

ESTABLISHMENT OF A REAL ESTATE DEVELOPMENT ENTERPRISE

According to the Law of the People's Republic of China on the Administration of Urban Real Estate 《中華人民共和國城市房地產管理法》 (the "Urban Real Estate Law") promulgated by the NPC, effective in January 1995 and revised on August 30, 2007, a real estate developer is defined as an enterprise which engages in the development and operation of real estate for the purpose of making profits. Under the Regulations on Administration of Development of Urban Real Estate 《城市房地產開發經營管理條例》 (the "**Development Regulations**") promulgated by the State Council in July 1998, an enterprise which is to engage in the development of real estate must satisfy the following requirements in addition to other enterprise establishment conditions provided in relevant laws and administrative regulations:

- its registered capital must be RMB1 million or more; and
- it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom must hold the relevant qualification certificate.

The provincial-level government may, based on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a real estate developer. For example:

According to the Administration Method on Urban Real Estate Development of Hunan Province 《湖南省城市房地產開發經營管理辦法》 promulgated on April 12, 2006 and effective on June 1, 2006, the registered capital of a real estate developer established in the Hunan Province shall be no less than RMB4 million, and the real estate developers with different qualification classification should comply with their respective requirements of full-time professional technicians.

According to the Administration Regulation on Urban Real Estate Development of Guangxi Autonomous Region 《廣西壯族自治區城市房地產開發經營管理條例》 passed on January 18, 1997 and revised on July 31, 2004, the registered capital of a real estate developer in the Guangxi Autonomous Region shall be no less than RMB1 million; and shall have no less than four full-time professional property/construction technicians and no less than two full-time accounting officers, each of whom shall hold the relevant qualification certificate.

According to the Administration Regulation on Urban Real Estate Development of Shandong Province 《山東省城市房地產開發經營管理條例》 effective on October 12, 1995 and revised on July 27, 2002 and November 25, 2004, the registered capital of a specialized real estate developer in Shandong Province shall be no less than RMB10 million, and shall employ eight professional technicians and two full-time certified accountants. Further, the registered capital of a real estate developer with one specified project shall be no less than thirty percent of its project investment amount.

According to the Notice to Approve and Distribute the Administration Regulation on Real Estate Developer of Tianjin by the Government of Tianjin Municipality 《天津市人民政府批轉市建設交通委市工商局擬定的天津市房地產開發企業管理規定的通知》 effective on March 1, 2011, the registered capital of a specialized real estate developer in Tianjin shall be no less than RMB30 million, and shall employ qualified professional technicians according to the laws and regulations.

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According to the Administration Regulation on Urban Real Estate Development of Liaoning Province 《遼寧省城市房地產開發經營管理規定》 promulgated by the Government of Liaoning Province on November 19, 2001, the registered capital of a real estate developer in Liaoning Province shall be no less than RMB1 million, and shall employ no less than five full-time qualified professional technicians, among which, there shall be no less than one employee with qualified certificate of construction at or above the intermediate level, and should have professional statistician and no less than two accountants with qualified certificates.

According to the Administration Regulation on Urban Real Estate Development of Hubei Province 《湖北省城市房地產開發經營管理辦法》 promulgated on November 19, 1999, the registered capital of a real estate developer established in Hubei Province shall be no less than RMB2 million, and the real estate developer shall employ relevant full-time professional technicians and accountants.

According to the Regulation on Real Estate Development of Guangdong Province 《廣東省房地產開發經營條例》 promulgated by the standing committee of the people's congress of Guangdong Province on September 22, 1997, the qualification of the real estate developer is classified into four classes. The self-owned liquidity of real estate developers with the qualification of class 1, class 2, class 3 and class 4 shall be no less than RMB20 million, RMB10 million, RMB5 million and RMB3 million, respectively, and the real estate developers with different qualification classifications shall comply with their respective requirements of full-time professional technicians.

To establish a real estate development enterprise, the developer must apply for registration with a relevant SAIC office at or above the county level, which should, in examining the application for the registration, seek the views of the competent government department of real estate development at the corresponding level. The developer must also report its establishment to the department of real estate development in the location of its registration within 30 days of the receipt of its business license. Where a foreign-invested enterprise (“FIE”) is to be established to engage in the development and sale of real estate, it must also comply with the relevant requirements under the PRC laws and administrative regulations regarding foreign-invested enterprises and apply for approvals relating to foreign investments in China.

Under the Notice on Adjusting the Proportion of Capital Fund for Fixed Assets Investment of Certain Industries 《國務院關於調整部分行業固定資產投資項目資本金比例的通知》 issued by the State Council on April 26, 2004, the proportion of capital fund of real estate projects (excluding affordable housing projects) has been increased from 20% or above to 35% or above. However, pursuant to the Notice on Adjusting the Percentage of Capital Fund for Investment Projects in Fix Assets 《關於調整固定資產投資項目資本金比例的通知》 issued by the State Council in May 2009, the minimum proportion of the capital funding for ordinary commodity housing projects and social security housing development projects has been reduced to 20%, while that for other real estate projects has been decreased to 30%.

NEW RULES OF FOREIGN INVESTMENT IN THE PRC REAL ESTATE MARKET

A foreign investor intending to engage in the development and sale of real estate in the PRC may establish an equity joint venture, a contractual cooperative joint venture or a wholly foreign-owned enterprise by the foreign investor in accordance with the PRC laws and administrative regulations regarding FIEs.

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However, a foreign investor may not develop a whole land lot through a wholly foreign-owned enterprise. According to the Foreign Investment Industrial Guidance Catalog 《外商投資產業指導目錄》 revised by MOFCOM and NDRC on December 24, 2011 and came into effect on January 30, 2012 (the “Catalog 2011”), 1) foreign investment in the development of a whole land lot (limited to equity joint ventures and cooperative joint ventures) and the construction and operation of luxury hotels, premium office buildings, international conference centers and large theme parks, as well as property trading in the secondary market and property agency or brokerage, is subject to restrictions; 2) foreign investment in other types of property development is permitted; and 3) foreign investment in the construction and management of golf courses and villas is prohibited.

On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE issued the Opinion on Regulating the Access and Management of Foreign Capital in the Property Market 《關於規範房地產市場外資准入和管理的意見》 (“171 Opinion”), which provides, among other things, that a foreign investor investing in PRC real estate other than for self-use must establish an FIE and, if its investment is over US\$10 million, the registered capital of the FIE shall be at least 50% of the total investment amount. In addition, such real estate FIE is not allowed to obtain loans (domestic or overseas) unless its registered capital has been fully paid, the relevant land use rights certificate has been obtained and at least 35% of the total project investment has been injected as the initial capital fund of the relevant project.

The 171 Opinion also contains restrictions on the purchase of properties located in the PRC by foreign individuals and entities. It provides that branches and representative offices (except for those that are approved to conduct real estate business) of foreign institutions in the PRC and foreign individuals who work or study in the PRC for more than one year may purchase real property to satisfy their own actual need but not for any other purpose. Foreign institutions which have no branches or representative offices in the PRC or foreign individuals who work or study in the PRC for less than one year are prohibited from purchasing any real property in the PRC. Residents of Hong Kong, Macau and Taiwan and foreigners of Chinese origin are not subject to the one-year residency requirement and may purchase real property within a limited GFA in certain limited areas in the PRC for their own residence. On September 1, 2006, SAFE and the Ministry of Construction jointly issued the Notice in Respect of Standardization of Issues Relating to Management of Foreign Exchange of Real Estate Market 《關於規範房地產市場外匯管理有關問題的通知》. This notice provides, among other things, the specific procedures for purchasing houses by branches and representative offices established in the PRC by foreign institutions, foreign individuals who work or study in the PRC for more than one year, and residents of Hong Kong, Macau and Taiwan as well as foreigners of Chinese origin.

On May 23, 2007, MOFCOM and SAFE promulgated the Circular on Further Reinforce and Standardize the Examination and Supervision on Foreign Direct Investment in Real Estate Industry 《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》 which provides stricter control measures. Under this circular, prior to applying for establishment of real estate companies, foreign investors must first obtain land use rights and building ownership, or must have entered into pre-sale or pre-grant agreements with respect to the land use rights or building ownership. If foreign-invested enterprises in China engage in real estate development or operations or if real estate FIEs in China engage in new real estate project developments, they must first apply to the relevant PRC governmental authorities to expand their scope of business or scale of operations in accordance with the PRC laws and regulations related to foreign

investments. In addition, the local PRC governmental authorities must file with MOFCOM for record their approvals of establishment of real estate FIEs, and must exercise due control over foreign investments in high-end properties. Foreign exchange authorities may not allow capital-account foreign exchange sales and settlements by real estate FIEs that have been established in contravention of these requirements.

On June 18, 2008, MOFCOM issued the Notice on Proper Handling of Document Filing for Foreign Investment in the 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》. According to the notice, the competent provincial-level MOFCOM offices are authorized to verify the materials for filing submitted by real estate FIEs, and MOFCOM together with other departments of the State Council shall conduct spot-checks over the above enterprises.

