

### LAWS AND REGULATIONS RELATING TO REAL ESTATE DEVELOPMENT

#### Establishment of a Real Estate Developer

According to the “Law on Administration of Urban Real Estate of the People’s Republic of China” (《中華人民共和國城市房地產管理法》, the “Urban Real Estate Law”) promulgated by the Standing Committee of the National People’s Congress on July 5, 1994, becoming effective in January 1995, and amended in August 2007 and August 2009 respectively, real estate development refers to the act of constructing infrastructure and buildings on state-owned land, the land use rights of which have been legally acquired; and 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 “Administrative Regulations on Urban Real Estate Development and Operation” (《城市房地產開發經營管理條例》, the “Development and Operation Regulations”) promulgated by the State Council on July 20, 1998 and revised on January 8, 2011, an enterprise which is to engage in the development of real estate shall satisfy the following requirements:

- its registered capital shall be RMB 1 million or more; and
- it shall have four or more full-time professional real estate/construction technicians and two or more full-time accountants, each of whom shall hold the relevant qualification certificate.

According to the Development and Operation Regulations, the People’s Government of a province, autonomous region or municipality directly under the Central Government may, based on local circumstances, impose more stringent requirements than those described in the preceding clauses over the registered capital and professional technicians of a real estate developer. According to the “Regulations on Administration of Development of Urban Real Estate of Hubei Province” (《湖北省城市房地產開發經營管理辦法》) promulgated by the People’s Government of Hubei Province on November 19, 1999, in addition to the requirements stipulated by relevant laws and regulations, an enterprise which is to engage in the development of real estate shall also satisfy the following requirements:

- its registered capital shall be RMB 2 million or more; and
- it shall have four or more full-time professional real estate or civil engineering technicians, one or more full-time construction or real estate managers and two or more full-time accountants, each of whom shall hold the relevant qualification certificate.

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Under the “Catalog of Industries for Guiding Foreign Investment” (《外商投資產業指導目錄》) promulgated by MOFCOM and NDRC on December 24, 2011 and becoming effective on January 30, 2012,

- the development of tracts of land (limited to equity joint ventures and cooperative joint ventures) falls within the category of industries in which foreign investment is subject to restrictions;
- the construction and operation of high-class hotels, high-class office buildings and international exhibition centers falls within the category of industries in which foreign investment is subject to restrictions;
- real estate secondary market transactions and real estate intermediaries or brokers fall within the category of industries in which foreign investment is subject to restrictions;
- the construction and operation of golf courses and villas falls within the category of industries in which foreign investment is prohibited; and
- other real estate development falls within the category of industries in which foreign investment is permitted.

On April 6, 2010, the State Council issued the “Opinions on Further Enhancing the Utilization of Foreign Capital” (《關於進一步做好利用外資工作的若干意見》), which provides that projects with a total investment amount (including increase in capital) of less than US\$300 million within the category of industries in which foreign investment is encouraged or permitted as listed in the “Catalog of Industries for Guiding Foreign Investment” (《外商投資產業指導目錄》) shall, other than those that are subject to the approval of relevant departments of the State Council under the requirements of the “Catalog of Investment Projects Approved by the Government” (《政府核准的投資項目目錄》), be subject to the approval of relevant departments of local governments.

On July 11, 2006, MOC, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly promulgated the “Opinions on Regulating the Entry and Administration of Foreign Capital in the Real Estate Market” (《關於規範房地產市場外資准入和管理的意見》). According to the Opinions and the relevant circulars issued after this Opinion, a foreign investor shall meet various requirements in order to invest in the real estate market in China. See the subsection headed “Appendix V – Part 1 Laws and Regulations Relating to Real Estate Development – A(b). Foreign-Invested Real Estate Developers” in this prospectus for further details.

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### Qualifications of Real Estate Developers

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 former MOC (currently known as MOHURD) on March 29, 2000, a real estate developer shall apply for classification of its qualifications according to the Provisions on Administration of Qualifications. An enterprise shall not engage in real estate development without a qualification classification certificate for real estate development. MOC is in charge of the management of qualifications of real estate developers nationwide, and local competent real estate development authorities at county level or above are in charge of the management of qualifications of real estate developers within their administrative divisions. 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 of the construction authorities at provincial level and final approval of MOC. A real estate developer with class 1 qualification is not restricted as to the construction scale of real estate projects undertaken and may undertake real estate projects nationwide.
- Class 2 or lower qualifications are subject to the approval of local competent construction authorities. A real estate developer with class 2 or lower qualifications may undertake projects with GFA of less than 250,000 sq.m. Measures for examination and approval of real estate developers with class 2 or lower qualifications and the specific scope of business undertaken by such developers shall be formulated and determined by the competent construction authorities at provincial level.

