractually restrict female employees from marrying or bearing children.

PRC TAXATION

PRC Deed Tax

Under the Provisional Regulations of the PRC on the Deed Tax (《中華人民共和國契稅暫行條例》) which took effect on October 1, 1997, deed tax applies to entities and individuals that accept the transfer of land use rights and the ownership of houses within the territory of the PRC.

The transfer of ownership of houses refer to the following acts:

- Assignment of the right to use state-owned land;
- Transfer of land use rights, including transfer by means of sale, gift and exchange, excluding the transfer of the right contract for the management of rural collective land;
- Purchase and sale of houses;
- Gift of houses; and
- Exchange of houses.

REGULATORY OVERVIEW

The transfer of land use rights and the ownership of houses by the means of the following methods are also deemed to be governed by the above regulation, as stipulated by the Implementation Rule of Provisional Regulation on Deed Tax (《中華人民共和國契稅暫行條例細則》):

- Using land use rights and ownership of a house as investment;
- Setting off debt with land use rights and the ownership of house;
- Obtaining land use rights and the ownership of a house as a prize; and
- Obtaining land use rights and the ownership of a house by the way of purchasing in advance.

The rate of deed tax will, within the range of three to five percent, be determined by the PRC government agencies of provincial, autonomous region and municipal level in light of the actual conditions of the underlying properties respective areas and shall be reported to the Ministry of Finance and the State Administration of Taxation.

The deed tax will be reduced or exempted under the following circumstances:

- For the acceptance of land and houses by state agencies, institutions, social organizations and military units for office, teaching, medical service, scientific research and military facilities, the deed tax will be exempted;
- For the initial purchase of state-owned residential houses by urban and township workers and staff members according to the provisions of relevant laws and regulations, the deed tax will be exempted;
- For the purchase of residential houses in replacement of houses damaged or destroyed due to force majeure, the deed tax will, upon approval, be reduced or exempted according to the circumstances; and
- Any other types of reduction or exemption provided by the Ministry of Finance.

Reduction or exemption of deed tax will not be applicable if the relevant land or house and the change of use is no longer within the above mentioned scope, and an amount of tax equivalent to the tax reduction or exemption should be repaid.

REGULATORY OVERVIEW

Income Tax

According to the PRC CIT Law of the People's Republic of China (《中華人民共和國企業所得稅法》) enacted by the National People's Congress on March 16, 2007 and relevant implementation rules enacted by the State Council on December 6, 2007, both in effect from January 1, 2008, a uniform income tax rate of 25% will be applied towards PRC enterprises, foreign investment enterprises and foreign enterprises which have set up production and operation facilities in the PRC. The PRC CIT Law also permits enterprises to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules, under which enterprises that were subject to PRC CIT rate of 15% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new CIT rate within five years after the effective date of the PRC CIT Law, that is 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and the new statutory CIT rate of 25% from 2012 onwards. In addition, under the phase-out rules, enterprises established before the promulgation date of the PRC CIT Law and which were granted tax holidays (such as a two-year exemption and three years of reduction by 50% and a five-year exemptions and five years of reduction by 50%) under the then effective tax laws or regulations may continue to enjoy their tax holidays until their expiration.

Under the PRC CIT Law, in effect from January 1, 2008, a withholding tax of 20% will be applicable to dividends paid by foreign-invested enterprises to foreign investors, unless otherwise stipulated in tax treaties concluded between Chinese government and other jurisdictions. However, due to a tax treaty between the PRC and Hong Kong on August 21, 2006, a company incorporated in Hong Kong will be subject to a withholding tax at a rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company. In addition, the PRC State Administration of Taxation promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, 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.

According to the Implementation Rule of the PRC CIT Law, if an enterprise incorporated outside the PRC has its "de facto management body" located within the PRC, such an enterprise may be recognized as a PRC tax resident enterprise and subject to CIT at the rate of 25%. According to the PRC CIT Law, dividends received by a qualified PRC tax resident from another qualified PRC tax resident are exempted from CIT. However, the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC CIT purposes. Therefore, it is possible that future guidance issued with respect to the new "resident enterprise" classification could result in a situation in which a withholding tax of 20% for non-PRC enterprise shareholders or a potential withholding tax of 20% for non-PRC individual shareholders is imposed on dividends that a foreign enterprise pay to them.

REGULATORY OVERVIEW

Business Tax

Pursuant to 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》) enacted by the State Council on November 10, 2008 and effective as of January 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 and effective as of January 1, 2009 the tax rate on transfers of immovable properties, their superstructures and attachments is 5%.

On May 30, 2006, the State Administration of Taxation promulgated the Notice Regarding Issues Relating to Strengthening the Administration of Levy and Collection of Business Tax on Residential Properties (關於加強住房營業稅徵收管理有關問題的通知). This notice requires that, among other things, starting from June 1, 2006, for residential properties sold within five years since the original purchase, a business tax is levied on the total selling price; for ordinary residential properties sold more than five years (inclusive) after the original purchase, the business tax is exempted. For non-ordinary residential properties sold more than five years (inclusive) after the original purchase, the business tax is levied on the difference between the selling price and the original purchase price.