QUALIFICATIONS OF REAL ESTATE DEVELOPERS

Classes of Qualifications

Under the Provisions on Administration of Qualifications of Real Estate Developers 《房地產開發企業資質管理規定》 (the “Provisions on Administration of Qualifications”) promulgated by the Ministry of Construction in March 2000, a real estate developer must apply for registration of its qualifications. An enterprise may not engage in property development without a qualification certificate for real estate development. The Ministry of Construction is in charge of the management of qualifications of all real estate developers in the PRC, and local real estate development authorities at or above the county level are in charge of the management of qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes. Class 1 qualifications are subject to preliminary examination by the construction authorities at the provincial level and final approval of the Ministry of Construction. Class 2 or lower qualifications are regulated by the construction authorities at the provincial level.

Under the Provisions on Administration of Qualifications, the real estate development authorities will examine applications for registration of qualifications submitted by real estate developers by mainly considering their registered capital and financial condition, the duration of conducting a real estate development business, the professional personnel they employ, performance and operating results from past real estate operations and quality control. A real estate developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. A developer of one qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another classification. The real estate development authorities perform annual inspections of qualified developers. Developers who fail to meet the qualification requirements or operate in breach of the requirements may have their qualification classification certificates degraded or revoked.

For a newly established real estate developer, the real estate development authority will issue a provisional qualification certificate, if it is eligible, within 30 days of receipt of the application. The provisional qualification certificate will be effective for one year from its date of issuance and may be

extended for not more than two additional years with the approval of the real estate development authority. The real estate developer must apply for qualification classification to the real estate development authority within one month before expiration of the provisional qualification certificate. Failure to obtain the required provisional or formal qualification certificate may result in a fine ranging from RMB50,000 to RMB100,000 and revocation of the developer's business license if such failure is not rectified within a prescribed period.

According to the Administration Method on Urban Real Estate Development of Hunan Province 《湖南省城市房地產開發經營管理辦法》, the qualification of real estate developers shall be examined as follows: 1) the class 1 qualifications shall be subject to preliminary examination by provincial real estate development supervising authority and then final approval of the construction authority under the State Council; 2) class 2 or lower qualifications shall be subject to examination by provincial real estate development supervising authority; among which, class 3, 4 and provisional qualification could be subject to examination by municipal or autonomous region's real estate development supervising authority, and then filing for record with provincial real estate development supervising authority.

According to the Administration Regulation on Urban Real Estate Development of Guangxi Autonomous Region 《廣西壯族自治區城市房地產開發經營管理條例》, qualifications of real estate developers are classified into four classes, and no classification for real estate developers which do not solely engage in real estate development or engage in only one aspect of real estate development. The qualification of the real estate developers with foreign investment, as well as the qualifications of real estate developers which do not solely engage in real estate development, real estate developers which engage in only one aspect of real estate development, and real estate developers with class 2, 3 and 4 qualification, shall be subject to preliminary examination by the municipal development authority, and then final approval of the construction authority under the government of autonomous region. For a newly established real estate developer, the construction authority under the government of autonomous region shall issue a provisional qualification certificate. The provisional qualification certificate shall be effective for one year from its issuance while the construction authority under the government of autonomous region may extend the term to a period of no longer than two years by taking into consideration the actual business situation of the enterprise.

The Business Scope of Real Estate Developers

Under the Provisions on Administration of Qualifications, a developer of one qualification classification may only engage in the development and operation of the property within its approved scope of business and may not engage in business which falls outside the approved scope of its qualification classification. A class 1 real estate developer may undertake a real estate development project anywhere in the country without limit on the scale. A real estate developer of class 2 or lower may undertake a project with a GFA of less than 250,000 sq.m. and the specific scope of business shall be formulated by the provincial-level construction authority.

According to the Administration Method on Urban Real Estate Development of Hunan Province 《湖南省城市房地產開發經營管理辦法》, real estate development enterprises shall comply with the following regulations when engaging real estate development project: 1) a real estate developer of class 4 or provisional qualification may undertake a project with a GFA of less than 50,000 sq.m.; 2) a real estate developer of class

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3 qualification may undertake a project with a GFA of less than 150,000 sq.m.; 3) a real estate developer of class 2 qualification may undertake a project with a GFA of less than 250,000 sq.m.; and 4) a class 1 real estate developer may undertake a real estate development project without limit on the scale.

According to the Administration Regulation on Urban Real Estate Development of Guangxi Autonomous Region 《廣西壯族自治區城市房地產開發經營管理條例》, real estate developers shall undertake real estate development projects in accordance with their respective qualification. Real estate developers shall submit their qualification certificate for examination with their real estate development project applications.

Annual Inspection of Qualification

Pursuant to Provisions on Administration of Qualifications, the qualification of a real estate developer shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of class 1 real estate developers' qualifications. Procedures for the annual qualification inspection of developers of class 2 or lower qualifications shall be formulated by the provincial-level construction authorities.

LAND BANK FOR REAL ESTATE DEVELOPMENT

According to the Measures on Administration of Land Bank 《土地儲備管理辦法》 promulgated by the Ministry of Land and Resources, Ministry of Finance and PBOC on November 19, 2007, the land reserve institution refers to the independent legal entity which is affiliated to the local land administrative bureau, and the following land may be brought into land bank: (1) state-owned land reclaimed in accordance with law; (2) land repurchased by the government; (3) land obtained by the government by exercising priority purchase right; (4) the agricultural land that has gone through usage modification and expropriation process; and (5) other land obtained in accordance with law.

Where the land is required to be expropriated due to adjustment to previous urban area planning, the local land resource administrating authority shall apply to the competent government for approval and pay the users of the expropriated land compensations. The land bank authority may also purchase land from the land users through negotiation and therefore shall enter into a land use rights purchase contract with the land user and the compensation shall be negotiated between the land bank authority and the land user based on the assessed value of the land, and approved by state-owned land resources administrative authority, financial department and institutions defined by local regulations.

With the approval of stated-owned land resource administrating authority, the land bank authority has the right to conduct activities such as preliminary development, protection, management, temporary using and financing for land bank and preliminary development, etc. After the preliminary development, the land bank may be brought into the local land supply plan.

DEVELOPMENT OF REAL ESTATE PROJECTS**Approval for Real Estate Projects**

Under the Catalogue 2011, foreign investments are restricted in the development of a whole land lot and the construction and operation of luxury hotels, premium office buildings, international conference centers and large theme parks, as well as property trading in the secondary market and property agency or brokerage. According to the Interim Provisions on Approving Foreign Investment Project 《外商投資項目核准暫行管理辦法》 promulgated by NDRC in October 2004, approval of NDRC is required for foreign investment projects with total investment of US\$100 million or more within the category of encouraged or permitted foreign investments and those with total investment of US\$50 million or more within the category of foreign investments subject to restrictions. Other foreign investments in China will require only the approval of the local development and reform authority. Specifically, the local authorities may examine and approve foreign investment projects with total investment less than US\$100 million within the category of encouraged or permitted foreign investments and those with total investment less than US\$50 million within the category of foreign investments subject to restrictions.

Land for Real Estate Project

In April 1988, NPC amended the PRC Constitution to permit the transfer of land use rights for value. In December 1988, NPC amended the Land Administration Law accordingly.

Under the Interim Regulations of the People's Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land 《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》 (the "Interim Regulations on Grant and Assignment") promulgated by the State Council in May 1990, China adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium to the state as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially utilize the land use rights within the term of use after the land user's satisfaction of the obligations provided in the land use rights grant contract. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authority at the city or county level may enter into a land use rights grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land use rights grant contract. After payment in full of the land premium, the land user may register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The Urban Real Estate Law and the Development Regulations provide that land use rights for a site intended for real estate development should be obtained through grant except for land use rights which may be obtained through premium-free allocation by the PRC government pursuant to the PRC laws or the stipulations of the State Council. Government allocated land is not allowed to be transferred unless the transfer is approved by the relevant PRC governmental authorities and the land premium as determined by the relevant PRC governmental authorities has been paid.

Under the Regulations on the Grant of State-Owned Land Use Rights Through Competitive Bidding, Auction and Listing-for-Sale 《招標、拍賣、掛牌出讓國有土地使用權規定》 promulgated by the Ministry of Land and Resources in May 2002, land for commercial use, tourism, entertainment and commodity housing

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development must be granted by competitive bidding, public auction or listing-for-sale. After the announcement of supply plan on land for use other than commercial use, tourism, entertainment and commodity housing development, if there are more than one potential bidder for a particular piece of land, competitive bidding, public auction or listing-for-sale shall also be employed in the grant of land use rights. Under these regulations, the relevant land administration authority at the city or county level, as grantor, is responsible for preparing the public auction and competitive bidding documents and must make an announcement 20 days prior to the day of public auction or competitive bidding with respect to the particulars of the land parcel and the time and venue of the public auction or competitive bidding. The grantor must also conduct a qualification verification of the bidding and auction applicants, accept an open public auction to determine the winning tender or hold an auction to ascertain a winning bidder. The grantor and the winning tender or bidder will then enter into a confirmation followed by the execution of a contract for grant of state-owned land use rights.

