

## INDUSTRY AND REGULATORY OVERVIEW

*Certain information and statistics set out in this section and elsewhere in this document relating to the Chinese economy and the industry in which we operate is derived from various government official publications. No independent verification has been carried out on such information and statistics. Reasonable care has been exercised by the Directors in the exercise of extracting and repeating such information and statistics. Our Company, makes no representation as to the accuracy of such information and statistics, which may be inaccurate, incomplete, out-of-date or inconsistent with each other or with other information.*

### MACRO-ECONOMIC CONDITIONS IN CHINA

Since China’s adoption of an open door policy in 1978, its economy has experienced significant growth which has been driven further by its accession to the World Trade Organization in 2001. China’s GDP increased from RMB12,033 billion in 2002 to approximately RMB30,067 billion in 2008 at a compound annual growth rate, or CAGR, of approximately 16.5%, making China one of the fastest growing economies in the world. The tables below set out selected economic statistics of the PRC for the years indicated:

|  | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u>      | <u>2008</u>      | <u>CAGR</u> |
|--|-------------|-------------|-------------|-------------|-------------|------------------|------------------|-------------|
| Nominal GDP (RMB in billions) . . . . .                | 12,033      | 13,582      | 15,988      | 18,322      | 21,192      | 24,953           | 30,067           | 16.5%       |
| Real GDP growth rate in % . . .                        | 9.1         | 10.0        | 10.1        | 10.4        | 11.6        | 11.9             | 9.0              |             |
| Per capita GDP (RMB) . . . . .                         | 9,398       | 10,542      | 12,336      | 14,053      | 16,165      | 19,524           | 22,698           | 15.8%       |
| Foreign Direct Investment                              |             |             |             |             |             |                  |                  |             |
| Actual Investment (US\$ in billions) . . . . .         | 52.7        | 53.5        | 60.6        | 60.3        | 63.0        | 74.8             | 92.4             | 9.8%        |
| Contracted Investment (US\$ in billions) . . . . .     | 82.8        | 115.1       | 153.5       | 189.1       | 193.7       | — <sup>(1)</sup> | — <sup>(1)</sup> | 23.7%       |
| Investment in fixed assets (RMB in billions) . . . . . | 4,350.0     | 5,556.7     | 7,047.7     | 8,877.4     | 10,999.8    | 13,732.4         | 17,282.8         | 25.9%       |
| Consumer Price Index Growth                            |             |             |             |             |             |                  |                  |             |
| Rate . . . . .   | (0.8%)      | 1.2%        | 3.9%        | 1.8%        | 1.5%        | 4.8%             | 5.9%             |             |
| Unemployment Rate . . . . .                            | 4.0%        | 4.3%        | 4.2%        | 4.2%        | 4.1%        | 4.0%             | 4.2%             |             |
| Retail Sales of Consumers                              |             |             |             |             |             |                  |                  |             |
| Goods (RMB in billions) . . .                          | 4,814       | 5,252       | 5,950       | 6,718       | 7,641       | 8,921            | 10,849           | 14.5%       |

Source: China Statistical Yearbook 2003-2009

Note:

(1) Since 2007, the Ministry of Commerce no longer publishes data of values of contracted investments by foreign countries or regions.

In line with the nominal GDP growth, China’s per capita disposable annual income for urban households increased from RMB7,703 in 2002 to RMB15,781 in 2008, implying increased purchasing power for urban households throughout China. The following tables illustrate the per capita disposable annual income for urban households and aggregate personal savings in China.

|  | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>CAGR</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Per capital disposable income for urban households (RMB) . . . . . | 7,703       | 8,472       | 9,422       | 10,493      | 11,760      | 13,786      | 15,781      | 12.7%       |
| Aggregate personal savings (RMB in billions) . . . . .             | 8,691       | 10,362      | 11,956      | 14,105      | 16,159      | 17,253      | 21,789      | 16.9%       |

Source: China Statistical Yearbook 2003-2009

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## DEVELOPMENT OF THE REAL ESTATE MARKET IN CHINA

Reform of China’s real estate sector did not take place until the early 1990s. Prior to that time, most of China’s urban population relied on the State for housing. Ownership of real property rested with the State, and property development was the responsibility of the State. However, beginning in the early 1990s, China’s property system began a transition to a market-driven system. A summary timeline of key property reforms and policies in China is as follows:

| <u>Year</u> | <u>Event</u>   |
|-------------|--|
| 1988        | The PRC Government amended the Constitution of the PRC to permit the transfer of state-owned land use rights   |
| 1991        | Employer/employee-funded housing provident funds commenced   |
| 1992        | Public housing sales in major cities commenced   |
| 1994        | The PRC Government implemented further reforms and established an employer/employee-funded housing fund system   |
| 1995        | The PRC Government issued regulations regarding the sales and pre-sales of property, establishing a regulatory framework for property sales  |
| 1998        | The PRC Government abolished state-allocated housing policy. Guangdong government issued regulations on the administration of pre-sales of commodity properties in Guangdong Province  |
| 1999        | The PRC Government extended the maximum mortgage term to 30 years<br><br>The PRC Government increased the maximum mortgage financing from 70% to 80%<br><br>The PRC Government formalized procedures for the sale of real property in the secondary market   |
| 2000        | The PRC Government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality   |
| 2001        | Shanghai became the first city in China to eliminate dual pricing for domestic and overseas home buyers<br><br>The PRC Government issued regulations relating to sales of commodity properties<br><br>The PRC Government issued regulations relating to strengthening the administration of demolition and relocation in urban areas |
| 2002        | The PRC Government promulgated the Rules Regarding the Grant of State-Owned Land Use Rights by Way of Tender, Auction and Listing-For-Sale<br><br>The PRC Government eliminated the dual system for domestic and overseas home buyers in China   |

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| <u>Year</u> | <u>Event</u>  |
|-------------|---|
| 2003        | <p>The PRC Government promulgated rules for more stringent administration of property loans with a view to reducing the credit and systemic risks associated with such loans</p> <p>The State Council issued a notice for sustained and healthy development of the property market</p> <p>The PRC Government issued regulations regarding property management, setting forth a framework for property management activities</p>   |
| 2004        | <p>The State Council issued a notice to require that property development projects (excluding affordable housing programs) be financed by developers themselves from their capital funds with respect to 35%, rather than 20%, of the total projected capital outlay for such projects.</p> <p>The MOHURD amended the Administrative Measures Governing the Pre-sale of Urban Real Estate (《城市商品房預售管理辦法》)</p> <p>The CBRC issued the Guideline for Commercial Banks on Risks of Real Estate Loans to further strengthen risk control of commercial banks on real estate loans</p>   |
| 2005        | <p>The State Council issued notice requiring municipal governments and relevant authorities to curb the rapid growth in selling prices in an effort to sustain healthy development of the property market</p> <p>The State Council implemented additional measures to discourage speculation in certain regional markets, including, among others, increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, limiting monthly repayment amounts under individuals’ mortgage loans, imposing a business tax for sales within two years of purchase, and prohibiting resale of properties before they are completed</p>   |
| 2006        | <p>The PRC Government announced measures designed to slow the rapid economic growth of the PRC’s economy to a more balanced, sustainable level by controlling money supply, credit availability and fixed assets investments. In particular, the PRC Government focused on certain high growth sectors, including China’s property market. The measures specific to the property market were designed to discourage speculation in the residential property market and limit the over-development in that market</p> <p>The PRC Government announced a new round of macroeconomic policies to control fixed assets investment by means of imposing tighter reins on land and lending</p> <p>The PBOC raised its benchmark one-year lending rate by 0.27% to 5.85% and the lending rates for other various terms accordingly to further tighten the country’s credit policy effective as of April 28, 2006</p> |

