

APPENDIX V

TAXATION

The following discussion is a summary of some anticipated tax consequences of our operations and of your investment in our Shares under tax laws of mainland China and Hong Kong. The discussion does not deal with all possible tax consequences relating to our operations or to your investment in our Shares. In particular, the discussion does not address the tax consequences under provincial, local and other (e.g. non-PRC and non-Hong Kong) tax laws. Accordingly, you should consult your tax advisor regarding your particular tax consequences of an investment in our Shares. The following discussion is based upon laws and their interpretations in effect as of the date of this document, all of which are subject to change.

MAINLAND CHINA TAXATION

Because we are not incorporated in mainland China, your investment in our Shares is largely exempt from PRC tax laws. But because virtually all of our business operations are in mainland China and we carry out these business operations through operating subsidiaries and joint ventures organized under the PRC law, our PRC operations and our operating subsidiaries and joint ventures in mainland China are subject to PRC tax laws and regulations, which indirectly affect your investment in our Shares.

Dividends from our PRC operations

Under the PRC tax laws effective prior to January 1, 2008, dividends paid by our PRC subsidiaries or joint ventures to us were exempt from PRC income tax. However, pursuant to the PRC Corporate Income Tax Law and its implementation rules that became effective on January 1, 2008, dividends payable by foreign-invested enterprises, such as subsidiaries and joint ventures in China, to their foreign investors are subject to a withholding tax at a rate of 10% unless such foreign investors’ jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. According to the Mainland and Hong Kong Special Administrative Region Arrangement on Avoiding Double Taxation or Evasion of Taxation on Income 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 agreed between the PRC and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the PRC to its shareholders in Hong Kong will be subject to a withholding tax at a rate of 5% if such Hong Kong shareholder directly holds a 25% or more interest in the PRC enterprise.

Under the new tax law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management body” is located in China are treated as “resident enterprises” for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Under the implementation rules of the new Enterprise Income Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of “de facto management bodies” for enterprises incorporated overseas with controlling shareholders being PRC enterprises. It, however, remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents as is in our case. Because this tax law is new and its implementation rules are newly issued, there is uncertainty as to how this new law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

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Dividends we pay to you

Because we are not incorporated in mainland China, under the PRC tax laws effective prior to January 1, 2008, even though we had significant operating subsidiaries and joint ventures in mainland China, our distribution of dividends to our overseas investors was not subject to PRC tax. The new PRC Corporate Income Tax Law and its implementation rules, however, impose a withholding tax at the rate of 10% on dividends paid to investors that are “non-resident enterprises,” to the extent such dividends are sourced within China. For such tax purposes, the aforesaid “non-resident enterprises” is defined to include any non-PRC incorporated enterprises that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business in China. It is not clear whether you will be subject to such PRC withholding taxes as a result. Due to these new provisions in the PRC tax law, despite many uncertainties with respect to their actual intentions and practical effects, if we are considered a PRC resident enterprise, the dividends we pay with respect to our Shares may be treated as income derived from sources within China and be subject to the PRC withholding tax.

Transfer or disposition of our Shares

As we are not incorporated in mainland China, under the PRC tax laws, any transfer or disposition of our Shares by an overseas investor did not trigger PRC tax liabilities. The new PRC Corporate Income Tax Law and its implementation rules, however, impose a withholding tax at the rate of 10% on capital gains realized by investors that are “non-resident enterprises,” to the extent such gains are sourced within China. For such tax purposes, the aforesaid “non-resident enterprises” is defined to include any non-PRC incorporated enterprises that do not have an establishment or place of business in China, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business in China. It is not clear whether you will be subject to such PRC withholding taxes as a result. Any gain realized on the transfer of Shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. Due to these new provisions in the PRC tax law, despite many uncertainties with respect to their actual intentions and practical effects, if we are considered a PRC resident enterprise, the gain you may realize from the transfer of our Shares, may be treated as income derived from sources within China and be subject to the PRC income tax.

Our operations in mainland China

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 Tentative Regulations on Deed Tax, 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.

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

Corporate Income Tax. Prior to the new Corporate 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 new income tax law, effective from January 1, 2008, a unified corporate income tax rate is set at 25% for both domestic enterprises and foreign-invested enterprises, with the exception of those enterprises that enjoy preferential tax treatment according to laws and regulations before the new Corporate Income Tax Law became effective. However, there will be a five-year transition period for enterprises enjoying a preferential income tax rate under the prior tax laws and administrative regulations. In addition, dividends from PRC subsidiaries to their foreign shareholders will be subject to a withholding tax at a rate of 10% unless such foreign investors' jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax arrangement. According to the tax treaty entered into between the PRC and Hong Kong in August 2006, dividends paid by a foreign-invested enterprise in the PRC to its shareholders in Hong Kong will be subject to a withholding tax at a rate of 5% if such Hong Kong shareholder directly holds a 25% or more interest in the PRC enterprise. However, under the new tax law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose "de facto management body" is located in China are treated as "resident enterprises" for PRC tax purposes, and will be subject to PRC income tax on their worldwide income. Under the implementation rules of the new Corporate Income Tax Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the PRC State Administration of Taxation promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders being PRC enterprises. It, however, remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by PRC individual residents as is in our case. Because this tax law is new and its implementation rules are newly issued, there is uncertainty as to how this new law and its implementation rules will be interpreted or implemented by relevant tax bureaus.