According to the Provisions on the Assignment of State-Owned Construction Land Use Right through Competitive Bidding, Auction and Listing-for-Sale 《招標、拍賣、掛牌出讓國有建設用地使用權規定》 promulgated by Ministry of Land and Resources on September 28, 2007 and effective on November 1, 2007, a user of land shall not be issued the land use rights certificate if it fails to pay off the agreed land premium in full.

On September 24, 2003, the Ministry of Land and Resources issued the Notice on Strengthening the Land Supply Management and Promoting the Sustainable Sound Development of Real Estate Market 《關於加強土地供應管理促進房地產市場持續健康發展的通知》 designed to closely monitor land supply for high-end property development.

According to the Notice on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction 《關於加強城市建設用地審查報批工作有關問題的通知》 issued by the Ministry of Land and Resources on September 4, 2003, land use for luxurious commodity properties shall be stringently controlled, and applications for land use for building villas shall be stopped.

On May 30, 2006, the Ministry of Land and Resources published an Urgent Notice on Tightening Land Administration 《國土資源部關於當前進一步從嚴土地管理的緊急通知》. The notice requires that all land used for property development must be assigned by competitive tender, auction or listing-for-sale, and land supply for medium to low priced, small to medium sized ordinary commodity house or low-rental house shall be satisfied with priority and the land supply for large sized, low density residential houses shall be strictly restricted. The notice further stipulates that the supply of land for new villa projects shall be suspended.

In March 2007, the NPC adopted the PRC Property Rights Law 《中華人民共和國物權法》, which became effective on October 1, 2007. According to the Property Rights Law, when the term of the right to use construction land for residential (but not other) purposes expires, it will be renewed automatically. Unless it is otherwise prescribed by any law, the owner of construction land use rights has the right to transfer, exchange, and use such land use rights as equity contributions or collateral for financing. If the state takes the premises owned by entities or individuals, it must compensate the property owners in accordance with law and protect the lawful rights and interests of the property owners.

On December 30, 2007, the General Office of State Council issued the Notice on the Strict Implementation of the Rules and Policies of Rural 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》, which strictly limits the conversion of farming land to construction land.

Idle Land

Under the Urban Real Estate Law, those who have obtained land use rights by way of grant must develop the land in accordance with the use and period of commencement as prescribed in the relevant land-grant contract. According to the Measures on Disposing of Idle Land 《閒置土地處置辦法》 promulgated and implemented by the Ministry of Land and Resources on April 28, 1999, as revised on June 1, 2012, a parcel of land can be considered idle if:

- The development and construction of the land has not begun after one year from the commencement date stipulated in the state-owned construction land grant contract or transfer decision; or
- The development and construction of the land has begun, but the area of the development and construction 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 the development and construction has been continuously suspended for one year or more.

In the event that the delay in the development and construction of a particular parcel of land is confirmed to have been caused by the government, the city- or county-level land authority shall give notice to and negotiate with the land user and draft a proposal on disposing of the idle land, including, but not limited to, extending the time period for development and construction (for no longer than one year), changing the use of the land, arranging for temporary use, withdrawing the land by agreement, replacing the land and others. Such local land authority shall, after the government at the corresponding level approves the proposal on disposal, arrange for the implementation of the proposal.

Save for the exception above, the city or county-level land authority may charge the user of idle land a disposing fee equivalent to 20% of the land premium; if the construction work has not been begun after two years have elapsed from the commencement date as specified in the state owned construction land grant contract, such authority may revoke the grant of land use rights without compensation.

On September 8, 2007, the Ministry of Land and Resources promulgated a Notice on Strengthening the Disposing of Idle Land 《關於加大閒置土地處置力度的通知》, providing that the grant of state-owned land use rights shall be granted by ways of “Cultivated Land”. It means that the Grant of State-owned Land Use Rights can only be transferred after the payment of compensation fees for landing and settlement and completion of the land development at the earlier stage. The notice also prescribes that the State-owned Land Use Rights Certificate shall not be issued before the land grant premium for acquisition of land has been paid in full, nor be issued separately according to the ratio of payment of land grant premium.

The Notice on Promoting Economization of Land Use 《關於促進節約集約用地的通知》 issued by the State Council in January 2008 further confirmed the idle land fee at 20% of the land premium. If we fail to commence such development for more than two years, the land is subject to forfeiture to the PRC government unless the delay in development is caused by government actions or force majeure. Even if the commencement of the land development complies with the land grant contract, if the developed GFA on the land is less than one-third of the total GFA of the project or if the total capital expenditure is less than 25% of the total investment of the project and the suspension of the development of the land is more than one year without government approval, the land will still be treated as idle land.

Project Planning

Under the Measures for Administration of Planning of Grant and Assignment of Right to Use Urban State-Owned Land 《城市國有土地使用權出讓轉讓規劃管理辦法》 promulgated by the Ministry of Construction in December, 1992, the grantee under a land use rights grant contract, i.e. a real estate developer, should further apply for a permit for construction site planning from the relevant municipal planning authority. After obtaining such permit, the real estate developer can conduct the procedure for the land use rights certificate and organize the necessary project construction planning and design work for approval.

According to the PRC Urban and Rural Planning Law 《中華人民共和國城鄉規劃法》 passed by the NPC on October 28, 2007, a comprehensive urban planning shall cover the development arrangement of the city or town, the functions of different zones, the arrangement of land for various purposes, integrated traffic system, the areas where construction is prohibited, restricted, or permitted, as well as the conservation of natural and historical heritages, and the measures to prevent and alleviate natural calamities.

Rural planning shall cover the arrangement and construction requirements for the facilities of residence, roads, water supply, drainage, electricity supply, garbage disposal, breeding of domestic animal and poultry, as well as facilities for public welfare.

The construction of infrastructure and public facilities shall be given priority in a city's development. Natural resources and natural environment shall be conserved and protected. The planning, construction and management of landscape shall comply with laws and regulations.

Regarding a construction project, in which the land use rights are obtained through allocation, the developer shall apply to the urban and rural planning authority for a site selection opinion prior to applying for project approval from competent authorities. However, the site selection opinion is not required if the land use rights are granted through other means other than allocation.

Regarding the assignment of land use rights, prior to the assignment, urban and rural planning authority shall formulate detailed planning requirements for the land to be assigned. Such requirements shall be incorporated into the land grant contract. No assignment of land use rights is permitted if planning requirement has not been available to follow.

Expropriation and Compensation

In accordance with the Regulations on Expropriation and Compensation of Buildings on State-Owned Land 《國有土地上房屋徵收與補償條例》 promulgated by the State Council in January 2011, the responsible party who intends to expropriate buildings on the state-owned land for public interest shall compensate the building owners fairly. For safeguarding national security and promoting national economic and social development and other public interests, City- or county-level governments may make the decision to expropriate the housing.

The municipal government and municipal government at the county level are in charge of expropriation and compensation of the housing their own administration divisions. The expropriation and compensation shall be organized and implemented by the housing expropriation department assigned by the municipal government and municipal government at the county level. The housing expropriation department shall draft the compensation plan, and submit the plan to the municipal government and municipal government at the county level. The municipal government and municipal government at the county level shall discuss the compensation plan and announce the plan for public opinions.

Compensation for expropriation may be effected by way of monetary compensation or exchange of property rights. If the monetary compensation method is used, the amount of compensation shall be assessed based on the real property market price. If the property exchange or replacement method is used, the government and the building owners subject to expropriation shall compare the amount of compensation due and the value of the replacement property, and calculate the difference. In addition to the compensation, the government will also pay a removal allowance to the building owners subject to expropriation. On August 31, 2006, the State Council promulgated a Notice on Strengthening Administration of Land 《國務院關於加強土地調控有關問題的通知》 which increased the amount of relocation compensation paid to farmers and various other land use fees.

Commencement of Construction Works

When the site has been properly prepared and is ready for the commencement of construction works, the developer must apply for a permit for the commencement of works from the construction authorities at or above the county level according to the Measures for Administration of Granting Permission for Commencement of Construction Works 《建築工程施工許可管理辦法》 promulgated by the Ministry of Construction in October 1999, as amended in July 2001.

Completion

After completion of construction works for a project, the real estate developer must organize an acceptance examination by relevant government authorities and experts according to the Development Regulations and the Interim Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure 《建設部關於印發房屋建築工程和市政基礎設施工程竣工驗收暫行規定》 which was promulgated by the Ministry of Construction in June 2000. A real estate development project may not be delivered until and unless it has satisfactorily passed the necessary acceptance examination. For a housing estate or other building complex project, an acceptance examination shall be conducted upon completion of the whole project. In the

case of a cluster real estate development project, like a residential area developed in phases, the acceptance examination may be carried out for each completed phase.