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| <u>Year</u> | <u>Event</u>  |
|-------------|---|
|             | <p>The State Council and other related government agencies made a number of policy announcements aimed at (i) discouraging excessive growth of the China’s high-end residential property sector, and (ii) stimulating the development of mass-market residential property projects with a higher degree of affordability in May 2006</p> <p>Nine PRC Government bodies including the MOHURD, the State Administration of Taxation, the Ministry of Land and Resources, the CBRC and the PBOC jointly announced a number of specific directives on May 24, 2006. Key among those relevant to us is that banks are not permitted to provide loans to a property developer whose total capital fund is less than 35% of the total investment amount in an intended development project</p> <p>The Ministry of Land and Resources issued a detailed announcement on May 30, 2006 on guidelines regarding the restriction of overall land supply for high-end residential property developments, including the discontinuation of new land supply for house projects specifically</p>  |
| 2007        | <p>The State Administration of Taxation implemented measures aimed at strengthening collection of LAT took effect as of February 1, 2007</p> <p>The PRC Government introduced measures to the effect that the establishment or the share capital increase of real estate enterprises with foreign investment, which are approved by local PRC commerce authorities after June 1, 2007, should be registered with MOFCOM. In the absence of such registration, the foreign real estate enterprise will not be permitted to take out overseas debts including both shareholder loans and foreign commercial loans and SAFE will not give effect to the foreign exchange registration or the foreign exchange alteration registration, as a result of which foreign currencies, which have been injected, will not be settled</p>  |
| 2008        | <p>On January 3, 2008, the State Council issued the Notice on Promoting the Saving and Intensification of Use of Land (Guo Fa [2008] No. 3) (《國務院促進節約集約用地的通知》), which reinforced the existing policy in respect of idle land. The notice stipulates, among other things, that the disposal policies for idle land shall be implemented strictly. If the land approved for development remains unused for more than two years, it shall be forfeited to the government without consideration and the government authorities shall collect additional land premium on the idle land, details of which are yet to be announced. The requirement that a GFA of less than 90 sq.m. (including affordable housing) must reach not less than 70% of the total GFA for development and construction of residential land is also reinforced in this notice</p> <p>On October 22, 2008, the Ministry of Finance and the State Administration of Taxation jointly issued a Notice on Adjusting the Taxation Policies with Regard to Real Estate Transaction (《關於調整房地產交易環節稅收政策的通知》) effective as of November 1, 2008, which aims to reduce the personal taxation burdens on</p> |

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### Year

### Event

housing transaction and encourage first-time buyers in purchasing ordinary residential properties. The taxation policies stipulated by the notice are as follows:

- for first-time home buyers of ordinary residential property with a unit floor area of less than 90 sq.m., the deed tax is lowered to 1%, and the certification for the first home buying will be issued by the local housing and construction authorities at county or district level;
- the stamp duty is exempted for individual residential property purchase or sale; and
- the LAT is exempted for individual residential property sale

On October 22, 2008, the PBOC announced The Measures to Lower Residential Housing Mortgage Rates and Encourage First Home Purchases of Ordinary Residential Properties (《擴大商業性個人住房貸款利率下浮幅度、支援居民首次購買普通住房》). According to the measures, effective as of October 27, 2008, the minimum mortgage loan rate can be as low as 70% of the benchmark lending rate for residential mortgage loans and the minimum down payment ratio is lowered to 20%. Financial institutions shall determine the lending rate and the down payment ratio taking into consideration factors including, without limitation, whether the buyer is a first-time buyer, whether the property is to be self-used by the buyer, whether the property is ordinary residential property and the home buyer’s credit records and repayment capability. For buyers purchasing their first self-use home of ordinary residential property or buying self-use ordinary residential property for improvement, financial institutions shall support the buyers’ loan demands at the favorable lending rates and down payment ratios. Financial institutions shall appropriately raise the standards of lending for purchase of properties not for self-use or other than ordinary residential properties

On December 20, 2008, the General Office of the State Council promulgated the Several Opinions Concerning Boosting 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 provides incentives to build more housing for low-income urban families, encourage purchasing of ordinary residential properties, support real estate developers to actively deal with the changing market, enhance the responsibility of local governments in stabilizing the real estate market and improve surveillance on the real estate market. The relevant policies include:

- providing favorable loan terms similar to those for first-time home buyers to the second-time home buyers whose existing ordinary residence is smaller than the average size in the locality of such home buyers;
- granting business tax exemptions under certain conditions before December 31, 2009;

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| <u>Year</u> | <u>Event</u>  |
|-------------|---|
|             | <ul style="list-style-type: none"> <li>● supporting developers’s reasonable financing needs and increasing credit help for developers of low-price property units catering to low-income groups; and</li> <li>● abolishing the urban real estate tax (城市房地產稅) and applying the Interim Regulations of the People’s Republic of China on Real Estate Tax (《中華人民共和國房產稅暫行條例》) to all domestic enterprises, foreign-invested enterprises and individuals</li> </ul> |
| 2009        | On May 25, 2009, the State Council issued the Circular of the State Council Concerning the Adjustment of Capital Ratio of Fixed Assets Investment Projects (《關於調整固定資產投資項目資本金比例的通知》), decreasing the minimum percentage of capital funding for any affordable housing projects and ordinary commodity residential properties from 35% to 20%. The minimum percentage of capital funding for other real estate development projects is decreased from 35% to 30%  |

For more information about recent changes in the real estate industry in China, please see “— Regulatory Overview”.

## GROWTH OF THE REAL ESTATE MARKET IN CHINA

We believe the economic growth of China, the increase in disposable income, the emergence of the mortgage lending market and the increase in the urbanization rate, are key factors in sustaining the growth of China’s property market. Government housing reforms continue to encourage private ownership and it is expected that an increasing proportion of urban residents will own private properties in the near future. The table below sets out selected figures showing China’s urbanization rate of the urban population in China for the periods indicated.

|  | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Urban population (in millions) . . .   | 502         | 524         | 543         | 562         | 577         | 594         | 607         |
| Total population (in millions) . . . . | 1,285       | 1,292       | 1,300       | 1,308       | 1,314       | 1,321       | 1,328       |
| Urbanization rate in % . . . . .       | 39.1        | 40.5        | 41.8        | 43.0        | 43.9        | 44.9        | 45.7        |

Source: China Statistical Yearbook 2003-2009

### Property Price and Supply

On average, prices for property in China increased from 2002 to 2008. The average price per sq.m. for the property market in China, including residential and commercial properties, was approximately RMB3,800 in 2008, compared to approximately RMB2,250 in 2002.

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The following table sets out selected data relating to the PRC property market for the periods indicated.

|   | 2002  | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    |
|---|-------|---------|---------|---------|---------|---------|---------|
| Investment in properties (RMB in billions) . . . . .                  | 779.1 | 1,015.4 | 1,315.8 | 1,590.9 | 1,942.3 | 2,528.9 | 3,120.3 |
| Investment in residential properties (RMB in billions) . . . . .      | 552.8 | 677.7   | 883.7   | 1,086.1 | 1,363.8 | 1,800.5 | 2,244.0 |
| Investment in office properties (RMB in billions) . . . . .           | 38.1  | 50.8    | 65.2    | 76.3    | 92.8    | 103.5   | 116.7   |
| GFA of commodity properties completed (sq.m. in millions) . .         | 349.8 | 414.6   | 424.6   | 534.2   | 558.3   | 606.1   | 665.4   |
| GFA of commodity properties sold (sq.m. in millions) . . . . .        | 268.1 | 337.2   | 382.3   | 554.9   | 618.6   | 773.5   | 659.7   |
| GFA area of residential properties sold (sq.m. in millions) . . . . . | 237.0 | 297.8   | 338.2   | 495.9   | 554.2   | 701.4   | 592.8   |
| GFA of office buildings sold (sq.m. in millions) . . . . .            | 5.4   | 6.3     | 6.9     | 11.0    | 12.3    | 14.7    | 11.6    |
| Average price of commodity properties per sq.m. (RMB) . . . .         | 2,250 | 2,359   | 2,778   | 3,168   | 3,367   | 3,864   | 3,800   |
| Average price of residential properties per sq.m. (RMB) . . . .       | 2,092 | 2,197   | 2,608   | 2,937   | 3,119   | 3,645   | 3,576   |
| Average price of retail properties per sq.m. (RMB) . . . . .          | 3,489 | 3,675   | 3,884   | 5,022   | 5,247   | 5,774   | 5,886   |
| Average price of office buildings per sq.m. (RMB) . . . . .           | 4,336 | 4,196   | 5,744   | 6,923   | 8,053   | 8,667   | 8,378   |

*Source: China Statistical Yearbook 2003-2009*

### Property Revenue

The upward trend in the China property industry is evidenced by the growth of the revenue from the sale of properties in the PRC. According to the China Statistical Yearbook 2009, the total revenue from real property sales in the PRC increased from approximately RMB251.3 billion in 1998 to approximately RMB2,506.8 billion in 2008. Total GFA sold in the PRC increased from approximately 121.9 million sq.m. in 1998 to approximately 659.7 million sq.m. in 2008.