For example, under the “Implementation Rules on Administration of Qualifications of Real Estate Developers of Hubei Province” (《湖北省房地產開發企業資質管理實施細則》) issued by the Office of Construction of Hubei Province on July 27, 2000, a real estate developer with class 2 qualification may undertake construction projects with GFA of less than 250,000 sq.m. and may undertake real estate projects within the whole province; a real estate developer with class 3 qualification may undertake construction projects with GFA of less than 100,000 sq.m. and may undertake real estate projects within the city (state) where it locates; and a real estate developer with class 4 qualification may undertake construction projects with less than eight floors and GFA of less than 40,000 sq.m. and may undertake real estate projects within the city district (county/city) where it locates.

Under the Provisions on Administration of Qualifications, the competent real estate development authorities shall determine the qualification class of real estate developers by considering, among other factors, their assets, professional technicians as well as development and business achievements.

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According to the Provisions on Administration of Qualifications, the qualification of a real estate developer shall be reviewed annually. In addition, according to the Provisions on Administration of Qualifications, newly established real estate developers can only get the Provisional Qualification Certificate, since they cannot meet the requirements of operation for a certain period for obtaining class 1 to 4 qualifications. The Provisional Qualification Certificate is valid for one year, and may also be extended for no more than two years. A real estate developer shall apply for qualification classification from the competent real estate development authorities within one month before the expiration of the Provisional Qualification Certificate. The competent real estate development authorities shall assess a corresponding qualification class for real estate developers on the basis of their development and management achievements.

The table below sets forth a summary of the qualification certificates for real estate developers that we possess:

<u>Name of company</u>	<u>Class</u>	<u>Issuance date</u>	<u>Expiry date</u>
Wuhan Optics Valley Union	Class 1	Jan 15, 2014	Dec 9, 2016
OV Financial Harbour Development	Provisional	Mar 26, 2013	Mar 25, 2014
Huangshi OVU Development	Class 3	Sep 25, 2012	Sep 25, 2015
Qingdao OVU Development	Provisional	Oct 9, 2012	Sep 30, 2014
Wuhan Xuefu	Class 3	Jun 9, 2013	Jun 8, 2016
Wuhan Mason	Class 3	Jan 23, 2014	Jan 22, 2017
Hubei Huisheng	Class 3	Jan 24, 2014	Jan 23, 2017
Wuhan Minghong	Class 3	Jun 19, 2013	Jun 18, 2016
Shenyang OVU Development	Provisional	Mar 21, 2013	Mar 20, 2014
Hubei Technology Enterprise Accelerator	Class 4	Dec 19, 2013	Dec 18, 2016
Energy Conservation Technology Park	Provisional	Jun 17, 2013	Jun 16, 2014
Wuhan Financial Harbour Development	Provisional	Jun 17, 2013	Jun 16, 2014
Optics Valley Software Park	Provisional	Jan 14, 2013	Jan 13, 2015

According to applicable PRC laws and regulations, the qualification certificates of real estate developers are subject to annual review. The relevant authorities for qualification examination will lower qualification grades or revoke qualification certificates only when real estate developers fail to meet the conditions of the original qualification certificates or engage in any misconduct in their operations.

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### Development of a Real Estate Project

#### *Land for real estate development*

On April 12, 1988, the National People's Congress amended the "Constitution" (《憲法》), permitting the legal transfer of land use right. On December 29, 1988, the Standing Committee of the National People's Congress amended the "Land Administration Law" (《土地管理法》), permitting the legal transfer of land use right.

Under the "Interim Regulations on Grant and Assignment of the State-owned Urban Land Use Right of the People's Republic of China" (《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 on May 19, 1990, China adopted a system of granting and assigning state-owned land use right. A land user shall pay a land premium to the State as the consideration for the grant of the land use right by the State for a specified period of time, during which the land user may assign, lease, mortgage or otherwise commercially exploit the land use right. Under the Urban Real Estate Law and the Interim Regulations on Grant and Assignment, the land administration authorities at city or county level shall enter into a land grant contract with the land user to grant land use right. The land user shall pay the land premium as stipulated by the land grant contract. After paying the land premium in full, the land user may register with the land administration authorities and obtain a land use right certificate evidencing the acquisition of land use right.