Business Tax. Under the PRC Tentative Regulations on Business Tax 《中華人民共和國營業稅暫行條例》 of 1994 and revised on November 10, 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.

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

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- 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 separated into four categories of progressive tax rates, ranging 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 civilian used residential properties, excluding deluxe apartments, houses, resorts etc.), where the appreciation amount does not exceed 20% of the sum of 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, with five years or longer of self-used residence and with tax authorities’ approval.

According to a notice issued by the Ministry of Finance in January 1995, the LAT regulation does not apply to the following transfers of land use rights:

- real estate transfer contracts executed before January 1, 1994; and
- 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 executed 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 1994 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 Taxation Bureau, Ministry of Construction and State Land Administration Bureau separately and jointly issued several notices to reiterate that, after the assignments 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

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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.

The State Taxation Bureau issued a further notice, namely, the Notice on careful management work of LAT collection 《關於認真做好土地增值稅徵收管理工作的通知》 in July 2002 to require local tax authorities to require prepayment of LAT on basis of proceeds from pre-sale of real estate.

On December 28, 2006, the State Administration of Taxation promulgated the “Circular Concerning the Settlement of the LAT Imposed on Real Property Developers” (the “Circular”).

Pursuant to the Circular, effective from February 1, 2007, a real property developer is to settle the relevant LAT payment of its property development projects with the tax authorities in accordance with the applicable LAT tax rates. The LAT shall be settled for projects approved by the authorities and for projects developed in different stages, the LAT shall be settled in stages.

LAT must be paid if a project meets any of the following requirements:

- the property development project has been completed and sold out;
- the entire uncompleted and unsettled development project is transferred; or
- the land-use rights of the relevant project is transferred.

In addition, the competent tax departments may require a property developer to settle the LAT in any of the following circumstances:

- for completed property development projects, the transferred GFA represents more than 85% of the total saleable GFA, or the proportion represented is less than 85%, the remaining saleable GFA has been leased out or used by the developer;
- the project has not been sold out for more than three years after obtaining the sale or pre-sale permits;
- the developer applies for cancelation of the tax registration without having settled the LAT; or
- other conditions stipulated by the provincial tax departments.

The tax bureaus at the provincial level will, taking account of the local practical conditions, stipulate specific rules or measures on the management of the LAT settlement in accordance with the Circular.

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On January 30, 2007, the Henan Province Local Taxation Bureau promulgated the "Circular on Forwarding the Notice of the State Administration of Taxation on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises" 《河南省地方稅務局關於轉發房地產開發企業土地增值稅清算管理有關問題的通知》, considering the actual conditions of Henan Province, which complementarily provides that:

- for taxpayers transferring land use rights or mainly transferring land use rights (sales prices for buildings accounting for less than 30%), the LAT will be settled by means of audit collection in principal;
- as to deductible items: (i) for a multi-complex building comprising ordinary standard residential housing as well as other houses (luxury houses, commercial complexes, commercial houses and office buildings), the appreciation amount and deductible items will be verified, respectively, according to applicable laws. If the separation of the residential and commercial parts of the multi-complex building is unclear and/or undefined, the residential part of a multi-complex building would not be eligible for the exemption available for ordinary standard residential housing; (ii) where the vouchers or materials relating to (a) the project expenditures at the early stages of the project, (b) construction and fitting expenditures, (c) infrastructure expenditures, and (d) indirect expenditures are non-compliant with the requirements for LAT settlement or untrue, the LAT will be levied by means of verification collection;
- the LAT rate for verification collection: 1.5% for ordinary standard residential housing; 5% for land use rights; 3.5% for other property projects (other than ordinary standard residential housing and land use rights). Transaction incomes of transferring ordinary standard residential housing, luxury houses, commercial complexes, commercial houses and office buildings shall be verified, respectively. If the aforesaid separation calculation would be unfeasible the highest rate shall apply;
- for a property developer who has adopted verification collection means, the verification rate shall be adjusted in accordance with the circular from February 1, 2007, and with respect to the land use rights transaction, the LAT shall be levied by means of audit collection. For a property developer who has adopted audit collection means, the LAT shall be settled according to the circular. From February 1, 2007, the LAT shall be settled or verified on project basis either by means of verification collection or audit collection for property developers; and
- from the implementation of the circular, the adjustment of the LAT collection methods shall be approved by the municipal tax authority directly under the provincial government.