REAL ESTATE TRANSACTION

Sale of Commodity Properties

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

Pre-sale of Commodity Properties

Any pre-sale of commodity properties must be conducted in accordance with the Measures for Administration of Pre-sale of Commodity Properties 《城市商品房預售管理辦法》 (the “Pre-sale Measures”) promulgated by the Ministry of Construction in November 1994, as amended in August 2001 and July 2004. The Pre-sale Measures provide that any pre-sale of commodity properties is subject to specified procedures. According to the Development Regulations and the Pre-sale Measures, a pre-sale permit must be in place before a commodity property may be put up for pre-sale. Specifically, a developer intending to sell a commodity property before its completion must apply to the real estate development authority for a permit for pre-sale. A commodity property may only be sold before completion if the following conditions have been met:

- the land premium has been paid in full for the grant of the land use rights involved and a land use rights certificate has been properly obtained;
 - a construction works planning permit and a commencement of works permit have been obtained;
 - the funds invested in the development of the commodity properties put up for pre-sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been properly ascertained;
 - the pre-sale of commodity properties has been registered and a pre-sale permit has been obtained;
- and
- compliance with local regulations enacted by local government to supplement the national requirements.

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

Under the Circular on Forwarding the Opinion of Such Departments as the Ministry of Construction on Good Handling of Stabilizing House Prices 《國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知》 promulgated by General Office of the State Council in May 2005, the purchaser of a pre-sold commodity property is prohibited from transferring such pre-sold property before the completion of its construction. Property developers are required to register pre-sales and sales of properties electronically with the local authorities on a real name and real time basis.

Supervision of Pre-sale Income of Commodity Properties

According to the Pre-sale Measures, the income of a real estate developer from the pre-sale of commodity properties must be used for the construction of the relevant projects. The specific measures for the supervision of the income from the pre-sale of commodity properties shall be formulated by the real estate administration authorities.

Under the Regulations on Administration of Pre-sale of Commodity Properties of Guangdong Province 《廣東省商品房預售管理條例》 promulgated on October 1, 1998 and revised on October 14, 2000, prior to the application for a permit for pre-sale of commodity property, a real estate developer should open a special property pre-sale account with a commercial bank in the place where the project is located. Where a developer has several commodity properties for pre-sale, it shall set up separate special accounts for each commodity building. Before the project is completed, the funds in the special account must only be used to purchase the necessary construction materials and facilities or pay for the construction costs and tax in relation to the project. The buyer of a pre-sold commodity property shall directly deposit the payment in the special pre-sale payment account pursuant to the time of payment in the pre-sale contract. The property transaction registration agencies of the cities and the counties where the pre-sale commodity buildings are located shall be responsible for the supervision and administration of such pre-sale payments. When the developer wishes to use the pre-sale income, the bank shall allocate the funds according to the amount approved by the property transaction registration authority. Where the developer is in violation of the aforesaid provisions, the administrative departments in charge shall make orders to rectify and demote or revoke a developer's qualification for real estate development, and may impose a fine equal to an amount of 10% to 20% of the illegally used funds.

Conditions on the Sale of Post-completion Commodity Properties

Under the Measures for Administration of Sale of Commodity Properties 《商品房銷售管理辦法》 promulgated on April 4, 2001, completed commodity properties may be put up for sale only when the following preconditions have been satisfied:

- The real estate development enterprise shall have a business license and a qualification certificate of a real estate developer;
- The enterprise shall obtain a land use rights certificate or other approval documents of land use;
- The enterprise shall have the permit for construction project planning and the permit for construction;
- The commodity house shall have been completed, inspected and accepted as qualified;
- The relocation of the original residents shall have been well settled;
- The supplementary essential facilities for supplying water, electricity, heat, gas, communication, etc. shall have been made ready for use, and other supplementary essential facilities and public facilities shall have been made ready for use, or the schedule of construction and delivery date shall have been specified;
- The property management plan shall have 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 evidencing the satisfaction of preconditions for post-completion sale to the real estate development supervising authority for making a record.

Transfer of Real Estate

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

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

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

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

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

Property Leasing

Under the Administrative Measures for Commodity Property Leasing (《商品房屋租賃管理辦法》) promulgated by MOHURD in December 2010, property owners are permitted to lease their properties to others for residential or commercial uses except as otherwise prohibited by relevant law, and parties to a lease of a property should enter into a lease. Where a lease contract is signed, renewed, altered or terminated, the parties shall, within 30 days, conduct the relevant registration procedures with the government department where the lease was originally registered. A tenant may, upon consent from the landlord, assign or sublet the premises to sub-tenants. Under the Contract Law of the People's Republic of China (《中華人民共和國合同法》) promulgated by NPC on March 15, 1999, leasing of buildings shall not exceed 20 years.

According to the Urban Real Estate Law, when a building is leased out, the rental income derived from any underlying land for which the landlord has acquired only allocated land use rights must be turned over to the State.

Mortgages of Real Estate

Under the Urban Real Estate Law, the Security Law of PRC (《中華人民共和國擔保法》) promulgated by NPC in June 1995, and the Measures for Administration of Mortgages of Urban Real Estate (《城市房地產抵押管理辦法》) promulgated by the Ministry of Construction in May 1997, as amended in August 2001, when a mortgage is created on the ownership of a property legally obtained, a mortgage must be simultaneously created on the land use rights of the land on which the property is situated. The mortgagor and the mortgagee must sign a mortgage contract. After a real estate mortgage contract has been signed, the parties must register the mortgage with the real estate administration authority at the location where the real estate is situated within 30 days of its execution. If a mortgage is created on a property in respect of which a property ownership certificate has been obtained legally, the registration authority will, when registering the mortgage, make an entry under "third-party rights" on the original property ownership certificate and then issue a certificate of third-party rights to the mortgagee. If a mortgage is created on a commodity property on pre-sale or on work in progress, the registration authority will, when registering the mortgage, record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved shall re-register the mortgage of the real property after issuance of the certificates evidencing the rights and ownership to the real estate.

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

According to the PRC Property Rights Law (《中華人民共和國物權法》), when a property is mortgaged, the right to use construction land within the area of this properties shall be mortgaged together; when the right to use construction land is mortgaged, all the properties on such land shall be mortgaged together. Where a mortgagor fails to mortgage the properties in accordance with the provisions in the preceding paragraph, the

properties not mortgaged shall be treated as having been mortgaged together. The buildings newly constructed on the land after the mortgage of the right to use construction land may not belong to the mortgaged properties. Such newly constructed buildings can be disposed of together with the disposal of the aforesaid right to use construction land so as to realize the mortgage right, however, the mortgagee has no right to seek preferred payments from the money generated from the disposal of these newly constructed land.

When buildings and other objects fixed to land, the right to use construction land and properties under construction are mortgaged, the mortgage registration shall be done through and such mortgage right shall be established as of the date of registration.

REAL ESTATE CREDIT

The PBOC issued a Circular on Further Strengthening the Management of Loans for Property Business 《中國人民銀行關於進一步加強房地產信貸業務管理的通知》 in June 2003 to tighten the requirements for banks to provide loans for the purposes of residential development, individual home mortgage and individual commodity properties as follows:

- Property development loans may be granted to property developers who are qualified for property development, rank high in credibility and have no overdue payment for construction, and the project itself must have been issued with a land use rights certificate, construction land planning permit, construction works planning permit and construction permit. For property developers with commodity properties of high vacancy rates and debt ratios, strict approval procedures must be applied for their new property development loans and their activities must be subject to close monitoring.
- Commercial banks may not grant loans to property developers to pay off land premiums.
- Commercial banks may only provide home loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his/her first residential unit, the down-payment by the borrower remains to be 20%. In respect of his/her loan application for additional purchase of residential unit(s), the down-payment by the borrower should be increased.
- When a borrower applies for a mortgage loan for an individual commercial use property, the mortgage ratio may not be more than 60% of the purchase price. In addition, the term of the loan may not be more than 10 years and the commodity property must be duly completed and delivery accepted after the relevant governmental inspection.

In a Circular on Facilitating the Continuously Healthy Development of Real Estate Market 《國務院關於促進房地產市場持續健康發展的通知》 issued by the State Council in August 2003, a series of measures were adopted by the government to control the real estate market. They included, among others, strengthening the construction and management of low-cost affordable housing, increasing the supply of ordinary commodity housing and controlling the development of high-end commodity properties. Besides, the government also staged a series of measures on the lending for residential development. They included, among others, improving the loan evaluation and lending process, improving the guarantee mechanism of individual

home loans and strengthening the monitoring over property loans. It is expected that the circular will have a positive effect on the development of the PRC property market in the long run by facilitating a continuously healthy growth of the property market in China.