Under the "Rules Regarding the Grant of State-Owned Land Use Right By Way of Tender, Auction and Listing" (《招標拍賣掛牌出讓國有土地使用權規定》) which was promulgated by MLR on May 9, 2002 and implemented from July 1, 2002, land for operational purposes, such as business, tourism, entertainment and commercial residential housing, shall be granted through tender, auction or listing. On September 28, 2007, MLR promulgated the "Rules Regarding the Grant of Right to Use State-Owned Construction Land By Way of Tender, Auction and Listing" (《招標拍賣掛牌出讓國有建設用地使用權規定》), which were effective from November 1, 2007. The Rules further clarify the procedures for the grant of land use right by way of tender, auction and listing. Moreover, pursuant to the Rules, land for operational purposes, such as industrial (including warehouse land, but excluding mining land), business, tourism, entertainment and commercial residential housing, and a land parcel with two or more potential users must be granted by way of tender, auction or listing. The grantee of land use right may only have the land registered and obtain the land use right certificate after full settlement of the land premium as specified in the relevant land grant contract. No land use right certificate shall be issued before full settlement of the land premium or in proportion to the land premium paid.

On January 3, 2008, the State Council issued the "Circular on Promoting the Economical and Intensive Use of Land" (《關於促進節約集約用地的通知》), which provides that for land currently used for industrial purpose, under the precondition that it accords with the relevant planning and that the use of land is not changed, if the land utilization ratio and the plot ratio are increased, no additional land fee should be collected. For newly added land for industrial

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purpose, control indicators should be further enhanced and no additional land fee should be collected for any part that the GFA of a plant exceeds the control indicators for the plot ratio of such plant. The land user and land fee for land used for industrial and operational purposes must be determined by way of tender, auction or listing.

MOF, MLR, PBOC, MOS and NAO issued the “Circular on Further Tightening Control over Income and Expenses of Land Grant” (《關於進一步加強土地出讓收支管理的通知》) on November 18, 2009. According to the circular, the term of payment by installment for land premium as stipulated in the land grant contract shall not exceed one year in principle or, in the case of special projects, the payment shall be fully settled within two years as collectively decided by local land grant coordination and decision-making authorities. The down payment shall not be less than 50% of the land premium.

On December 19, 2010, MLR issued the “Circular on Issues Concerning Strict Implementation of Real Estate Land Control Policies and Promotion of Healthy Development of the Land Market” (《關於嚴格落實房地產用地調控政策促進土地市場健康發展有關問題的通知》). According to the circular, where a bidder and his controlling shareholders are found to act in violation of relevant laws, regulations and contracts, such as forging instruments with an aim of obtaining the land by deception, illegally reselling the land, illegally transferring land use right, leaving the land idle for more than one year for developer’s own reason and developing and utilizing the land in violation of the conditions stipulated in grant contracts, they shall not pass the bidding qualification examination. Arbitrary adjustment of the plot ratio shall be stopped firmly. Where plot ratio adjustment is approved in line with relevant laws, the competent departments of land and resources at city or county level shall determine the land premium differences to be paid on the basis of the land value in terms of per unit floorage in the land market at the time when the adjustments are approved.

On May 23, 2012, MLR and NDRC jointly issued the “Catalog of Restricted Use of Land (2012 Version)” (《限制用地項目目錄(2012年本)》) and the “Catalog of Prohibited Use of Land (2012 Version)” (《禁止用地項目目錄(2012年本)》). According to the above catalog, the area of a parcel of land granted for residential project shall be no more than 7 hectares in small cities and designated towns, 14 hectares in medium cities or 20 hectares in large cities; the plot ratio shall not be lower than 1.0 (1.0 included); and real estate development projects for villas and golf courses shall fall into the category of prohibited use of land.