### THE REAL ESTATE MARKETS IN XIAMEN AND FUZHOU

Xiamen and Fuzhou are the two largest cities in the West Strait Economic Zone, which includes Fujian Province and parts of its surrounding areas in Zhejiang Province, Jiangxi Province and Guangdong Province. In March 2006, the Chinese National People’s Congress first proposed a special economic zone in the area in the 11<sup>th</sup> five-year (2006-2010) economic and social development guidelines. In May 2009, the Chinese State Council issued the Several Opinions Concerning Support for More Rapid Establishment of Economic Zone in the West Strait (《國務院關於支持福建省加快建設海峽西岸經濟區的若干意見》). In July 2009, the Fujian provincial

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government issued the Implementation Rules Regarding the State Council’s Opinions Concerning Support for More Rapid Establishment of Economic Zone in the West Strait (《福建省貫徹落實〈國務院關於支持福建省加快建設海峽西岸經濟區的若干意見〉的實施意見》) (the “Implementation Rules”). The West Strait Economic Zone is an economic development zone in southeast China established to promote regional economic integration and cooperation between Fujian Province and Taiwan. The West Strait Economic Zone is developed against the backdrop of improving the cross-strait relationship between Mainland China and Taiwan and the relationship between Fujian and its neighboring provinces, given Fujian’s strategic location connecting the Pearl River Delta Area and the Yangtze River Delta Area. It is expected to accelerate economic development along the coastal cities in Fujian Province in industries such as agriculture, manufacturing, services and technology. According to the Implementation Rules issued by the Fujian provincial government, the creation of the West Strait Economic Zone is expected to increase Fujian Province’s GDP to RMB4 trillion in 2020. The West Strait Economic Zone is also expected to serve as a corridor for interaction between people across the strait as well as a major advanced manufacturing center on the eastern coast and one of China’s main natural and cultural tourism areas. To that end, preferential policies are expected to be promulgated to promote the rapid and successful development of the Fujian economy.

**The Real Estate Market in Xiamen**

Xiamen comprises an area of approximately 1,573.2 square kilometers. According to the Xiamen Bureau of Statistics (廈門統計局), as of December 31, 2008, Xiamen had a population of approximately 2.5 million people. Xiamen has experienced substantial GDP growth in the past ten years. In 2008, Xiamen’s nominal GDP reached approximately RMB156.0 billion, while real GDP grew approximately 11.1% over 2007.

The table below sets out selected economic statistics of Xiamen for the periods indicated.

|   | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>CAGR</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Nominal GDP (RMB in billions) . . . . . | 64.8        | 76.0        | 88.8        | 100.7       | 116.8       | 138.8       | 156.0       | 15.8%       |
| Real GDP growth rate in % . . . . .     | 15.6        | 17.0        | 16.0        | 16.0        | 16.8        | 16.6        | 11.1        |             |
| Per capita GDP (RMB) . . . . .          | 30,297      | 35,009      | 40,351      | 44,737      | 50,130      | 57,113      | 62,651      | 12.9%       |

*Sources: Xiamen Statistical Yearbook 2003-2008 and Xiamen Bureau of Statistics*

**Residential property market in Xiamen**

In line with the economic growth of Xiamen, investment in local property development experienced an upward trend in recent years. Total residential property investments in Xiamen increased to approximately RMB21.1 billion in 2008 from approximately RMB4.1 billion in 2002, representing a CAGR of approximately 31.4%.



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The table below sets out the total GFA completed, total GFA sold, average price per sq.m. and revenue of residential properties in Xiamen for the periods indicated.

|  | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      | 2008      | CAGR  |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|
| Investment in residential properties (RMB in billions) . . . . . | 4.1       | 5.5       | 6.7       | 8.3       | 15.5      | 25.9      | 21.1      | 31.4% |
| GFA completed (sq.m.) . . .                                      | 1,586,623 | 2,196,385 | 2,815,607 | 2,767,596 | 2,109,478 | 2,413,581 | 3,679,800 | 15.1% |
| GFA sold (sq.m.) . . . . .                                       | 1,867,448 | 2,171,255 | 2,550,452 | 2,723,155 | 3,173,860 | 3,695,570 | 1,502,100 | -3.6% |
| GFA sold as a percentage of total GFA sold in PRC . . . . .      | 0.70      | 0.64      | 0.67      | 0.49      | 0.51      | 0.48      | 0.23      |       |
| Average price per sq.m. (RMB) . . . . .                          | 2,595.1   | 3,137.2   | 3,768.5   | 4,744.0   | 6,600.7   | 8,907.0   | 8,940.0   | 22.9% |
| Revenue (RMB in billions) . . . . .                              | 4.8       | 6.8       | 9.6       | 12.9      | 20.9      | 32.9      | 13.4      | 18.7% |

Sources: Xiamen Statistical Yearbook 2003-2008, China Statistical Yearbook 2009

### Office property market in Xiamen

The table below sets out the selected statistics of office properties in Xiamen for the periods indicated.

|   | 2002    | 2003    | 2004    | 2005    | 2006    | 2007    | 2008    | CAGR  |
|---|---------|---------|---------|---------|---------|---------|---------|-------|
| Investment in office properties (RMB in millions) . . . . . | 282     | 303     | 300     | 330     | 1,854   | 1,487   | 1,800.1 | 36.2% |
| GFA completed (sq.m.) . . . . .                             | 97,716  | 104,737 | 109,220 | 13,620  | 238,791 | 439,148 | —       | 35.1% |
| GFA sold (sq.m.) . . . . .                                  | 57,199  | 119,865 | 88,842  | 75,133  | 260,987 | 700,214 | 562,500 | 46.4% |
| GFA sold as a percentage of total GFA sold in PRC . . . . . | 0.02    | 0.04    | 0.02    | 0.01    | 0.04    | 0.09    | 0.09    |       |
| Average price per sq.m. (RMB) . . . . .                     | 3,803.0 | 3,925.6 | 4,949.2 | 7,631.1 | 6,603.8 | 4,970.1 | —       | 5.5%  |
| Revenue (RMB in millions) . . .                             | 217.5   | 470.5   | 439.7   | 573.4   | 1,723.5 | 3,480.1 | —       | 74.1% |

Sources: Xiamen Statistical Yearbook 2003-2008, China Statistical Yearbook 2009 and Xiamen Bureau of Statistics

Capital values and rent per sq.m. in Xiamen increased in recent years as a result of increased demand for office space in Xiamen. We expect an increase in demand for premium office space from local and multi-national companies to further drive the development of Xiamen.

### Hotel property market in Fujian Province

China’s economic growth in the past several years has resulted in an increase in both business and leisure travelers to China.