Pursuant to the Guidance on Risk Management of Property Loans Granted by Commercial Banks 《商業銀行房地產貸款風險管理指引》 issued by China Banking Regulatory Commission (“CBRC”) in August 30, 2004, commercial banks may not provide loans in any form for a real estate property development project without the state-owned land use rights certificate, construction land planning permit, construction works planning permit and construction works commencement permit. Any property developer applying for property development loans must have invested at least 35% of capital required for the development and a commercial bank should maintain a strict loan evaluation system for processing applications for property development loans.

On May 24, 2006, the State Council issued the Opinions on Adjusting the Housing Supply Structure and Stabilizing Housing Price 《國務院關於調整住房供應結構穩定住房價格的意見》, including provisions on the property credit as follows:

- Strictly impose credit conditions on property development. In order to suppress property development enterprises from storing up land and housing resources by use of bank loans, commercial banks shall not provide loans to property enterprises that fail to meet loan conditions, for example, having a project capital less than 35%. For property development enterprises with much idle land and vacant commodity buildings, the commercial banks shall, in light of the principle of prudential operations, be stricter in controlling the renewal of loans or any form of revolving credit. The commercial banks shall not accept any commodity building that has been idle for three or more years as collateral for loans.
- From June 1, 2006, the proportion of initial payment of individual housing mortgage loans shall not be lower than 30%. However, considering the demands for housing by the medium and low-income population, the purchase of self-used housing with a GFA of no more than 90 sq.m. is still subject to the provision of the initial payment of housing at 20%.

According to the 171 Opinion, real estate FIEs which have not paid up their registered capital, failed to obtain a land use rights certificate or with less than 35% of the capital for the project will be prohibited from obtaining a loan in or outside China, and SAFE shall not approve the registration of foreign loans from such enterprises.

On September 27, 2007, PBOC and CBRC jointly issued the Notice on Strengthening the Administration of Commercial Real Estate Loan Credits 《關於加強商業性房地產信貸管理的通知》, which further stipulates stringent requirements to the grant of loans in respect to the second and subsequent purchases of property by individuals. For those who have used loans to purchase property and applied for purchasing a second (inclusive) or more property, the down payment shall not be less than 40% of the total purchase price, while the interest rate of such loan shall not be lower than 1.1 times the benchmark interest rate of the same grade for the same period as announced by PBOC. Moreover, the ratio of the down payment and the level of the interest rate of the loan shall be substantially adjusted upwards according to the number of purchases. The

specific magnitude of increase will be determined by commercial banks at their own discretion based on the relevant principles of credit risk management; however, the monthly expense for paying home loan by the individual purchaser shall not be more than 50% of its monthly income.

PROPERTY MANAGEMENT

Property Management FIEs

According to Catalog 2011, property management falls within the category of industries in which foreign investment is permitted. Property management FIEs can be set up as a equity joint venture, cooperative venture or wholly foreign-owned enterprise according to the Catalogs and the relevant requirements of the laws and administrative regulations regarding foreign-invested enterprises. Property management FIEs should obtain the approval from commercial authority and obtain the Approval Certification for a foreign-invested enterprise before registering with the administration for Industry and Commerce.

The Qualification of a Property Management Enterprise

The Regulation on Property Management 《物業管理條例》, enacted by the State Council on June 8, 2003 and revised on August 26, 2007, adopts a system of qualification administration of the enterprises engaging in property management activities. If an enterprise engages in property management without the qualification certificate, the county-level administrative department of property or above shall confiscate the illegal gains and impose a fine ranging from RMB50,000 to RMB200,000; and such enterprise shall be held liable for compensation if any loss has been caused to the owners.

According to the Measures for the Administration on Qualifications of Property Management Enterprises 《物業管理企業資質管理辦法》 enacted by the Ministry of Construction on March 17, 2004 and implemented on May 1, 2004 and revised on November 26, 2007, a newly established property management enterprise shall, within 30 days from the date of receiving the business license, apply for qualifications to the competent government property departments. The departments of qualification examination and approval shall check and issue property management qualification certificates to the enterprises meeting the corresponding qualification class conditions.

According to the Measures for the Administration on Qualifications of Property Management Enterprises 《物業管理企業資質管理辦法》, the qualifications of a property management enterprise shall be classified as the first, second and third classes. The competent construction department of the State Council shall be responsible for issuance and administration of the qualification certificate of the first class property management enterprises. The competent construction departments of the governments of provinces and autonomous regions shall be responsible for issuance and administration of the qualification certificate of the second class property management enterprises, and the competent property administration departments of the governments of municipalities directly under the central government shall be responsible for issuance and administration of the qualification certificate of the second and third class property management enterprises. The competent realty departments of the governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the third class property management enterprises.

APPENDIX V SUMMARY OF PRINCIPAL PRC LEGAL AND REGULATORY PROVISIONS

The property management enterprises with the first class qualification may undertake any realty management projects. The property management enterprises with the second class qualification may undertake the realty management business of residence projects of under 300,000 sq.m. and the non-residence projects of under 80,000 sq.m. The property management enterprises with the third class qualification may undertake the realty management business of residence projects under 200,000 sq.m. and non-residence projects under 50,000 sq.m. An annual review system on the qualifications of property management enterprises is adopted.

Appointment of a Property Management Enterprise

According to the Regulations on Property Management 《物業管理條例》, property owners have the right to enter into property management agreements with property management companies once an owners' association of a residential development has been established. The general meeting of owners in a property can appoint and dismiss the property management enterprise with the consent of half of the total owners with exclusive parts accounting for half of the total area of the building shall be obtained. Before the formal appointment of a property management enterprise by the general meeting of the owners, a written temporary service contract should be signed by the construction institutions (for example, a developer) and a property management enterprise.

According to the PRC Property Right Law, regarding the hire or dismissal of the property management enterprise or any other manager the consent of half of the total owners with exclusive parts accounting for half of the total area of the building shall be obtained.

INSURANCE

There is no mandatory provision in PRC laws, regulations and rules requiring a property developer to take out insurance policies for its real estate developments. According to the common practice of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Pursuant to the PRC Construction Law 《中華人民共和國建築法》, effective as of March 1, 1998 and amended in April 2011, construction companies must pay for the insurance premium at their own costs and take out insurance to cover accidental injury risks in favor of the staff who conducts dangerous operations. In the Opinions on Strengthening the Insurance of Accidental Injury in the Construction Work 《建設部關於加強建築意外傷害保險工作的指導意見》 issued on May 23, 2003, the Ministry of Construction further emphasizes the importance of the insurance of accidental injury in the construction work and put forward the detailed opinions of guidance.

MEASURES ON STABILIZING HOUSING PRICE

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

- Where the housing prices grow too rapidly at a time when the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, construction projects should mainly involve the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses. The construction of low-density, high-end houses should be strictly controlled. The relevant local government authorities are authorized to impose conditions on planning and design of such houses, including building height, plot ratio and green space. They impose requirements such as sale price, type and gross floor area as preconditions to the land grant.
- Where the price of land for residential use and the price of residential housing grow too rapidly, land supply for residential use as a proportion of the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high-end housing property construction should be strictly restricted.
- Land idle fee must be imposed on land that has not been developed for one year from the contractual construction commencement date. Land use rights of land that has not been developed for two years must be forfeited without compensation.
- Commencing from June 1, 2005, a business tax upon the transfer of a residential house by an individual within two years from his/her purchase will be levied on the gain from such transfer. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted. For an individual who transfers a property other than an ordinary residential house after two years from his/her purchase, the business tax will be levied on the difference between the price of such transfer and the original purchase price.
- Ordinary residential houses with medium or small gross floor areas and at medium or low prices may be granted certain preferential treatment in relation to planning permits, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio of the residential development is above 1.0, the GFA of one single unit is less than 120 square meters, and the actual transfer price is lower than 120% of the average transfer price of comparable houses at comparable locations. The local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential houses that may enjoy the preferential policies.
- Transfer of uncompleted commodity properties by any pre-sale purchaser is forbidden. In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale

contract must also be filed with the relevant government agencies electronically immediately after its execution.

The Notice on Adjustment of the Housing Loan Policy and Deposit Rate of Excess Reserve for Commercial Banks 《關於調整商業銀行住房信貸政策和超額準備金存款利率的通知》, promulgated by PBOC on March 16, 2005, has made adjustment to individual housing loan policies of commercial banks as well as individual housing fund loan rate. Pursuant to the notice, the preferential mortgage loan interest rate was replaced by the commercial loan interest rate subject to certain restrictions on the lower limit on such interest rates. In the urban areas or cities with rapidly increased real estate prices, minimum down payment ratio for individual housing loans was adjusted from 20% to 30%.