### ***Real estate project development***

#### *Commencement of a real estate project and idle land*

According to the Urban Real Estate Law, those who obtain land use right for real estate development by grant must develop the land according to the purposes and within the development time frame as agreed under the land use right grant contract. Those who fail to commence development of the land within one year from the construction commencement date stipulated in the land grant contract may be charged an idle land fee of up to 20% of the land premium, and those who fail to commence development within two years may be deprived of land use right without compensation, except where the delay in commencement is due to force majeure, actions of governments or relevant government departments, or preliminary work necessary for the commencement of development.

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According to the “Regulations on the Disposal of Idle Land” (《閑置土地處置辦法》) promulgated by MLR on April 26, 1999, amended on June 1, 2012 and taking effect from July 1, 2012, land with the following conditions is considered to be idle land:

- the holder of the state-owned construction land use right fails to commence developing the state-owned construction land within one year after the construction commencement date as agreed or stated in the contract of compensated use of state-owned construction land or the land allocation decision;
- the area of the construction land developed upon commencement of development is less than 1/3 of the planned total area for development and construction, and the development and construction of the state-owned construction land has been suspended for more than one year;
- the amount invested in the land is less than 25% of the total investment, and the development and construction of the state-owned construction land has been suspended for more than one year; or
- fails to commence development and construction within one year from the date of actual delivery of land, if the construction commencement date is not agreed or stated or not clearly agreed or stated.

The above regulations provide that for idle land where construction and development has not commenced for one year, the competent department of land and resources at city or county level shall charge idle land fee at 20% of the cost of land grant or allocation. In the event that the construction and development has not commenced for two years, the competent department of land and resources at city or county level shall, upon the approval of the People's Government with approval authorities, issue the Decision on Recovering the Right to Use State-owned Construction Land to holders of state-owned construction land use right, and recover the right to use the state-owned construction land without compensation. The above regulations also list the situations where the idleness of land is due to the reasons attributable to the governments as well as the ways of handling the idle land under such situations.

### *Planning of a real estate project*

Under the “Measure for Planning and Administration of Grant and Assignment of Right to Use Urban State-owned Land” (《城市國有土地使用權出讓轉讓規劃管理辦法》) promulgated by MOC on December 4, 1992, becoming effective from January 1, 1993 and revised on January 26, 2011, the grantee under a land grant contract, i.e. a real estate developer, shall apply for a construction land planning permit from the relevant competent authorities of urban planning and administration. The enterprise may apply for the certificate of land use right only after obtaining such permit.

Under the “Law on Urban and Rural Planning of the People's Republic of China” (《中華人民共和國城鄉規劃法》) promulgated by the Standing Committee of the National People's Congress on October 28, 2007, effective from January 1, 2008, a real estate developer shall apply for the construction work planning permit from the competent authorities of urban and rural planning at city or county level for project construction.



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### *Construction of a real estate project*

According to the “Measures for Administration of Construction Permit for Construction Projects” (《建築工程施工許可管理辦法》) promulgated by MOC on October 15, 1999, becoming effective from December 1, 1999 and amended on July 4, 2001, a developer engaging in the construction and decoration of various kinds of houses and buildings as well as the ancillary facilities shall apply for a construction permit from the competent construction administration authorities at county level or above where the construction is located before the commencement of the construction.

### *Completion of a real estate project*

According to the Development and Operation Regulations, the “Provisions on Acceptance Inspection Upon Completion of Buildings and Municipal Infrastructure” (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated by the MOHURD on December 2, 2013 and the “Administrative Measures on the Filing of Acceptance Inspection upon Completion of Buildings and Municipal Infrastructure” (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by MOC on April 4, 2000 and revised by MOHURD on October 19, 2009, after the completion of real estate projects, the real estate developer must organize an acceptance inspection and, after passing the inspection, file with the relevant governmental authorities on such completion of acceptance inspection. A real estate development project shall not be delivered for use until and unless it has carried out and passed the acceptance inspection. Where a real estate project is developed in phases, acceptance inspection may be carried out by phase.

### **Transfer of Real Estate**

According to the Urban Real Estate Law and the “Provisions on Administration of Transfer of Urban Real Estate” (《城市房地產轉讓管理規定》) promulgated by MOC on August 7, 1995, as amended on August 15, 2001, a real estate owner may sell, bequeath or otherwise legally transfer the real estate to another person. When transferring a real estate, the ownership of the building and the right to use the land which the building occupies are transferred together. The parties concerned shall enter into a real estate transfer contract in writing and go through the formalities for the transfer with the relevant administration authorities of real estate where the real estate is located within 90 days after signing the transfer contract.