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Xiamen had experienced double-digit growth in foreign visitor arrivals from 2002 to 2008, growing at a CAGR of 11.0%. The table below sets out the overseas visitor arrival statistics for Xiamen for the period from 2002 to 2008.

|                                 | Overseas visitor arrivals to Xiamen |       |       |       |         |         |         |
|---------------------------------|-------------------------------------|-------|-------|-------|---------|---------|---------|
|                                 | 2002                                | 2003  | 2004  | 2005  | 2006    | 2007    | 2008    |
| Foreigners ('000) . . . . .     | 671.6                               | 548.8 | 765.8 | 944.4 | 1,010.0 | 1,130.0 | 1,256.0 |
| Increase/Decrease (%) . . . . . | 17.2                                | 18.3  | 39.5  | 23.3  | 7.1     | 12.0    | 10.9    |

*Source: Xiamen Statistical Yearbook 2003-2008, and Xiamen Bureau of Statistics*

The number of star-rated hotels in Fujian Province increased from 284 in 2002 to 411 in 2007. The table below sets out the number of star-rated hotels in Fujian Province for the periods from 2002 to 2007, reflecting the supply of high-end hotels in Fujian Province.

|                                       | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------------------------------|------|------|------|------|------|------|
| Number of star-rated hotels . . . . . | 284  | 305  | 322  | 397  | 412  | 411  |

*Sources: Fujian Statistical Yearbook 2003-2008*

### The Real Estate Market in Fuzhou

Fuzhou comprises an area of approximately 12,000 square kilometers. According to the Fuzhou Bureau of Statistics (福州市統計局), as of December 31, 2008, Fuzhou had a population of approximately 6.8 million people. Fuzhou has experienced substantial GDP growth in the past ten years. In 2008, Fuzhou’s nominal GDP reached approximately RMB228.4 billion, while real GDP grew approximately 13.0% over 2007.

The table below sets out selected economic statistics of Fuzhou for the periods indicated.

|   | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | CAGR  |
|---|--------|--------|--------|--------|--------|--------|--------|-------|
| Nominal GDP (RMB in billions) . . . . . | 101.2  | 116.2  | 133.5  | 147.6  | 166.4  | 197.5  | 228.4  | 14.5% |
| Real GDP growth rate in % . . . . .     | 10.2   | 13.6   | 12.7   | 9.6    | 12.3   | 15.1   | 13.0   |       |
| Per capita GDP (RMB) . . . . .          | 16,901 | 17,695 | 20,292 | 22,301 | 24,874 | 29,318 | 33,615 | 12.1% |

*Sources: Fuzhou Statistical Yearbook 2003-2008, and Fuzhou Bureau of Statistics*

In line with the economic growth of Fuzhou, investment in local property development experienced an upward trend in recent years. Total residential property investments in Fuzhou increased to approximately RMB22.4 billion in 2008 from approximately RMB6.9 billion in 2002, representing a CAGR of approximately 21.7%. According to the China Statistical Yearbook, the total property investments in Fuzhou (including residential and non-residential properties) amounted to approximately RMB37.6 billion in 2007.

## INDUSTRY AND REGULATORY OVERVIEW

The table below sets out the total GFA completed, total GFA sold, average price per sq.m. and revenue of residential properties in Fuzhou for the periods indicated.

|  | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>CAGR</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Investment in residential properties (RMB in billions) . . . . . | 6.9         | 11.4        | 15.1        | 15.9        | 20.3        | 27.0        | 22.4        | 21.7%       |
| GFA completed (sq.m.) . . . . .                                  | 3,692,000   | 4,237,000   | 4,729,300   | 4,481,100   | 4,111,200   | 4,118,000   | 2,946,800   | 3.7%        |
| GFA sold (sq.m.) . . . . .                                       | 3,173,000   | 4,106,000   | 3,950,200   | 7,963,100   | 6,214,200   | 5,925,300   | 3,414,400   | 1.2%        |
| GFA sold as a percentage of total GFA sold in PRC . . . . .      | 1.2         | 1.2         | 1.0         | 1.4         | 1.0         | 0.8         |             | 0.5         |
| Average price per sq.m. (RMB) . . . . .                          | 1,960       | 2,178       | 2,463       | 2,981       | 3,976       | 4,900       | 5,244       | 17.8%       |
| Revenue (RMB in billions) . . . . .                              | 6.2         | 8.9         | 9.7         | 23.7        | 24.7        | 29.0        | 17.9        | 19.3%       |

Sources: China Statistical Yearbook 2003-2009

## THE REAL ESTATE MARKET IN SHANGHAI

Shanghai comprises an area of approximately 6,340.5 square kilometers. According to the Shanghai Statistical Yearbook 2009 (上海統計年鑒2009), as of December 31, 2008, Shanghai had a population of approximately 13.9 million people. Shanghai has experienced substantial GDP growth in the past ten years. In 2008, Shanghai’s nominal GDP reached approximately RMB1,369.8 billion, while real GDP grew approximately 9.7% over 2007.

The table below sets out selected economic statistics of Shanghai for the periods indicated.

|   | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>CAGR</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Nominal GDP of Shanghai (RMB in billions) . . . . . | 574.1       | 669.4       | 807.3       | 916.4       | 1036.6      | 1,218.9     | 1,369.8     | 15.6%       |
| Real GDP growth rate in % . . . . .                 | 11.3        | 12.3        | 14.2        | 11.1        | 12.0        | 14.3        | 9.7         |             |
| Per capita GDP (RMB) . . . . .                      | 35,329      | 39,128      | 46,338      | 51,529      | 57,695      | 66,367      | 73,124      | 12.9%       |

Sources: Shanghai Statistical Yearbook 2003-2009

## Residential Property Market in Shanghai

In line with the economic growth of Shanghai, investment in local property development experienced an upward trend in recent years. Total residential property investments in Shanghai increased to approximately RMB84.4 billion in 2008 from approximately RMB56.8 billion in 2002, representing a CAGR of approximately 6.8%. According to the Shanghai Bureau of Statistics

## INDUSTRY AND REGULATORY OVERVIEW

(上海市統計局), the total property investments in Shanghai (including residential and non-residential properties) amounted to approximately RMB136.7 billion in 2008.

The table below sets out the total GFA completed, total GFA sold, average price per sq.m. and revenue of residential properties in Shanghai for the periods indicated.

The table below sets out the total GFA completed, total GFA sold, average price per sq.m. and revenue of residential properties in Shanghai for the periods indicated.

|   | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>CAGR</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Investment in residential properties        |             |             |             |             |             |             |             |             |
| (RMB in billions) . . . . .                 | 56.8        | 67.6        | 90.1        | 92.1        | 83.6        | 83.8        | 84.4        | 6.8%        |
| GFA completed (sq.m. in millions) . . . . . | 17.1        | 21.4        | 30.8        | 27.4        | 27.0        | 27.5        | 17.6        | 0.5%        |
| GFA sold (sq.m. in millions) . . . . .      | 18.5        | 22.2        | 32.3        | 28.5        | 26.2        | 32.8        | 19.7        | 1.1%        |
| GFA sold as a percentage of total GFA       |             |             |             |             |             |             |             |             |
| sold in PRC . . . . .                       | 6.9         | 6.6         | 8.5         | 5.1         | 4.2         | 4.2         | 3.2         |             |
| Average price per sq.m. (RMB) . . . . .     | 4,007.0     | 4,989.4     | 6,385.0     | 6,698.0     | 7,039.0     | 8,250.0     | 8,182.0     | 12.6%       |
| Revenue (RMB in billions) . . . . .         | 74.0        | 111.0       | 206.5       | 190.6       | 184.1       | 270.6       | 160.8       | 13.8%       |

Sources: Shanghai Statistical Yearbook 2003-2009

### Office Property Market in Shanghai

The table below sets out the selected statistics of office properties in Shanghai for the periods indicated.