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation 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 28, 2011:

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

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》) promulgated by the State Council on December 13, 1993 and its implementation rules, land appreciation tax or LAT, applies to both domestic and foreign investors, irrespective of whether they are corporate entities or individuals. LAT is payable on the appreciation in value representing the balance of the proceeds received on sales, after deducting various prescribed items. LAT is charged at progressive rates ranging from 30% to 60%. An exemption from payment of LAT may be available if the taxpayer constructs ordinary residential apartments and the appreciation amount does not exceed 20% of the sum of

REGULATORY OVERVIEW

deductions allowed under PRC laws. If, however, the appreciation amount exceeds 20% of the sum of allowable deductions, such an exemption is not available and the taxpayer will be liable to LAT on the full appreciation amount, after taking account of the allowable deductions. The allowable deductions include the following items:

- Payment made to acquire land use rights;
- Costs and expenses related to land development and the construction of the properties;
- Construction costs and charges in the case of newly constructed buildings and facilities or assessed value in the case of old buildings and structures;
- Taxes in connection with the transfer of real estate; and
- Other items stipulated by the Ministry of Finance.

LAT is charged at progressive rates ranging from 30% to 60% of the appreciation value (i.e., the balance as described above).

<u>Appreciation value</u>	<u>LAT rates (%)</u>
For the portion	
Not exceeding 50% of allowable deductions	30
Over 50% but not more than 100% of allowable deductions	40
Over 100% but not more than 200% of allowable deductions	50
Over 200% of allowable deductions.	60

Urban Land-use Tax

Pursuant to the Provisional Regulations of the People's Republic of China Governing Land-Use Tax in Cities and Towns (《中華人民共和國城鎮土地使用稅暫行條例》) enacted by the State Council on September 27, 1988, effective as of November 1, 1988 and revised on December 31, 2006, land-use taxes in respect of urban land is to be levied according to the area of relevant land. According to the Approval on Land-Use Tax Exemption of Foreign Investment Enterprises (關於外商投資企業免徵土地使用稅問題的批復) issued by the State Administration of Taxation on March 27, 1997, land-use fees instead of land-use taxes were to be collected from foreign-invested enterprises. However, the Provisional Regulations of the People's Republic of China Governing Land-Use Tax in Cities and Towns was revised by the State Council on December 31, 2006. As of January 1, 2007, land-use taxes are to be collected from foreign-invested enterprise. The annual tax is between RMB0.6 and RMB30.0 per square meter of urban land. On June 1, 2007, the State Administration of Taxation promulgated the Approval on Levy of Urban Land-Use Tax of Foreign Investment Enterprises and Foreign Enterprise (關於外商投資企業和外國企業徵收城鎮土地使用稅問題的批復) and restated the above points.

REGULATORY OVERVIEW

Real Estate Tax

Pursuant to State Council Order 546 (中華人民共和國國務院令第546號) on December 31, 2008, starting from January 1, 2009, all enterprises, organizations and individuals that own or use real estate in China shall subject to real estate tax by using the calculation method as mentioned in the PRC Provisional Rules on Real Estate Tax (《中華人民共和國房產稅暫行條例》) promulgated by the State Council on September 15, 1986 according to which, real estate tax is calculated on the remaining original book value depending on where the real estate is located, at a rate of 1.2%, or on the rental income derived by the real estate at a rate of 12%.

FOREIGN CURRENCY EXCHANGE

On December 28, 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (中國人民銀行關於進一步改革外匯管理體制的公告), effective on January 1, 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the settlement and payment system of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On June 20, 1996, the PBOC promulgated the Regulations for the Administration of the Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

The principal regulation governing foreign currency exchange in the PRC is the Regulations for the Control of Foreign Exchange or the Foreign Exchange Regulations (《中華人民共和國外匯管理條例》), promulgated by the State Council in January 1996, as amended in January 1997 and August 2008. Under these regulations, Renminbi are freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but are not freely convertible for capital expenditure such as direct investment, loans or investments in securities outside the PRC unless the approval of SAFE is obtained in advance.

Under the Foreign Exchange Regulations, foreign-invested enterprises in the PRC may purchase foreign currency for trade and service-related foreign exchange transactions without the approval of the State Administration of Foreign Exchange by providing commercial documents evidencing these transactions. They may also remit foreign currency to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign-invested enterprises to purchase and remit foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loans and investments in securities outside the PRC are subject to limitations and require approvals from SAFE.

REGULATORY OVERVIEW

Pursuant to the SAFE'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), or SAFE Circular No. 75, issued on October 21, 2005, (i) a PRC resident is required to register with the local branch of SAFE before he or she establishes or controls an overseas special purpose vehicle, or overseas SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident transfers assets of or equity interests in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interests into an overseas SPV, such a PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material capital change event outside of China, such as a 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 SAFE. In May 2007 and May 2009, SAFE issued guidance to its local branches with respect to the procedures for SAFE registration, which strengthens the supervision on registration pursuant to SAFE Circular No. 75 and imposes obligations on onshore subsidiaries of the overseas SPVs to coordinate with and supervise the relevant PRC residents to complete the registration.

Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and impact its ability to distribute dividends to the overseas SPV. The failure may also result in such penalties as being ordered to remit the foreign exchange illegally paid out of China back into China, as well as the imposition of fines up to more than 30% but not more than such amount of foreign exchange illegally paid out.

On July 11, 2006, the Ministry of Construction, MOFCOM, the NDRC, the PBOC, SAIC and SAFE jointly issued the Opinions on Regulating the Entry and Administration of Foreign Investment into the Real Estate Market (關於規範房地產市場外資准入和管理的意見) (the "171 document"). The 171 document provides that: (i) foreign organizations and individuals who have established FIEs are allowed to invest and purchase non-self-resided real estate in China; branches or representative offices of foreign organizations established in China and foreign individuals who work or study in China for over a year are eligible to purchase commodity properties which match their real needs for self-utilization or self-residence under their real names; (ii) the registered capital of foreign-invested real estate corporations with total investments of more than US\$10 million shall be no less than 50% of its total investment; (iii) foreign-invested real estate corporates can apply for the formal FIE approval certificate and business license only after they have paid back all the land premium and obtained the State-owned land use rights certificate; (iv) foreign investors shall pay off all the transfer price in a lump sum with their own funds if they acquire Chinese domestic real estate corporations; (v) no offshore or Chinese domestic loan is allowed and the foreign exchange administration shall not approve the conversion of foreign loans into RMB if the foreign-invested real estate corporations have not paid their registered capital in full, or have not obtained the State-owned land use rights certificate, or their internal fund for a development project is less than 35% of the total investment; and (vi) by no means can Chinese or foreign investors make any commitment in any documents to guarantee a fixed return or fixed revenue in disguised form for any party in the contract.

REGULATORY OVERVIEW

In accordance with the 171 document, MOFCOM and SAFE jointly issued a Notice on Further Strengthening and Regulating the Approval and Administration regarding Foreign Direct Investment in the Real Estate Industry (商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知) (“**No. 50 Notice**”) on May 23, 2007. Under the Notice, local commercial authorities should reinforce the approval and supervision process over foreign invested real estate enterprises, and strictly control foreign fund from investing in high-end real estate development projects. For foreign-invested company intending to engage in the property development business, the land use rights should be obtained, or at least has entered into pre-contract purchase agreement with the relevant land administrative authorities, land developers, or the owners of the house or other constructions, otherwise the proposed foreign-invested real estate company will not be approved by the authorities. For existing foreign-invested company who intends to expand its operations in its business operation or company who intends to engage in the operation or development of the new real estate project, they should undertake relevant procedures with the approval authority.

No. 50 Notice strictly controls the acquisition or merger of domestic real estate enterprises by means of return investment (includes the same effective controller). It also prohibits Chinese or foreign investors in real estate joint ventures to reach any terms that aim to achieve a fixed return for either party. Once the local authority has approved the establishment of a foreign-invested real estate enterprise, it should immediately file such approval with MOFCOM.

The local SAFE administrative authority and designated foreign exchange bank will not conduct foreign exchange purchase and settlement process for foreign-invested real estate company who fails to satisfy MOFCOM filing requirements or to pass the joint annual examination of foreign-invested enterprises.

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

According to No. 130 Notice, registration regarding the establishment of foreign-invested real estate enterprises shall be made with MOFCOM. However, such real estate enterprises with foreign investment as filed with MOFCOM will not be permitted to borrow money from overseas, including through shareholder loans and foreign commercial loans. Further, for those which fail to file with MOFCOM after June 1, 2007, neither foreign exchange registration, foreign exchange alteration registration nor sale and purchase of foreign exchange under capital account will be effected with SAFE or its branches.

REGULATORY OVERVIEW

On August 29, 2008, SAFE issued the “Notice of the General Department of SAFE on Improving on Relevant Business Operations Issues Concerning the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises” (國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) (“**Notice 142**”) which regulates the conversion by a foreign-invested enterprise of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Notice 142 requires that the Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise may only be used for purposes within the business scope of the relevant foreign invested companies approved by the applicable governmental authority and cannot be used for equity investments or acquisitions within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise. An offshore holding company that uses foreign exchange to invest in real estate businesses in the PRC is typically required to conduct the real estate operations through PRC subsidiaries that were established as foreign-invested real estate companies and invest in such foreign-invested PRC subsidiaries through equity contribution. In addition, it is required to complete the requisite filing procedures with MOFCOM before it can remit any funds from offshore. The use of such Renminbi capital may not be changed without SAFE’s approval, and may not, in any case, be used to repay or prepay Renminbi loans if such loans have not been used. Violations of Notice 142 will result in severe penalties, such as heavy fines set out in the relevant foreign exchange control regulations.