### **Mortgage of Real Estate**

Under the Urban Real Estate Law, the “Security Law” (《擔保法》) promulgated by the Standing Committee of the National People’s Congress on June 30, 1995 and becoming effective from October 1, 1995, the “Measures for Administration of Mortgage of Urban Real Estate” (《城市房地產抵押管理辦法》) promulgated by MOC on May 9, 1997, as amended on August 15, 2001, and the “Property Law” (《物權法》) promulgated by the National People’s Congress on March 16, 2007 and becoming effective from October 1, 2007, when a mortgage



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is created on the ownership of a legally obtained building, the mortgage must be simultaneously created on the right to use the land which the building occupies. When a mortgage is created on land obtained by way of grant, the mortgage must be simultaneously created on the ownership of the building erected on the land. The mortgagor and mortgagee shall sign a mortgage contract in writing. China adopts a registration system for real estate mortgage. Within 30 days after a real estate mortgage contract has been signed, the parties concerned must register the real estate mortgage with the real estate administration authorities at the location where the real estate is situated. The real estate mortgage right becomes effective on the date of registration of the mortgage. If a mortgage is created on a real estate in respect of which a real estate ownership certificate has been obtained legally, the registration authorities shall, when registering the mortgage, make an entry of “third party right” on the original real estate ownership certificate and then issue a certificate of third party right to the mortgagee. If a mortgage is created on a commodity building put up for pre-sale or construction in progress, the registration authority shall, when registering the mortgage, record the details on the mortgage contract. If construction of a real estate is completed during the term of a mortgage, the parties involved shall re-register the mortgage of the real estate after obtaining the certificates evidencing the rights and ownership to the real estate.

### **Real Estate Credit**

Under the “Circular on Further Strengthening the Administration of Real Estate Credit” (《關於進一步加強房地產信貸業務管理的通知》) issued by PBOC on June 5, 2003, the requirements for banks to provide loans for residential development, individual housing mortgage and individual commodity housing are tightened:

- Real estate development loans shall be granted to real estate developers which are qualified for real estate development, rank high in credibility and have no overdue payment for construction fees. Such loans shall be given in support of residential housing projects which are affordable by families with medium-to-low income particularly, and shall be strictly restricted from projects involving building properties of large size and/or covering large area, such as luxurious commodity housing and villas. For real estate developers with high vacancy rate of commodity housing and high debt ratio, strict approval and close monitoring must be applied to their new real estate development loans.
- Commercial banks may not grant loans to real estate developers for the payment of land premium.
- Commercial banks shall not grant any kind of loans to projects without the certificate of land use right, the construction land planning permit, the construction project planning permit and the construction permit. Loans applied for by real estate developers shall only be granted by commercial banks in the name of real estate development loans, but not in the name of real estate development liquidity loans or other types of loans. Commercial banks may recover the non-real estate development loans that have been granted to the real estate developers, but are not

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allowed to grant new ones. To apply for bank loans, a real estate developer's self-owned funds (owner's equity) shall not be less than 30% of the total investment of the development project. The real estate loans granted by a commercial bank may only be used for the real estate projects in the region where the developer is located, and are prohibited to be used across regions.

On September 27, 2007, PBOC and CBRC jointly issued the "Circular on Strengthening the Administration of Commercial Real Estate Credit" (《關於加強商業性房地產信貸管理的通知》) to further regulate the administration of commercial real estate credit. These measures include:

- prohibiting commercial banks from granting any kind of loans to projects with a proportion of capital fund (owners' equity) of less than 35%, or without the certificate of land use right, the construction land planning permit, the construction project planning permit and the construction permit; and
- prohibiting commercial banks from granting loans to real estate developers solely for the payment of land premium.

According to the "Circular on Adjusting the Proportion of Capital Fund in Fixed Asset Investment Projects" (《國務院關於調整固定資產投資項目資本金比例的通知》) issued by the State Council on May 25, 2009, the proportion of capital fund for indemnificatory housing projects (保障性住房項目) and ordinary commodity housing projects (普通商品住房項目) is adjusted from 35% to 20%, and, for other properties, from 35% to 30%. Financial institutions shall decide on their own whether to issue loans to real estate developers based on the adjustments to the proportion of capital fund.