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

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low-to-medium-cost and small-to-medium-size units and low-cost rental properties;
- requiring that at least 70% of the units in the residential projects approved or constructed on or after June 1, 2006 must be smaller than 90 square meters in terms of GFA and that projects which have received project development approvals prior to that date but have not obtained construction permits must adjust their planning in order to be in conformity with this new requirement. However, municipalities under direct administration of the PRC central government and provincial capitals and certain cities may deviate from such ratio under special circumstances upon approval from the Ministry of Construction;
- increasing the minimum amount of down payment from 20% to 30% of the purchase price of the underlying residential property if the underlying property has a GFA of 90 square meters or more, as effective from June 1, 2006;
- prohibiting commercial banks from lending funds to real estate developers with an internal capital ratio, calculated by dividing the internal funds by the total project capital required for the relevant projects, of less than 35%, restricting the grant or extension of revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties, and prohibiting commercial banks from taking commodity properties which have been vacant for more than three years as security for loans; and
- imposing a business tax levy on the entire sales proceeds from re-sale of properties if the holding period is shorter than five years, effective from June 1, 2006, as opposed to two years as such levy was initially implemented from June 2005. Where an individual transfers a property other than an

ordinary residential property after five years from his/her purchase, the business tax will be levied on the difference between the price for such resale and the original purchase price.

On May 30, 2006, the Ministry of Land and Resources published the Urgent Notice on Tightening Land Administration 《關於當前進一步從嚴土地管理的緊急通知》. In this Notice, the Ministry of Land and Resources stressed that local governments must adhere to their annual overall land use planning and land supply plans and tighten the control on land supply for non-agricultural use. The Notice requires local governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing and to strictly enforce the regulations applicable to the holding of idle land. In this Notice, the Ministry of Land and Resources also requires the local governments to investigate any illegal use of land and submit a report on such investigations to it by the end of October 2006.

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

On September 30, 2007, the Ministry of Land and Resources issued the Notice on Implementation of the State Council’s Certain Opinions on Resolving Difficulties and Further Strengthening Macro-control of Land Supply 《關於認真貫徹國務院〈關於解決城市低收入家庭住房困難的若干意見〉進一步加強土地供應調控的通知》, pursuant to which, at least 70% of the land supply arranged by the relevant land administration authority at city or county level for residential property development for any given year must be used for developing low-to medium-cost and small-to medium-size units, low-cost rental properties and affordable housing.

On July 29, 2008, PBOC and CBRC jointly issued the Notice on Financially Promoting the Saving and Intensification of Use of Land 《關於金融促進節約集約用地的通知》, requiring that relevant financial institutions to strengthen the administration of construction land project loans, including the administration of commercial real estate credit loan.

In October, 2008, PBOC issued the Notice on Extending the Downward Range of the Interest Rate for the Commercial Personal Home Loans 《關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知》, pursuant to which, since October 27, 2008, the bottom limit of the interest rate applicable to the commercial personal home loans has been extended, the minimum amount of down payment has been adjusted to 20% and the interest rate applicable to personal home loans financed by housing fund has been also reduced.

Pursuant to the Notice on the Adjustments to Taxation on Real Property Transactions 《關於調整房地產交易環節稅收政策的通知》, issued on October 22, 2008, and the Notice of the Ministry of Finance, the State Administration of Taxation and the Ministry of Housing and Urban-Rural Development on Adjusting the Preferential Policies on Deed Tax and Individual Income Tax during Real Estate Transactions 《財政部、國家稅務總局、住房和城鄉建設部關於調整房地產交易環節契稅個人所得稅優惠政策的通知》, issued on

September 29, 2010, when the individual purchases an ordinary housing and such housing is the only housing of the family, then the deed tax shall be collected by half; when the individual purchases an ordinary housing with an area of no more than 90 square meters and such housing is the only housing of the family, then the deed tax shall be collected by a tax rate of 1%; individuals who sell or purchase residential properties are temporarily exempted from stamp duty and who sell residential properties are temporarily exempted from land value-added tax.

On December 20, 2008, the General Office of the State Council issued the Several Opinions on Facilitation the Healthy Development of the Real Estate Market 《關於促進房地產市場健康發展的若干意見》, which aims to, among other things, encourage the consumption of the ordinary residence and support the real estate developer to handle the market change. Pursuant to this opinion, in order to encourage the consumption of the ordinary residence, from January 1, 2009 to December 31, 2009, business tax is imposed on the full amount of the sale income, upon the transfer a non-ordinary residence by an individual within two years from the purchase date. For the transfer of non-ordinary residence which is more than two years from the purchase date and ordinary residence which is within two years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of a ordinary residence, the business tax is exempted if that transfer occurs after two years from the purchase date. Furthermore, individuals with an existing ordinary residence that is smaller than the average size for their locality may buy a second ordinary residence under favorable loan terms similar to first-time buyers. In addition, support for real estate developers to deal with the changing market is to be provided by increasing credit financing services to “low-to-medium level price” or “small-to –medium-sized” ordinary commercial housing projects, particularly those under construction, and providing financial support and other related services to real estate developers with good credit standing for merger and acquisition activities.

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties 《關於調整個人住房轉讓營業稅政策的通知》, which states that, business tax is imposed on the full amount of the sale income, upon the transfer of a residence by an individual within five years from the purchase date. For the transfer of a non-ordinary residence which is more than five years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date. It also states that from January 27, 2011 Notice on Adjusting Policy of Business Tax on Re-sale of Personal Residential Properties 《關於調整個人住房轉讓營業稅政策的通知》 issued on December 22, 2009 shall cease to be effective.

Recent Regulations

On February 26, 2013, the General Office of the State Council issued the Circular on Further Promoting Real Estate Market Regulation 《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 provides, among other things, that a 20% individual income tax should be levied on the difference between the sale proceeds and the purchase price for the owner’s transfer of residence.

Recently, since October 2013 and up to the Latest Practicable Date, a new round of policies aimed at promoting affordable housing and discouraging speculative investments in residential properties was announced in a number of large Chinese cities, including Beijing, Shanghai, Guangzhou, Shenzhen,

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Zhengzhou, Nanchang, Xiamen, Nanjing, Hangzhou, Harbin, Taiyuan, Fuzhou, Xi'an and Urumqi. Wuhan, Changsha and Shenyang, where we have active project developments, also announced new policies in November 2013, further limiting the eligibility of non local residents to purchase properties locally and requiring the local banks to raise down payment requirements for second home purchases.

Wuhan:

On November 18, 2013, Wuhan municipal government issued the Circular on Further Promoting Real Estate Market Regulation (關於進一步加強房地產市場調控工作的意見), which adjusted some of its policies including, among others:

- (i) restricting non-local households to buy properties except for those whose members have paid tax or social security in the city for more than two years and are only allowed to buy one residential property;
- (ii) increasing land supply for residential properties especially to affordable housing projects, middle-low price projects and middle-low sized projects;
- (iii) requiring higher minimum down payment for the mortgage loans used by second-time residential-properties-buyer;
- (iv) ceasing to grant pre-sale permits for projects not accepting governmental price guidance; and
- (v) enhancing affordable housing projects and supply of residential properties.

Changsha:

On November 25, 2013, Changsha municipal government issued the Circular on Further Promoting Real Estate Market Regulation (關於進一步做好房地產市場調控工作的通知), which adjusted some of its policies including, among others:

- (i) increasing the supply of commodity properties and land;
- (ii) requiring higher minimum down payment for the mortgage loans used by second-time properties-buyer in urban area;
- (iii) applying price guidance on high-end commodity properties and ceasing to grant pre-sale permits for projects not accepting such price guidance; and
- (iv) enhancing affordable housing projects.

Shenyang:

On November 25, 2013, Shenyang municipal government issued the Circular on Further Promoting Real Estate Market Regulation (關於進一步做好房地產市場調控工作的通知), which adjusted some of its policies including, among others:

- (i) continuing to guarantee the land supply to residential properties, land supply ratio to small- to medium-sized ordinary commodity houses, shanty town renovation, and affordable housing should

- be more than 75% and closely supervising the land prices to prevent potential disturbance to the land market by high-priced land;
- (ii) restricting non-local households to buy properties except for those whose members have paid tax or social security in the city for more than two years and are only allowed to buy one residential property;
 - (iii) raising the minimum down payment for second home purchases of local resident families to 65%;
 - (iv) requiring banks to examine the construction progress of the housing fund loan projects critically and not to grant housing fund loan before the roofs of the multi-story buildings complete, and in the case of high-rise buildings, before two thirds of the floors complete;
 - (v) further increasing the supply of residential properties and establishing fast channel for administration examination and approval and encouraging banks to grant credit facilities to those projects, over 70% of whose units consist of middle-small sized units;
 - (vi) strengthening the supervision of real estate market, strictly implementing “one house, one price” (一房一價) policy, requiring complete disclosure of the project information in one time after pre-sale permit is obtained and enhancing punitive enforcement for those property companies that breached the policies; and
 - (vii) improving the administration of the affordable housing construction, actively promoting the renovation of shanty town areas and improvement of old residential districts; further improving the management of individual housing information and other real estate data and promoting to establish individual housing information system of urban residents.