|                                     | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>CAGR</u> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Investment in office properties     |             |             |             |             |             |             |             |             |
| (RMB in billions) . . . . .         | 3.4         | 6.7         | 8.3         | 10.2        | 12.4        | 15.8        | 18.6        | 32.7%       |
| GFA completed (sq.m) . . . . .      | 548,300     | 631,500     | 730,500     | 870,500     | 1,085,300   | 1,388,900   | 2,056,700   | 24.6%       |
| GFA sold (sq.m) . . . . .           | 423,500     | 451,800     | 848,300     | 978,900     | 1,390,500   | 1,509,300   | 1,458,700   | 22.9%       |
| GFA sold as a percentage of         |             |             |             |             |             |             |             |             |
| total GFA sold in PRC . . . . .     | 0.2         | 0.1         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         |             |
| Average price per sq.m.             |             |             |             |             |             |             |             |             |
| (RMB) . . . . .                     | 8,343       | 9,711       | 10,694      | 11,867      | 12,078      | 14,223      | 11,811      | 6.0%        |
| Revenue (RMB in billions) . . . . . | 3.5         | 4.4         | 9.1         | 11.6        | 16.8        | 21.5        | 17.2        | 30.4%       |

Sources: Shanghai Statistical Yearbook 2003-2009

## INDUSTRY AND REGULATORY OVERVIEW

### Hotel Property Market in Shanghai

Shanghai experienced double-digit growth in overseas visitor arrivals from 2002 to 2008, growing at a CAGR of 15.3%. The table below sets out the domestic and overseas visitor arrival statistics for Shanghai for the periods indicated:

|                         | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>CAGR</u> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Domestic visitors       |             |             |             |             |             |             |             |             |
| (‘000) . . . . .        | 87,610.0    | 76,030.0    | 85,050.0    | 90,120.0    | 96,840.0    | 102,100.0   | 110,060.0   | 3.9%        |
| Increase/Decrease       |             |             |             |             |             |             |             |             |
| (%) . . . . .           | 6.1         | -13.2       | 11.9        | 6.0         | 7.5         | 5.4         | 7.8         |             |
| Foreigners (‘000) . . . | 2,106.6     | 2,115.7     | 3,391.1     | 4,522.7     | 4,854.0     | 5,367.6     | 5,074.0     | 15.8%       |
| Increase/Decrease       |             |             |             |             |             |             |             |             |
| (%) . . . . .           | 43.3        | 0.43        | 60.3        | 33.4        | 7.3         | 10.6        | -5.5        |             |
| International Total     |             |             |             |             |             |             |             |             |
| (‘000) . . . . .        | 2,725.3     | 3,198.7     | 4,919.2     | 5,713.5     | 6,056.7     | 6,655.9     | 6,403.7     | 15.3%       |
| Increase/Decrease       |             |             |             |             |             |             |             |             |
| (%) . . . . .           | 33.4        | 17.4        | 53.8        | 16.1        | 6.0         | 9.9         | -3.8        |             |

Sources: Shanghai Statistical Yearbook 2003-2009

To accommodate the growing number of visitors, the number of four-star and five-star hotels in Shanghai increased from 47 in 2002 to 91 in 2008. The table below sets out the number of four-star and five-star hotels in Shanghai for the periods from 2002 to 2008, reflecting the supply of high-end hotels in Shanghai.

|  | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Number of four-star and five-star hotels . . . | 47          | 50          | 61          | 66          | 69          | 79          | 91          |

Source: Shanghai Statistical Yearbook 2003-2009

### THE REAL ESTATE MARKET IN HEFEI

Hefei comprises an area of approximately 7,029 square kilometers. According to the Hefei Bureau of Statistics (合肥市統計局), Hefei had a population of approximately 4.8 million people. Hefei has experienced substantial GDP growth in the past ten years. In 2008, Hefei’s nominal GDP reached approximately RMB166.5 billion, while real GDP grew approximately 17.2% over 2007.

The table below sets out selected economic statistics of Hefei for the periods indicated.

|   | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>CAGR</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Nominal GDP (RMB in billions) . . . . . | 49.7        | 59.0        | 72.2        | 87.8        | 107.4       | 133.5       | 166.5       | 22.3%       |
| Real GDP growth rate in % . . . . .     | 16.4        | 16.8        | 17.3        | 17.0        | 17.5        | 18.1        | 17.2        |             |
| Per capita GDP (RMB) . . . . .          | 11,173      | 13,047      | 16,377      | 19,512      | 23,203      | 28,134      | 34,482      | 20.7%       |

Source: Hefei Bureau of Statistics

In line with the economic growth of Hefei, investment in local property development experienced an upward trend in recent years. Total residential property investments in Hefei increased

## INDUSTRY AND REGULATORY OVERVIEW

to approximately RMB44.0 billion in 2008 from approximately RMB2.4 billion in 2002, representing a CAGR of approximately 62.4%. According to the China Statistical Yearbook 2008, the total property investments in Hefei (including residential and non-residential properties) amounted to approximately RMB38.8 billion in 2007.

The table below sets out the total GFA completed, total GFA sold, average price per sq.m. and revenue of residential properties in Hefei for the periods indicated.

|  | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      | 2008      | CAGR  |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------|
| Investment in residential properties (RMB in billions) . . . . . | 2.4       | 6.4       | 10.3      | 14.3      | 22.5      | 29.9      | 43.6      | 62.1% |
| GFA completed (sq.m.) . . . . .                                  | 1,880,000 | 2,645,000 | 2,987,400 | 4,137,700 | 4,507,300 | 5,120,600 | 4,634,200 | 16.2% |
| GFA sold (sq.m.) . . . . .                                       | 1,756,000 | 2,482,000 | 3,087,000 | 5,374,000 | 5,832,600 | 9,531,000 | 8,673,500 | 30.5% |
| GFA sold as a percentage of total GFA sold in PRC . . . . .      | 0.7       | 0.7       | 0.8       | 1.0       | 0.9       | 1.2       | 1.3       |       |
| Average price per sq.m. (RMB) . . . . .                          | 1,618     | 1,889     | 2,271     | 2,799     | 2,874     | 3,154     | 3,592     | 14.2% |
| Revenue (RMB in billions) . . . . .                              | 2.8       | 4.7       | 7.0       | 15.0      | 16.8      | 30.1      | 31.2      | 49.5% |

Source: China Statistical Yearbook 2003-2009

## REGULATORY OVERVIEW

Summaries of certain aspects of PRC law and regulations which are relevant to our operations and business and the property industry in China are set out in Appendix IV to this document. Set out below is an overview of key recent regulatory developments relating to the property industry in China, many of which are directed at the residential property sector.

### Government Policies

In recent times the PRC Government has introduced a series of macro-economic control policies designed to stabilize the property market. In April and May 2005, the PRC Government brought forward a number of measures to strengthen macro-economic control of the property market and to curb speculation in the property market. These included:

- An increase of 0.27% per annum in the mortgage interest rate; and
- The introduction of a business tax and related statutory surcharges of 5.55% on the total proceeds from a sale of residential property in relation to the resale of residential property within two years after purchase.

China's State Council issued the Notice on Adjusting the Housing Supply Structure and Stabilizing Housing Prices (《關於調整住房供應結構穩定住房價格意見的通知》) on May 24, 2006,

## INDUSTRY AND REGULATORY OVERVIEW

introducing additional measures aimed at curtailing speculative activity in the country's residential market and ensuring that affordable housing is provided. Some of the key provisions which took effect on June 1, 2006 are as follows:

- Mortgage lenders were required to increase the down payment requirement from at least 20% to at least 30% of the property's value for units larger than 90 sq.m.
- The business tax and related statutory surcharges of 5.55% on the total proceeds from the resale of residential property, which before June 1, 2006 was levied on resales within two years of purchase, was extended to sales within five years of purchase for all units.
- In approving housing development after June 1, 2006, the relevant local authority was directed to require units smaller than 90 sq.m. each to account for at least 70% of the total development and construction area, except where the relevant local authority has, based on the existence of special circumstances, obtained approval from the MOHURD to depart from this requirement. This restriction was further refined on July 6, 2006 clarifying that the 70% minimum could be applied on a city-wide basis by local authorities, rather than on the basis of individual developments.