As confirmed by the Company, the proportion of capital fund for indemnificatory housing projects (保障性住房項目) and ordinary commodity housing projects (普通商品住房項目) in all of its property development projects is not less than 30% and the Group has been in compliance with the minimum capital requirements under the aforesaid circular during the Track Record Period and up to the Latest Practicable Date.

### **Sale of Commodity Housing**

Under the "Administrative Measures on the Sale of Commodity Housing" (《商品房銷售管理辦法》) promulgated by MOC on April 4, 2001 and becoming effective from June 1, 2001, sale of commodity housing includes the pre-sale of commodity housing and spot sale of commodity housing. The commodity housing for spot sale shall pass the inspection and acceptance upon completion and satisfy other conditions. Before the spot sale of commodity housing, the real estate developer shall file the project manual of real estate development and the relevant evidence documents with the competent authorities of real estate development to prove its satisfaction of the conditions for spot sale of commodity housing. A real estate developer shall not sell uncompleted commodity housing by after-sale lease guarantee or any such mean in a disguised form.

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According to the Development and Operation Regulations and the “Administrative Measures on the Pre-sale of Urban Commodity Housing” (《城市商品房預售管理辦法》) promulgated by MOC on November 15, 1994, as amended on August 15, 2001 and July 20, 2004, a pre-sale permit must be in place before commodity housing may be put up for pre-sale. The pre-sale of commodity housing shall meet the following conditions:

- the land premium has been paid in full and a certificate of land use right has been obtained;
- the construction work planning permit and construction permit have been obtained;
- the funds invested in the development and construction of the commodity housing put up for pre-sale represent 25% or more of the total investment in the project and the progress of construction and the completion and delivery dates have been determined; and
- a permit for pre-sale of commodity housing has been obtained.

The proceeds from pre-sale of commodity housing must be used to develop the relevant pre-sale project.

### **Lease of Housing**

Under the Urban Real Estate Law, parties to a housing tenancy shall sign a lease contract in writing and file it with the administration authority of real estate.

Under the “Administrative Measures on the Lease of Commodity Housing” (《商品房屋租賃管理辦法》) issued by MOHURD on December 1, 2010 and becoming effective from February 1, 2011, the parties to a housing tenancy shall go through the housing tenancy registration and filing process with the competent construction (real estate) departments of the municipalities directly under the Central Government, cities and counties where the housing is located within 30 days after the housing tenancy contract is signed. For those who fail to comply with the above regulations, the relevant competent governmental construction (real estate) departments may impose a fine of below RMB1,000 on individuals, and a fine of between RMB1,000 and RMB10,000 on units.

### **Environment Protection in Real Estate Development**

Under the “Regulations on Administration of Environmental Protection of Construction Projects” (《建設項目環境保護管理條例》) issued by the State Council on November 29, 1998, a construction unit shall, during the stage of construction project feasibility study, submit the construction project environmental impact report, environmental impact statement or environmental impact registration form for approval. The environmental protection facilities that are required in relation to the construction project must be designed, constructed and put into operation simultaneously with the main structure of the construction project. In addition,

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the construction unit shall, during the trial production of the construction project, monitor the operation of the environmental protection facilities and the environmental impact of the construction project. On completion of construction, the construction unit shall file an application with the competent department of environmental protection administration that reviews and approves the relevant construction project environmental impact report, environmental impact statement or environmental impact registration form for environmental protection acceptance inspection upon completion. The acceptance inspection upon completion of environmental protection facilities shall be conducted simultaneously with the main structure of the project.

### **Insurance**

There is no mandatory provision in the PRC laws, regulations and government rules which requires a real estate developer to take out insurance policies for its real estate development projects. According to the common practice of the real estate industry in China, in the course of tendering and bidding for construction projects, construction companies are usually required to provide insurance plans, pay insurance premium at their own costs and take out the relevant kinds of insurance during the construction period, such as property insurance, third party liability insurance, employer's liability insurance, construction performance guarantee insurance and all risk insurance for construction and installation projects. All these insurance coverage will cease immediately subsequent to the acceptance inspection upon completion of the construction project.