ENVIRONMENTAL PROTECTION

PRC national environmental laws and regulations applicable to property developers are the Environmental Protection Law of the People’s Republic of China 《中華人民共和國環境保護法》, the Environmental Noise Pollution Prevention Law of the People’s Republic of China 《中華人民共和國環境噪聲污染防治法》, the Environmental Impact Assessment Law of the People’s Republic of China 《中華人民共和國環境影響評價法》, the Regulations on the Administration of Environmental Protection of Construction Projects 《建設項目環境保護管理條例》, the Measures of Inspection and Acceptance of Environmental Protection Management of Construction Project Completion 《建設項目竣工環境保護驗收管理辦法》. According to above laws and regulations, property developers must submit the environmental impact registration form, the relevant environmental impact study or report to environmental authorities for approval before commencement of construction of the property projects. In addition, after the property projects are completed, the relevant environmental authorities shall inspect the completed properties and confirm whether the properties meet the provisions of environmental laws and regulations or not. The properties shall go through abovementioned inspection and acceptance of environmental protection before delivered to the customers.

PRC TAXATION

Our subsidiaries and joint ventures through which we conduct our business operations in mainland China are subject to PRC tax laws and regulations.

Deed Tax

Under the PRC Interim Regulation on Deed Tax 《中華人民共和國契稅暫行條例》 of 1997, a deed tax is chargeable to transferees of land use rights and/or ownership in real properties within the territory of mainland China. These taxable transfers include:

- grant of use right of state-owned land;
- sale, gift and exchange of land use rights, other than transfer of right to manage rural collective land; and
- sale, gift and exchange of real properties.

The ownership of land use rights and houses transfer by the means of the followings are also deemed to be governed by the above regulation 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 the land use rights and ownership of house as investment;
- setting off the debt by the land use rights and the ownership of house;
- obtaining the land use rights and the ownership of the house as a prize; and
- obtaining the land use rights and the ownership of the house by the way of purchasing in advance.

Deed tax rate is between 3% to 5% subject to determination by local governments at the provincial level in light of the local conditions.

The rate of the deed tax in Guangdong is 3% according to Implementation Measures of Deed Tax in Guangdong Province 《廣東省契稅實施辦法》 promulgated by the Guangdong Provincial Government in June, 1998.

Pursuant to the “Several Provisions on the Implementation of the ‘PRC Interim Regulation on Deed Tax’ in Hunan Province” 《湖南省實施〈中華人民共和國契稅暫行條例〉若干規定》 promulgated by the Government of Hunan Province on June 9, 1998 and revised on March 7, 2002, the rate of deed tax within Hunan is 4%.

Income Tax

Prior to the Enterprise Income Tax Law and its implementation rules that became effective on January 1, 2008, our PRC subsidiaries and joint ventures were generally subject to a 33% corporate income tax. Under the Enterprise Income Tax Law, our PRC subsidiaries and joint ventures are generally domestic enterprises and foreign owned enterprises shall be subject to the same enterprise income tax law and the same enterprise

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income tax rate (25%), except for the enterprises which enjoy preferential tax treatments. According to the Notice on Transition Preferential Treatment Policy Relating to Implementation of Enterprise Income Tax 《國務院關於實施企業所得稅過渡優惠政策的通知》 which become effective on January 1, 2008, for enterprises that originally enjoyed a preferential tax treatment with fixed periods of exemptions and reductions, such as “Two years of exemption, Three years of reduction by 50%” and “Five years of exemption, Five years of reduction by 50%”, they shall continue to enjoy these preferential treatments and terms under the original tax levy law, administrative regulations and regulations even upon implementation of the Enterprise Income Tax Law until the expiration of such treatments. However, for enterprises which have yet to see profits and hence been unable to enjoy the preferential tax treatment, the preferential period for them will start to calculate from the year 2008.

On April 11, 2008, the State Administration of Taxation issued a Notice on the Payment of Income Tax of Property Development Enterprises 《國家稅務總局關於房地產開發企業所得稅預繳問題的通知》. This Notice stipulated that for the enterprises which prepay the income tax on quarterly or monthly basis according to their yearly profit, the profit will be calculated from the pre-sale income and adjusted based on the actual profit after the completion of the property.

Business Tax

Under the PRC Interim Regulation on Business Tax 《中華人民共和國營業稅暫行條例》 of 1993, as amended in 2008, services in mainland China are subject to business tax. Taxable services include sale of real property in mainland China. Business tax rate is between 3% to 20% depending on the type of services provided. Sale of real properties and other improvements on the land attract a business tax at the rate of 5% of the turnover of the selling enterprise payable to the relevant local tax authorities.

Pursuant to the Notice of the SAT on Business Tax of the Land Use Right Reclaimed to the Land Owner issued on March 27, 2008 《國家稅務總局關於土地使用者將土地使用權歸還給土地所有者行為營業稅的通知》, when the land user returns the land use rights to the land owner, the business tax can be exempted.

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation issued the Notice on Adjusting the Policy of Business Tax on Re-sale of Personal Residential Properties 《關於調整個人住房轉讓營業稅政策的通知》, which states that, business tax is imposed on the full amount of the sale income, upon the transfer a residence by an individual within five years from the purchase date. For the transfer of non-ordinary residence which is more than five years from the purchase date, the business tax is to be levied on the difference between the sale income and the purchase price. In the case of an ordinary residence, the business tax is exempted if that transfer occurs after five years from the purchase date. It also states that from January 27, 2011 Notice on Adjusting Policy of Business Tax on Re-sale of Personal Residential Properties 《關於調整個人住房轉讓營業稅政策的通知》 issued on December 22, 2009 shall cease to be effective.

Land Appreciation Tax

Under the PRC Interim Regulation on Land Appreciation Tax 《中華人民共和國土地增值稅暫行條例》 of 1993 and its implementing rules of 1995, LAT applies to both domestic and foreign investors in real properties

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in mainland China, irrespective of whether they are corporate entities or individuals. The tax is payable by a taxpayer on the appreciation value derived from the transfer of land use rights, buildings or other facilities on such land, after deducting the “deductible items” that include the following:

- payment made to acquire land use rights;
- costs and charges incurred in connection with land development;
- construction costs and charges in the case of newly constructed buildings and facilities;
- assessed value in the case of old buildings and facilities;
- taxes paid or payable in connection with the transfer of land use rights, buildings or other facilities on such land; and
- other items allowed by the Ministry of Finance.

The tax rate is progressive and ranges from 30% to 60% of the appreciation value as compared to the “deductible items” as follows:

<u>Appreciation value</u>	<u>LAT rate</u>
Portion not exceeding 50% of deductible items	30%
Portion over 50% but not more than 100% of deductible items	40%
Portion over 100% but not more than 200% of deductible items	50%
Portion over 200% of deductible items	60%

Exemption from LAT is available to the following cases:

- Taxpayers constructing ordinary residential properties for sale (i.e. the residences built in accordance with the local standard for general residential use, excluding deluxe apartments, villas, resorts etc.), where the appreciation amount does not exceed 20% of the sum of the deductible items;
- Real estate taken over and repossessed according to laws due to the construction requirements of the state;
- Due to redeployment of work or improvement of living standard, transfers by individuals of originally self-used residential properties, provided that the transferor has occupied the property as his or her residence for five years or longer and has obtained the relevant tax authority’s approvals.

According to the Notice on the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts signed before January 1, 1994 《關於對1994年1月1日前簽訂開發及轉讓合同的房地產征免土地增值稅的通知》 issued by the Ministry of Finance and the State Administration of Taxation in January 1995, the LAT regulation does not apply to the following transfers of land use rights:

- real estate transfer contracts signed before January 1, 1994; and

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- first time transfers of land use rights and/or premises and buildings during the five years commencing on January 1, 1994, if the real estate development contracts were signed or the development projects were approved before January 1, 1994 and the capital has been injected for the development in compliance with the relevant regulations.

After the enactment of the LAT regulations and the implementation rules in 1993 and 1995, respectively, due to the long period of time typically required for real estate developments and their transfers, many jurisdictions, while implementing these regulations and rules, did not require real estate development enterprises to declare and pay the LAT as they did other taxes. Therefore, in order to assist the local tax authorities in the collection of LAT, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and State Land Administration Bureau separately and jointly issued several notices to reiterate that, after the grant contracts are signed, the taxpayers should declare the tax to the local tax authorities where the real estate is located, and pay the LAT in accordance with the amount as calculated by the tax authority and within the time period as required. For those who fail to acquire proof as regards the tax paid or the tax exemption from the tax authorities, the real estate administration authority will not process the relevant title change procedures, and will not issue the property ownership title certificates.