In April 2006, the PBOC raised the benchmark one-year lending rate from 5.58% to 5.85% and in August 2006 further increased such rate to 6.12%. The PBOC again increased the one-year lending rate a number of times in 2007 from 6.12% to 6.39% in March 2007, from 6.39% to 6.57% in May 2007, from 6.57% to 6.84% in July 2007, from 6.84% to 7.02% in August 2007, from 7.02% to 7.29% in September 2007 and from 7.29% to 7.47% in December 2007. In a reversal of this trend, the PBOC lowered the benchmark one-year lending rate from 7.47% to 7.20% in September 2008, from 7.20% to 6.93% on October 9, 2008, from 6.93% to 6.66% on October 30, 2008, from 6.66% to 5.58% on November 27, 2008, and from 5.58% to 5.31% on December 23, 2008.

On July 11, 2006, the PRC Government announced a package of new regulations concerning foreign investment in real estate to further promote the sustainable development of the property market in China. Those measures applicable to foreign individuals included a requirement that buyers show that they have lived in China for a period of at least one year and that the property in question would be occupied by such individual. Residents of Hong Kong, Macau and Taiwan and overseas Chinese are permitted to purchase houses within certain areas for self-usage. Foreign institutions will need to establish a branch or representative office to purchase property for self-usage. Among key regulations applicable to foreign businesses is a minimum capital requirement of 50% on investments greater than US\$10 million and a requirement for government approvals prior to any real estate investment.

On August 29, 2008, the General Affairs Department of SAFE issued a Notice With Regard to the Issue of Administration of Settlement of Foreign Currency Capital of Foreign Investment Enterprises (《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》). This notice further regulates the administration of settlement of foreign currency capital of foreign investment enterprises within the PRC.

According to the notice, prior to applying for settlement of foreign currency capital with designated banks, foreign investment enterprises must undergo capital verification by an accountancy

## INDUSTRY AND REGULATORY OVERVIEW

firm. The designated banks may not engage in settlement of foreign currency capital for enterprises that have not completed the process of capital verification. Furthermore, the total amount of foreign exchange settled by a designated bank for a foreign investment enterprise may not exceed the total capital audited. The designated banks must comply with the SAFE administration rules of settlement based on actual payment when engaging in foreign currency capital settlement with foreign investment enterprises.

Funds in Renminbi obtained by foreign investment enterprises through foreign currency capital settlement may only be used within the business scope as approved by the government authorities. Furthermore, such funds shall not be used for equity investments within the PRC unless otherwise stipulated. Except for foreign-invested real estate enterprises, foreign investment enterprises may not use funds in Renminbi obtained through foreign currency capital settlement to purchase real estate for any purposes other than its own occupancy. Should a foreign investment enterprise wish to use funds in Renminbi obtained through foreign currency capital settlement to purchase securities, it must act in compliance with the relevant PRC regulations. Any transfer of funds for the sake of equity investment in the PRC by foreign-invested investment enterprises approved by the MOFCOM must first undergo examination and approval by the SAFE, or its local branches. Any profits obtained by PRC entities or individuals through the sale of equities or interests in PRC enterprises to foreign investors must be conducted through an account reserved exclusively for foreign exchange. The opening of such account, and any related transfer of funds, must undergo examination and approval by the local branches of SAFE as provided by the relevant regulations.

On October 22, 2008, the Ministry of Finance and the State Administration of Taxation jointly issued a Notice on Adjusting the Taxation Policies with Regard to Real Estate Transaction (《關於調整房地產交易環節稅收政策的通知》), effective as of November 1, 2008, which aims to reduce the personal taxation burdens on housing transaction and encourage first-time buyers in purchasing ordinary residential properties. The taxation policies stipulated by the notice are as follows:

- for first time home buyers of ordinary residential property with a unit floor area of less than 90 sq.m., the deed tax is lowered to 1%, and the certification for the first home buying will be issued by the local housing and construction authorities at county or district level;
- the stamp duty is exempted for individual residential property purchase or sale; and
- the LAT is exempted for individual residential property sale.

On October 22, 2008, the PBOC announced the Measures to Lower House Mortgage Rates and Encourage the First Home Purchase of Ordinary Residential Properties (《擴大商業性個人住房貸款利率下浮幅度、支持居民首次購買普通住房》). According to the measures, effective as of October 27, 2008, the minimum mortgage loan rates can be as low as 70% of the benchmark lending rates for house mortgage loans and the minimum down payment ratio is lowered to 20%. Financial institutions shall determine the lending interest rates and the down payment ratios taking into consideration factors including, without limitation, whether the buyer is a first-time buyer, whether the property is to be self-used by the buyer, whether the property is ordinary residential property and the home buyer’s credit records and repayment capability. For buyers purchasing their first self-use home of ordinary residential property or buying self-use ordinary residential property for improvement,



## INDUSTRY AND REGULATORY OVERVIEW

financial institutions can support the buyers’ loan demands at favorable lending interest rates and down payment ratios and can appropriately raise the standards of lending for purchase of properties not for self-use or other than ordinary residential properties.

The State Council issued the Opinions on Finance to Boost the Economic Development (《關於當前金融促進經濟發展的若干意見》) on December 8, 2008, which provides for relevant credit policies and measures to be stipulated and performed to support first-time home buyers’ purchases of ordinary residential properties and second-time home buyers’ purchases of ordinary residential properties for improvement, experiments of real estate investment trusts to be carried out, and the financing channels for real estate developers to be broadened.

On December 20, 2008, the General Office of the State Council promulgated the Several Opinions Concerning Boosting 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 provides incentives to build more residential properties for low-income urban families, encourage purchasing of ordinary residential properties, support real estate developers to actively deal with the changing market, enhance the responsibility of local governments in stabilizing the real estate market, and improve surveillance on the real estate market. The relevant policies include:

- providing favorable loan terms similar to those for first-time home buyers to second-time home buyers whose existing ordinary residence is smaller than the average size in the locality of such home buyers;
- granting business tax exemptions under certain conditions before December 31, 2009;
- supporting developers’ reasonable financing needs and increasing credit help for developers of low-price property units catering to low-income groups; and
- abolishing the urban real estate tax (城市房地產稅) and applying the Interim Regulations of the People’s Republic of China on Real Estate Tax (《中華人民共和國房產稅暫行條例》) to all domestic enterprises, foreign-invested enterprises and individuals.

As of December 23, 2008, the PBOC lowered the one-year benchmark lending rate to 5.31%. In addition, effective December 25, 2008, the reserve requirement ratio was lowered by 0.5%.

On December 29, 2008, the Ministry of Finance and the State Administration of Taxation jointly issued the Circular Concerning Business Tax on Personal Real Estate Transfer (《關於個人住房轉讓營業稅政策的通知》), according to which, from January 1, 2009 to December 31, 2009, business tax shall be levied on the entire sale price of any non-ordinary house sold within two years of its last transfer or on the difference between the transfer price and the original price for any transfer of non-ordinary house after two or more years of its last transfer or any transfer of ordinary house within two years of its last transfer, while business tax would be exempted for the transfer of an ordinary residential property made after two years from its last transfer.

On December 31, 2008, the State Council announced that as of January 1, 2009, the Provisional Regulations on Urban Real Estate Tax (《城市房地產稅暫行條例》) is repealed and the Interim Regulations

## INDUSTRY AND REGULATORY OVERVIEW

of the People’s Republic of China on Real Estate Tax (《中華人民共和國房產稅暫行條例》) is to be applied to all domestic enterprises, foreign-invested enterprises and individuals.

On May 25, 2009, the State Council issued the Circular of the State Council Concerning the Adjustment of Capital Ratio of Fixed Assets Investment Projects (《關於調整固定資產投資項目資本金比例的通知》), decreasing the minimum percentage of capital funding for any affordable housing projects and ordinary commodity residential properties from 35% to 20%. The minimum percentage of capital funding for other real estate development projects has been decreased from 35% to 30%.

### Land acquisition

As all land in the PRC is either state-owned or collectively-owned, interests in land consist of land use rights, under which individuals and corporate entities may hold rights for investment or development purposes or transfer their interests to other parties. Individuals and corporate entities may acquire land use rights in a variety of ways, the two most important being land grants from local land authorities and land transfers from land users who have already obtained land use rights. Please see “Regulatory Overview — The Land System of the PRC” in Appendix IV for more details.