### **Measures on Stabilizing Housing Price**

On April 17, 2010, the State Council issued the "Circular on Resolutely Curbing the Rapid Rising of House Price in Certain Cities" (《國務院關於堅決遏制部分城市房價過快上漲的通知》), which stipulates that the proportion of down payment for the first self-occupied home with a unit floor area of larger than 90 sq.m. shall not be less than 30% of the purchase price; the proportion of down payment for the second house bought with mortgage loans for a family shall not be less than 50% of the purchase price and the loan interest rate shall not be less than 1.1 times the benchmark lending rate published by the PBOC. In addition, the proportion of down payment and interest rate shall significantly increase for the third or further houses bought with mortgage loans. In certain regions where commodity residential housings are in short supply and prices rise too quickly, the banks may suspend granting mortgage loans for the third or further houses bought with mortgage loans or to non-local residents who cannot provide any proof of tax or social insurance payment for more than one year.

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On January 26, 2011, the General Office of the State Council issued the “Circular concerning Further Strengthening the Control of the Real Estate Market” (《進一步做好房地產市場調控工作有關問題的通知》). This circular, among others, provides that:

- an individual selling residential housing within five years of his purchase will be uniformly charged business taxes on the entire amount of the sale price of such residential housing;
- the proportion of minimum down payment for the purchase of the second house is raised from 50% to 60%, and the loan interest rate shall not be less than 1.1 times the prevailing benchmark rate published by the PBOC; and
- municipalities directly under the Central Government, municipalities with independent planning status, provincial capitals and cities with high housing prices shall limit the number of houses that a local resident can buy in a certain period. In principle, local resident families that own one house and non-local resident families which can provide local tax or social insurance payment proof for a certain period are permitted to purchase only one more house (including newly-built houses and second-hand houses). Sale of properties to (a) local resident families which own two or more houses, (b) non-local resident families which own one or more houses; and (c) non-local resident families which cannot provide local tax or social insurance payment proof for a certain period shall be suspended in local administrative regions.

In order to carry out the circular issued by the State Council, the relevant authorities have promulgated various requirements to stabilize housing prices, including those related to credit, tax and limitation on the purchase of properties. See “Appendix V – Part 1 Laws and Regulations Relating to Real Estate Development – K. Measures on Stabilizing Housing Price” in this prospectus for further details.

On February 26, 2013, the General Office of the State Council announced the “Notice on Continuing to Improve the Regulation and Control of the Real Estate Market” (《國務院辦公廳關於繼續做好房地產市場調控工作的通知》), which, among others, provides the following requirements: (i) limitations on the purchase of commodity residential housing must be strictly implemented, and the scope of such limitations must cover all newly constructed commodity residential housing and second-hand housing located in all the administrative regions of the city concerned; (ii) for cities with excessive growth in housing prices, the local counterparts of the PBOC may further increase down payment proportion and interest rates for loans to purchase second housing in accordance with the price control policies and targets of the corresponding local governments; and (iii) the gains generated from the sale of a self-owned residential property shall be subject to individual income tax at a rate of 20%, if the original value of such property can be verified through historical information, such as tax filings and property registration.

In the third quarter of 2013, there had been a further tightening on the down payment of second home purchase mortgages in several cities including Wuhan, Shenyang, Shanghai, Hangzhou and Guangzhou. Down payment requirement for second home purchases was raised from 60% to 65% or 70%.

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## REGULATIONS

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### **LAWS AND REGULATIONS RELATING TO OTHER BUSINESS SECTORS**

#### **Legal Supervision Relating to Construction Sector in the PRC**

Under the “Construction Law of the People’s Republic of China” (《中華人民共和國建築法》) promulgated by the Standing Committee of the National People’s Congress on November 1, 1997, amended on April 22, 2011 and becoming effective from July 1, 2011, as well as the “Administrative Provisions on the Qualifications of Enterprises in the Construction Industry” (《建築業企業資質管理規定》) issued by MOC on June 26, 2007 and becoming effective from September 1, 2007, enterprises in the construction industry are divided into different qualification levels based on conditions such as registered capital, professional technicians, technologies, equipment and achievement of construction projects completed, and may only engage in construction activities within the scope of its qualification level after passing the qualification examination and obtaining the qualification certificate as an enterprise in the construction industry.

According to the provisions under the “Administrative Provisions on the Qualifications of Enterprises in the Construction Industry”, the qualifications of enterprises in the construction industry shall be classified into three tiers, namely, general contracting, specialized contracting and labor service sub-contracting, each of which is further classified into several qualification types based on the nature and technical features of the project. Each qualification type shall be further divided into several qualification grades according to the prescribed conditions.