State Administration of Taxation also issued the “Notice on Serious Handling of Administration of the Collection of Land Appreciation Tax” 《關於認真做好土地增值稅徵收管理工作的通知》 on July 10, 2002 to request local tax authorities to modify the management system of Land Appreciation Tax collection and operation details, to build up a sound taxpaying declaration system for Land Appreciation Tax, to modify the methods of pre-levying for the pre-sale of properties. The Notice also pointed out that either for the properties development contract which were signed before January 1, 1994 or where the project proposal has been approved and capital was injected for development, the privilege policy for Land Appreciation Tax exemption for the properties that are transferred for the first time is expired, and such tax shall be levied again. This requirement is restated in the “Notice on Strengthening of Administration of the Collection of Land Appreciation Tax” 《關於加強土地增值稅管理工作的通知》 and “Notice of State on Further Strengthening of Administration Work in relation to the Collection of Land Appreciation Tax and Land Use Tax in Cities and Towns” 《關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知》 issued separately on August 2, 2004 and August 5, 2004 by State Administration of Taxation. These two Notices also required that the system of tax declaration and tax sources registration in relation to the land appreciation tax should be further established and perfected.

On March 2, 2006, the Ministry of Finance and State Administration of Taxation issued the Notice on Several Points on Land Appreciation Tax 《財政部、國家稅務總局關於土地增值稅若干問題的通知》 to clarify the relevant issues regarding land appreciation tax as follows:

- (a) As to the tax collection and exemption in the sale of ordinary standard residential housing as built by taxpayers as well as in the transfer of ordinary residential houses by individual residents.

The notice sets out the standards for ordinary standard residential houses. Where any developers build ordinary residential houses as well as other commercial houses, the appreciation amount of land shall be verified respectively. Before the day when this notice is publicized, as to any application for tax

exemption for ordinary standard residential houses that has been filed to the tax authority at the locality of the property, especially any ordinary standard residential houses which have been given the treatment of exemption from land appreciation tax upon examination according to the standards for ordinary standard residential houses as determined by the government of a province, autonomous region or municipality directly under the Central Government, no adjustment shall be retroactively made.

(b) As to the advance collection and settlement of land appreciation tax:

- All regions shall decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the value addition level of the property as well as the market development level within the region and on the basis of the specific housing categories, namely, ordinary standard residential houses, non-ordinary standard residential houses and commercial houses. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up.
- As to any tax that fails to be collected in advance within the advance collection term, the overdue fines shall be collected as of the day following the expiration of the prescribed advance collection term according to the relevant provisions of the Tax Collection and Administration Law as well as its detailed rules for implementation.
- As to any property project that has been completed and has gone through the acceptance procedure, where the floor area of the property as transferred makes up 85% or more of the saleable floor area, the tax authority may require the relevant taxpayer to conduct the settlement of land appreciation tax on the transferred property according to the matching principles regarding the proportion between the income as generated from the transfer of property and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a province, autonomous region or municipality directly under the Central Government, or a city under separate state planning.
- As to the tax collection and exemption for investment or association by means of the property. As to any investment or association by using land (property) as payment for the purchase of shares, where an enterprise involved in the investment or association engages in the property development or where any other property development enterprise makes investment or conducts association with the commercial houses it itself builds, it shall not be governed by the regulation of the interim exemption of land appreciation tax when the property (land) is transferred to the enterprise by means of investment or association.

On December 28, 2006, State Administration of Taxation promulgated the Notice of the State Administration of Taxation on the Relevant Issues Concerning the Settlement Management of Land Appreciation Tax on Real Estate Enterprises (the “Notice”) 《國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題的通知》, which shall be implemented from February 1, 2007. According to the Notice, the settlement of the LAT shall be based on a real estate development project approved by the relevant authority as a unit; for a project developed by stages, the settlement of the LAT shall be based on each stage of the project as a unit.

The tax payers should make settlement of the LAT if one of the following circumstances occurs:

- Construction project has been completed, and its commodity houses have been sold;
- Transfer of the uncompleted real estate development project; and
- Directly transfer the land use rights.

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

- The floor area of the real estate sold is in excess of 85% of the saleable GFA of the entire project, or, if the proportion is less than 85%, the residual saleable floor area has been leased out or for self-use.
- Pre-sale permit has been obtained for three years, but the commodity houses of the project still have not been sold.
- The tax payer applies for cancellation of tax registration but has yet to carry out the procedures for the LAT settlement.
- Other circumstances provided by tax authorities at the provincial level.

On April 11, 2008, the State Administration of Taxation issued the Notice on Further Implementation on the Settlement of Land Appreciation Tax 《關於進一步開展土地增值稅清算工作的通知》 and on April 29, 2009 issued Several Opinions on Strengthening the Collection of Taxes and Preventing Tax Evasion 《關於加強稅種征管促進堵漏增收的若干意見》, which further strengthens the collection of LAT.

On May 12, 2009, the State Administration of Taxation issued the Notice on Administration and Procedure of the Settlement of Land Appreciation Tax (國家稅務總局關於印發《土地增值稅清算管理規程》的通知), the content of which is consistent with the notice issued on December 28, 2006, with respect to the settlement of land appreciation tax on a project by project basis, settlement requirement for land appreciation tax and collection of land appreciation tax by verification. Further, the Notice lays down the specific conditions and key issues for calculation of the deductible expenses when settling land appreciation tax, such as land premium, land requisition fee, common ancillary facility fee, indirectly fee, etc.

On May 19, 2010, the State Administration of Taxation issued the Notice on Relevant Issues of the Settlement of Land Appreciation Tax (國家稅務總局《關於土地增值稅清算有關問題的通知》), at the time of settlement of land VAT, if invoices have already been issued for the sale of commercial properties in full amount as indicated on the invoices shall be determined as the income. If no invoices is issued or if the invoices issued fail to cover the full amount, the income shall be determined on the basis of the amount of the properties as indicated in the sales contract concluded between the buyer and seller as well as other proceeds. If the area of the commercial property as indicated in the sales contract is not the same as that actually measured by the relevant department and if any amount of money is made up or refunded for the property prior to settlement, adjustment shall be made when the land VAT is calculated. Idle land penalty paid by real estate developer for overdue development shall not be deducted.

Urban Land Use Tax

Pursuant to the Interim Regulations of the People's Republic of China on Urban Land Use Tax 《中華人民共和國城鎮土地使用稅暫行條例》 in respect of Urban Land promulgated by the State Council in September 1988, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax on urban land is between RMB0.2 and RMB10 per square meter. On December 31, 2006, the Interim Regulations on Urban Land Use Tax were amended by the State Council. As of January 1, 2007, on the basis of those amended provisional regulations, the urban land use tax is charged at a rate three times higher than the previous rate, and foreign-invested enterprises are no longer exempt.

Property Tax

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

According to the Notice on Issues Relating to Assessment of Property Tax on Foreign-invested Enterprises and Foreign Individuals 《關於對外資企業及外籍個人徵收房產稅有關問題的通知》 promulgated by Ministry of Finance and the State Administration of Taxation on January 12, 2009, the foreign-invested enterprises, foreign enterprises and foreign individuals are to be levied the same as domestic enterprises as of January 1, 2009.

Stamp Duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty 《中華人民共和國印花稅暫行條例》 promulgated by the State Council in August 1988, for building property transfer instruments, including those in respect of property ownership transfer, the duty rate is 0.05% of the amount stated therein; for permits and certificates relating to rights, including real estate title certificates and land use rights certificates, stamp duty is levied on an item-by-item basis of RMB5 per item.

Municipal Maintenance Tax

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

Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge 《徵收教育費附加的暫行規定》 and the Decision on Amendment to the Interim Provisions on Imposition of Education Surcharge 《國務院關於修改〈徵收教育費附加的暫行規定〉的決定》 promulgated by the State Council respectively in April

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1986 and August 2005, any taxpayer, whether an individual or otherwise, of value-added tax, business tax or consumption tax is liable for an education surcharge, unless such taxpayer is required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas 《關於籌措農村學校辦學經費的通知》. Under the Circular on Unification of Domestic and Foreign Enterprises' and Individuals' Municipal Maintenance Tax and Education Surcharge Systems 《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》 issued by the State Council on October 18, 2010, from December 1, 2010, the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax 《中華人民共和國城市維護建設稅暫行條例》 and the Interim Provisions on Imposition of Education Surcharge 《徵收教育費附加的暫行規定》 are all applicable to enterprises with foreign investment, foreign enterprises and foreign individuals.

Regulation of Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, or SASAC, the State Administration of Taxation, the State Administration for Industry and Commerce, the CSRC, and the SAFE, jointly adopted the Regulations of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》 (“M&A Rule”), which became effective on September 8, 2006 and revised on June 22, 2009. This regulation, among other things, has some provisions that purport to require that an offshore Special Purpose Vehicle (“SPV”) formed for listing purposes and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange.

The listing of our shares on the Stock Exchange of Hong Kong does not require CSRC's approval because we completed the acquisitions of the relevant PRC companies and obtained all the necessary approvals from the relevant PRC foreign trade and economic cooperative regulatory authorities for the Reorganization before September 8, 2006, the date on which the M&A Rule became effective.