On May 25, 2007, the Jiangsu Province Local Taxation Bureau promulgated the "Circular on Forwarding the Notice of the State Administration of Taxation on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises" 《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 provides that LAT is to be determined at the rate of between 0.5% and 4% depending on the type of property constructed, if LAT can be levied upon deemed income under the stipulations of the Notice.

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On May 6, 2009, the Jiangsu Province Local Taxation Bureau issued the “Circular on the Further Strengthening of the Settlement of Land Appreciation Tax” 《關於進一步加強土地增值稅清算工作的通知》, which states that the rates used for calculating LAT levied upon deemed income were amended as follows:

- 0.5% to 2% of the income for ordinary standard residential housing constructed by property development enterprises;
- 1% to 4% of the income for ordinary residential housing constructed by property development enterprises;
- 2% to 8% of the income for commercial buildings, office buildings, high-end apartments, resorts and villas constructed by property development enterprises;
- for projects containing ordinary standard residential housing, ordinary residential housing and other commodity housing constructed by property development companies, LAT should be calculated proportionately based on the income derived from different types of properties, otherwise it should be calculated at 2% to 8% of the income.

On June 14, 2007, the Anhui Province Local Taxation Bureau promulgated the “Notice Concerning the Settlement of Land Appreciation Tax” 《關於土地增值稅有關問題的通知》, which states that where a property project contains both ordinary residential housing and non-ordinary residential housing, and where the land appreciation values are not calculated separately or cannot be accurately verified, then LAT is to be determined on the basis of the entire development project (including ordinary residential housing and non-ordinary residential housing).

On July 31, 2007, the Anhui Province Local Taxation Bureau promulgated the “Notice on the Further Clarification of the Prepayment of Land Appreciation Tax” 《關於進一步明確土地增值稅預徵率有關問題的通知》, which states that the prepayment of LAT is to be calculated at the following rates:

- within 1% for ordinary standard residential housing;
- 1% to 2% for commercial buildings;
- 1% to 3% for villas, luxury apartments and resorts; and
- 0.5% to 2% for all other types of properties.

On May 22, 2008, the Bengbu City Local Taxation Bureau promulgated the “Notice Concerning the Settlement of Land Appreciation Tax” 《關於土地增值稅清算有關問題的通知》, which states that if the LAT is levied upon deemed income, the full payment of LAT based on the rate of prepayment is deemed to be final settlement of such LAT.

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Urban Land Use Tax. Pursuant to the Tentative Regulations of the People's Republic of China on Land Use Tax 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 Rmb 0.2 and Rmb 10 per square meter. The Tentative Regulations of the People's Republic of China on Land Use Tax were revised by the State Council on December 31, 2006. As of January 1, 2007, the annual tax on every square meter of urban land shall be between Rmb 0.6 and Rmb 30.0.

Buildings Tax. Under the Tentative Regulations of the People's Republic of China on Buildings Tax promulgated by the State Council in September 1986, buildings tax is 1.2% if it is calculated on the basis of the residual value of a building and 12% if it is calculated on the basis of the rental.

Stamp Duty. Under the Tentative Regulations of the People's Republic of China on Stamp Duty 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 Rmb 5 per item.

Municipal Maintenance Tax. Under the Tentative Regulations of the People's Republic of China on Municipal Maintenance Tax 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. Under the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises issued by the State Taxation Bureau on February 25, 1994, the municipal maintenance tax is not applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

Education Surcharge. Under the Tentative Provisions on Imposition of Education Surcharge promulgated by the State Council in April 1986 and revised by the State Council in June 1990 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. Under the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge For Enterprises with Foreign Investment and Foreign Enterprises issued by the State Taxation Bureau on February 25, 1994 and the Supplementary Circular Concerning Imposition of Education Surcharge issued by the State Council on October 12, 1994, the education surcharge is not applicable to enterprises with foreign investment for the time being.

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HONG KONG TAXATION

Dividends

Under the current practice of the Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends we pay. Dividends distributed to our shareholders are free of withholding taxes in Hong Kong.

Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of our Shares. Trading gains from the sale of our Shares by persons carrying on a business in Hong Kong, where such gains are sourced in Hong Kong and arise from such business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on individuals at a maximum rate of 15.0%. Gains from sale of our Shares effected on the Stock Exchange will be considered to be sourced in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sale of our Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of our Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, our Shares transferred on each sale and purchase. In other words, a total of 0.2% of stamp duty is currently payable on a typical sale and purchase transaction of our Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5. Where a sale or purchase of our Shares is effected by a non-Hong Kong resident and any stamp duty payable on the contract notes is not paid, the relevant instrument of transfer (if any) will be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee will be liable to pay such duty.

CAYMAN ISLANDS TAXATION

Pursuant to section 6 of the Tax Concession Law (1999 Revision) of the Cayman Islands, our company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to our company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by our company:
 - (i) on or in respect of the shares, debentures or other obligations of our company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from July 31, 2007.

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. We do not hold, and do not intend to hold, any interest in land in the Cayman Islands.