#### **Legal Supervision Relating to Property Management Sector in the PRC**

##### ***Foreign-invested Property Service Enterprises***

According to the “Catalog of Industries for Guiding Foreign Investment”, property management falls within the category of permitted foreign investment industries. According to the “Catalog of Industries for Guiding Foreign Investment” and the relevant requirements set out under the laws and administrative regulations on foreign-invested enterprises, a foreign-invested property service enterprise can be set up in the form of sino-foreign equity joint venture, sino-foreign cooperative joint venture or wholly foreign-owned enterprise. Before the administration for industry and commerce registers a foreign-invested enterprise as a foreign-invested property service enterprise, the foreign-invested property service enterprise shall obtain an approval from the relevant competent department of commerce and receive a Foreign-Invested Enterprise Approval Certificate.

##### ***Qualifications of a Property Service Enterprise***

According to the “Regulations on Property Management” (《物業管理條例》) issued by the State Council on June 8, 2003, effective from September 1, 2003 and amended on August 26, 2007, the State implements a qualification scheme in managing property service enterprises.



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Under the “Measures for Administration of Qualifications of Property Service Enterprises” (《物業服務企業資質管理辦法》), the qualifications of property service enterprises shall be classified into class one, class two and class three. The competent construction authorities of the State Council shall be responsible for issuance and administration of the qualification certificates of class one property service enterprises. The competent construction authorities of the People’s Governments of provinces and autonomous regions shall be responsible for issuance and administration of the qualification certificates of class two property service enterprises, and the competent departments of real estate of People’s Governments of municipalities directly under the Central Government shall be responsible for issuance and administration of the qualification certificates of classes two and three property service enterprises. The competent departments of real estate of People’s Governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificates of class three property service enterprises.

### ***Hiring a Property Service Enterprise***

According to the “Regulations on Property Management”, with the consent of the owners occupying more than half of the total area of the building and representing more than half of the total number of property owners, a property service enterprise may be hired and removed. If a construction unit has hired a property service enterprise before the formal hiring of the property management enterprise by the owners or the general meeting of owners, it shall enter into preliminary property service contract in writing with the property service enterprise.

### **Legal Supervision Relating to Hotel Sector in the PRC**

According to the “Catalog of Industries for Guiding Foreign Investment”, construction and operation of high-end hotels falls within the category of “restricted foreign investment industries”. Construction and operation of ordinary and economical hotels other than the said high-end hotels falls within the category of “permitted foreign investment industry”.

A foreign-invested enterprise engaging in the hotel business may set up an enterprise in the form of sino-foreign equity joint venture, sino-foreign cooperative joint venture or wholly foreign-owned enterprise according to the “Catalog of Industries for Guiding Foreign Investment” and the relevant laws and administrative regulations on foreign-invested enterprises. A foreign-invested enterprise engaging in the hotel business shall obtain approval from the relevant competent department of commerce and obtain a Foreign-Invested Enterprise Approval Certificate before registering with the competent administration authority of industry and commerce.

The procedures involved in hotel construction in China include obtaining approvals for land use, project planning and project construction, which shall all be subject to the aforementioned regulations relating to real estate project development.

There is currently no specific authority in China responsible for the supervision of daily operation and management of hotel business. The supervision of daily management of hotel business vests in different authorities based on the respective business scopes of different hotels. See the subsection headed “Appendix V – Part 2 Laws and Regulations Relating to Other Business Sectors – C. Legal Supervision Relating to Hotel Sector in the PRC” in this prospectus for further details.

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## REGULATIONS

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### **Legal Supervision Relating to Project Design Sector in the PRC**

Under the “Administrative Regulations on the Survey and Design of Construction Projects” (《建設工程勘察設計管理條例》) promulgated by the State Council on September 25, 2000 and the “Administrative Regulations on the Survey and Design Qualifications of Construction Projects” (《建設工程勘察設計資質管理規定》) issued by MOC on June 26, 2007 and implemented from September 1, 2007, the State applies a qualification management system to entities engaging in the surveying and designing activities for construction projects. An enterprise engaged in the construction project design activities shall apply for the relevant qualifications based on conditions such as registered capital, professional technicians, technical equipment and design performances, and may only engage in construction project design activities within the scope of its qualification after passing the qualification examination and obtaining the construction project design qualification certificate.