Regulations issued by the PRC Ministry of Land and Resources in May 2002 provide that land use rights for property to be used for commercial purposes, including business, tourism, entertainment and residential properties, may be granted by the PRC Government only through public tender, auction or listing-for-sale. These regulations also govern the public tender, auction or listing-for-sale process. Regulations issued by the PRC Ministry of Land and Resources in June 2003 govern the granting of land use rights by the PRC Government by private agreement, where the designated use is other than for commercial purposes. Please see “Regulatory Overview — The Land System of the PRC — Grant” in Appendix IV for more details. Under current regulations, grantees of land use rights are generally allowed to dispose of the land use rights granted to them in the secondary market, provided that they have made some corresponding investment or exploration in accordance with the land grant agreement and relevant statutory requirements. Our ability to acquire land use rights and develop future projects may be adversely affected by present and future PRC laws and regulations. Please see “Risk factors — Risks relating to our business” for more details.

### Recent measures on stabilization of property prices

In light of increasing speculation and investment in the PRC property market, and resultant rapid increases in property prices, the PRC Government has, since 1994, implemented a series of control measures aimed at discouraging speculation in the property market. These also have the wider purpose of reducing the growth rate of China’s economy and promoting balanced and sustainable economic growth. The PRC Government has introduced austerity measures to reduce speculation in the PRC property market, including:

- limiting the monthly mortgage payment to 50% of an individual borrower’s monthly income and limiting all monthly debt service payments of an individual borrower to 55% of his or her monthly income;

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- increasing the minimum required capital contribution of real estate developers from 20% to 35% of the total projected capital outlay of any property development;
- increasing the required reserve ratio of funds that a commercial bank must hold on deposit progressively from 7% to 17.5% (effective from June 25, 2008 to September 24, 2008), effectively reducing the amount of money a bank is able to lend. Effective on September 25, 2008, the PBOC decreased the reserve requirement ratio to 16.5% for commercial banks other than the Industrial and Commercial Bank of China (中國工商銀行), the Agricultural Bank of China (中國農業銀行), the Bank of China (中國銀行), the China Construction Bank (中國建設銀行), the Bank of Communications (中國交通銀行) and the Postal Savings Bank (郵政儲蓄銀行), and to 15.5% for commercial banks in areas hit by the May 12, 2008 earthquake in Sichuan, China. Effective on October 15, 2008, the PBOC further decreased the reserve requirement ratio by 0.5%. Effective on December 5, 2008, the PBOC decided to cut the reserve requirement ratio of the Industrial and Commercial Bank of China (中國工商銀行), the Agricultural Bank of China (中國農業銀行), the Bank of China (中國銀行), the China Construction Bank (中國建設銀行), the Bank of Communications (中國交通銀行) and the Postal Savings Bank (郵政儲蓄銀行), by 1% to 16.0%, the reserve requirement ratio for the smaller commercial banks by 2% to 14.0% and adopt a preferential reserve requirement ratio for rural commercial banks and commercial banks in areas hit by the May 12, 2008 earthquake in Sichuan, China. Effective on December 25, 2008, the PBOC further decreased the reserve requirement ratio by 0.5%; and
- tightening regulations governing mortgage lending and restricting approval of new development zones.

In particular, on May 9, 2005, the MOHURD, the NDRC, the Ministry of Finance, the Ministry of Land and Resources, the PBOC, the State Administration of Taxation and the CBRC jointly promulgated the Opinion on Duly Stabilizing the Prices of Residential Properties (《關於做好穩定住房價格工作的意見》), or the Opinion, setting out guidelines for the relevant PRC authorities to stabilize rapid growth in the residential property market. These guidelines were later reflected in a set of new measures which are aimed at directly controlling the growth of the real estate industry, including:

- commencing June 1, 2005, a business tax levy on the sales proceeds subject to the length of holding period and type of property;
- a ban on onward transfer of uncompleted properties;
- the imposition of an idle land fee for land which has not been developed for one year starting from the commencement date stipulated in the land grant contract and cancellation of the land-use right for land which remains idle for two years or more;
- a revocation of planning permits for projects which do not comply with the relevant planning permits; and
- a ban on land provision for villa construction and a restriction on land provision for high-end residential property construction.

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In 2006, the PRC Government implemented a series of new measures on land supply, bank mortgage finance, taxation and other aspects with an aim to slow down the increase in real property prices, to encourage development of more low- and middle-end properties and to promote a better environment for the growth and development of the PRC property industry. The new measures included:

- an increase in interest rates for mortgage loans;
- a requirement that residential units with a floor area of less than 90 sq.m. shall account for over 70% of the total area of residential units which are approved and constructed in each city after June 1, 2006. Local governments will have authority to determine construction of new commercial buildings;
- a business tax to be levied on the total sale value of residential property sold within five years of its purchase, as well as a business tax to be levied on any gains from the sale of residential properties, which are not deemed to be ordinary residential properties, after five years of their purchase by an individual;
- with effect from June 1, 2006, the minimum down payment for individual residential property mortgages shall be 30% of the total purchase price, except for low-income purchasers purchasing residential units with a floor area of less than 90 sq.m.; and
- with effect from August 1, 2006, definitions are set out on property values for different types of residential property for computing taxable gains for individual income tax on the transfer of residential property and reasonable deductible costs with a cap on each such allowable cost.

On July 11, 2006, the MOHURD, the MOFCOM, the NDRC, the PBOC, the State Administration for Industry and Commerce and the SAFE jointly issued the Opinion on Regulating the Access and Administration 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》), or the “171 Opinion”. The 171 Opinion aims to regulate the access to the property market of foreign investors and to strengthen the administration of real estate purchases by foreign invested enterprises. The 171 Opinion provides, among others, that offshore entities without an onshore branch or representative agency, or foreign individuals who have studied or worked in the PRC for less than one year, are not allowed to purchase commercial properties and residential properties. Please see “Regulatory Overview — The Land System of the PRC” in Appendix IV to this document for more details.

According to the Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction (《國土資源部關於加強城市建設用地審查報批工作有關問題的通知》) promulgated by the Ministry of Land and Resources on September 4, 2003, from the day of issuance of the Notice, the grant of land use rights for luxurious commodity properties shall be stringently controlled, and applications of land use rights for villas will no longer be accepted. The land parcels for our projects under development which include villas have been granted by relevant government authorities prior to the promulgation of such notice. In order to comply with such notice as well as other relevant PRC regulations, we do not intend to obtain lands in the future to develop villas. The Directors do not believe such notice has had or will have a material adverse impact on our business and our strategies.

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According to the Foreign Investment Industrial Guidance Catalogue (《外商投資產業指導目錄》) promulgated by MOFCOM and NDRC on November 30, 2004, effective on January 1, 2005, (i) the development and construction of ordinary residential properties falls within the category of industries in which foreign investment is encouraged, (ii) the development of whole land lots (limited to equity joint ventures and cooperative joint ventures) as well as the construction and management of high-class hotels, villas, premium office buildings, international conference centers, theme parks and golf courses falls within the category of industries in which foreign investment is subject to restrictions, and (iii) other property development falls within the category of industry in which foreign investment is permitted. On October 31, 2007, the MOFCOM and the NDRC jointly issued the new Foreign Investment Industrial Guidance Catalogue effective December 1, 2007, under which the development and construction of ordinary residential properties is removed from the category of industry that foreign investment is encouraged, whereas the secondary market transactions in property sector, by property intermediaries or agents fall under the category of industry that foreign investment is subject to restrictions and the construction and management of golf courses is forbidden from foreign investment.

We develop residential, retail and commercial properties including ordinary residential properties, high-class hotels and premium office and retail buildings. All of our projects are classified as either within the category of industries in which foreign investment is subject to restrictions or the category of industries in which foreign investment is permitted. All of our project companies with foreign investment have obtained relevant approvals or permits for their incorporation and the development of their property projects from relevant authorities including MOFCOM. Our PRC legal advisor is of the opinion that we are in compliance with the Foreign Investment Industrial Guidance Catalogue.

On May 23, 2007, the MOFCOM and the SAFE issued the Notice on Further Strengthening and Regulating the Approval and Supervision on Foreign Investment in Real Estate Sector (《關於進一步加強、規範外商直接投資房地產審批和監管的通知》). This notice requires that real estate enterprises with foreign investment are not permitted to bypass any approval or regulatory requirements in order to invest in real estate properties in the PRC; in particular, investment by way of changing the controlling shareholder of a local real estate is expressly prohibited.

On July 10, 2007, the General Affairs Department of the SAFE issued the Notice Regarding the Publication of the List of the First Batch of Property Development Projects with Foreign Investment that have Properly Filed with MOFCOM (《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》). The notice stipulates, among other things, (i) that the SAFE will no longer process foreign debt registration or foreign exchange settlement for foreign debt for real estate enterprises with foreign investment that obtained approval certificates from and filed with MOFCOM on or after June 1, 2007 and (ii) that the SAFE will no longer process foreign exchange registration (or change of such registration) or application for settlement and sale of foreign exchange for real estate enterprises with foreign investment that obtained approval certificates from a local government’s commerce department on or after June 1, 2007, but did not file with MOFCOM. This new regulation restricts the ability of foreign invested real estate companies to raise funds offshore for the purpose of funding such companies by way of borrowing foreign debt, including shareholder loans and overseas commercial loans. Nonetheless, this new regulation does not restrict property developers from receiving foreign

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capital by way of an increase in registered capital of the existing foreign-invested property companies or the establishment of new foreign-invested project companies provided that the increase in registered capital or establishment of a new company has been duly approved by competent local branches of MOFCOM and registered with MOFCOM or duly approved by MOFCOM. Subsequent to June 1, 2007, we have filed with MOFCOM the increases in registered capital contribution to one of our existing foreign-invested subsidiaries and the establishment of one foreign-invested subsidiary.

On June 18, 2008, the MOFCOM issued the Circular on Duly Filing of Foreign Investment in Property Sector (《關於做好外商投資房地產業備案工作的通知》) effective July 1, 2008 to implement the above mentioned PRC laws and regulations concerning the filings of foreign-invested property enterprises with MOFCOM. Please see “Regulatory Overview — Foreign Investment in Property Development” in Appendix IV to this document for more details.

On July 29, 2008, the PBOC and CBRC jointly issued the Notice Relating to the Financial Promotion of Economized and Intensive Land Use (《關於金融促進節約集約用地的通知》). The major provisions of the notice are as follows:

- Land funded by a loan shall be obtained legally, in compliance with general land use planning, urban and rural planning, and the relevant industry planning. In the case of new land for development, such land must also fit into the annual land use schedule. It is forbidden to extend a loan to a project which does not comply with the relevant planning requirements, or to a project not in compliance with relevant PRC land laws and regulations. It is strictly forbidden to extend loans to any project listed on the National Forbidden Land Use Projects List (《禁止用地項目目錄》). In the case that a loan has already been extended to such a project, the bank in question must take necessary remedial measures, and gradually withdraw said loan. With regard to projects listed on the National Restricted Land Use Projects List (《限制用地項目目錄》), loans should be extended with due caution.
- It is forbidden to extend loans to real estate development enterprises to be used exclusively for the payment of land premiums. For land reserve loans in which a mortgage has been taken out, legal land use rights certification must be obtained. In such cases, the mortgage rate shall not exceed 70% of the overall estimated value of the mortgaged property, and the terms of such loans shall, in principle, not exceed two years. Due caution should be taken in extending loans to enterprises which have exceeded the construction period as stipulated in the land grant contract by more than one year, have developed less than one third of the land in question, or have invested less than one fourth of the agreed capital. In addition, strict controls should be employed when extending the terms of loans or rolling over credit to such enterprises. It is forbidden to extend loans to, or accept construction land which has been classified as idle by the land authorities for two years or more as collateral from real estate projects.

In the fourth quarter of 2008, as part of the response to the current global economic crisis, the PRC Government announced a RMB4 trillion fiscal stimulus package to be funded by both the public and private sectors. The National Development and Reform Commission (中華人民共和國國家發展和改革委員會) has outlined that the planned spending will be directed to certain

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key areas including public infrastructure and low-income housing. It is believed that the main beneficiaries of the fiscal stimulus package will include PRC construction companies, cement and steel companies, property developers and investors. As of April 2009, a total amount of RMB2.3 trillion was injected under the fiscal stimulus package, mainly into the construction of low-income housing and hospitals, sewage systems, railways and energy efficiency projects.

### Land Appreciation Tax

Land Appreciation Tax, or LAT, is levied on all entities receiving net profit from the sale or transfer of real estate, at progressive rates ranging from 30% to 60% of the appreciation value. LAT is charged at four levels of progressive rates: 30% for the appreciation amount not exceeding 50% of the sum of deductible items; 40% for the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% for the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% for the appreciation amount exceeding 200% of the sum of deductible items. Deductible items include acquisition cost of land use rights, development cost of land, construction cost of new buildings and facilities or assessed value for used properties and buildings, taxes related to the transfer of real estate and other deductible items as stipulated by the Ministry of Finance. On February 1, 2007, the Circular on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (《關於房地產開發企業土地增值稅清算管理有關問題的通知》), or the LAT Circular, issued by the State Administration of Taxation took effect to strengthen the collection of LAT. It regulates (i) the conditions under which LAT must be settled; (ii) the methods in which taxable gains are computed; (iii) identifying items which are allowable deductible costs; (iv) time frame for settlement of the LAT; and (v) requirements for filing of documents. On May 12, 2009, the State Administration of Taxation issued the Administrative Rules on the Settlement of Land Appreciation Tax (《土地增值稅清算管理規程》) effective as of June 1, 2009, which further clarifies the specific conditions and procedures for settlement of the LAT. Please see “Regulation Overview — Taxation in China — Land Appreciation Tax” in Appendix IV to this document.

The LAT Circular provides for strengthened collection of LAT through final settlement of LAT being conducted on a project-by-project basis. For multi-phase projects, each phase will be required to undergo a LAT clearance and settlement process.

According to the LAT Circular, property developers must conduct a final settlement of LAT if any one of the following conditions is satisfied:

- The project is completed and the development is sold;
- The project is transferred as a whole before the completion of the construction; or
- Any land use rights are transferred.

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In addition, the PRC tax authorities may require a property developer to conduct a final LAT settlement if any one of the following conditions is met:

- For completed projects, the area sold exceeds 85% of the total saleable area, or, where the area sold does not exceed 85% of the total saleable area, the remaining area available for sale has been either rented-out or put to self-use;
- The project has held a sale/pre-sale license for at least three years but has not completed the sale;
- The taxpayer has applied for tax de-registration without conducting LAT settlement; or
- Any other conditions required by tax authorities at provincial level.

We believe we estimate and make adequate provisions for the amount of LAT payable under the law and recognize these provisions in the income tax line item in our profit and loss accounts when we recognize revenue from the sale of our properties. We recognized LAT in 2006, 2007, 2008 and the six months ended June 30, 2009 of RMB2.3 million, RMB41.9 million, RMB200.4 million and RMB198.9 million, respectively. We believe we have been in compliance with the relevant LAT rules and regulations effective from time to time and are prepared to settle any additional LAT, such as may be assessed by the PRC tax authorities at any time. We believe we have sufficient resources to settle LAT payables since our cash and cash equivalents as of August 31, 2009 totalled RMB383.6 million. We also maintain good credit records with banks and, in case of any cash flow problem, we believe we could obtain bank loans secured by our unsold properties. We believe that any additional administrative measures to be applied by the tax authorities for enforcing the LAT circular will have minimal impact on our business and results of operations. For further details of the potential risks associated with LAT, please see “Risk Factors — Risks Relating to the PRC Real Estate Industry — The relevant PRC tax authorities may enforce the payment of LAT and may challenge the basis on which we calculate our LAT obligations”.