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## APPENDIX VI

## SUMMARY OF PRC LAWS RELATING TO THE PROPERTY SECTOR

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### ESTABLISHMENT OF A REAL ESTATE DEVELOPMENT ENTERPRISE

According to the Law of the People’s Republic of China on Administration of Urban Real Estate 《中華人民共和國城市房地產管理法》 (“Urban Real Estate Administration Law”) promulgated by the National People’s Congress, effective on January 1, 1995, as amended in August 2007, a real estate developer is defined as an enterprise that engages in the development and operation of real estate for the purpose of making profits. Under the Regulations on Administration of Development of Urban Real Estate 《城市房地產開發經營管理條例》 promulgated by the State Council in July 1998 (the “Development Regulations”), an enterprise that is to engage in development of real estate must satisfy the following requirements:

- its registered capital must be Rmb 1 million or more; and
- it must have (i) four or more full-time professionals who hold the relevant certificates in real estate development or construction engineering and (ii) two or more full-time accounting officers who hold the relevant certificates.

The local government of a province, autonomous region or municipality directly under the PRC central government may, depending on local circumstances, impose more stringent requirements on the registered capital and the professional personnel of a real estate developer.

Pursuant to the Regulations on Real Estate Developments of Guangdong Province 《廣東省房地產開發經營條例》, revised by the Standing Committee of Guangdong Provincial People’s Congress and enforced on October 16, 1997, the self-owned working capital of a real estate development enterprise in the Guangdong Province shall not be less than Rmb 3 million, and real estate development enterprises with different qualification classifications should comply with the relevant requirements on full-time professional technicians applicable to such enterprises.

Pursuant to the Regulations on Property Development of Hunan Province 《湖南省城市房地產開發經營管理辦法》, enacted by the People’s Government of Hunan Province on April 12, 2006 and enforced on June 1, 2006, the registered capital of a property development enterprise in Hunan Province shall not be less than Rmb 4 million, and property development enterprises with different qualification classification should comply with the relevant requirements on full-time professional technicians applicable to such enterprises.

To establish a real estate development enterprise, the developer must apply for registration with the administration for industry and commerce. The developer must also report its establishment to the real estate development authority in the location of its registration, within 30 days of the receipt of its business license. Where a foreign-invested enterprise is to be established to engage in the development and operation of real estate, it must also comply with the relevant requirements under the PRC laws and regulations regarding foreign-invested enterprises and apply for approvals relating to foreign investments in China.

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Under the Foreign Investment Industrial Guidance Catalogue 《外商投資產業指導目錄》 promulgated by the MOFCOM and the NDRC in November 2004,

- the development and construction of ordinary residential properties falls within the category of industries in which foreign investment is encouraged,
- the comprehensive development of tracts of land (limited to equity joint ventures or cooperative joint ventures), the construction and operation of high-end hotels, villas, premium office buildings, international conference and exhibition centers and large theme parks falls within the category of industries in which foreign investment is subject to restrictions,
- other real estate development falls within the category of industries 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 shall be removed from the category of industries in which foreign investment is encouraged, whereas the trading and brokering of real properties in the secondary market will fall under the category of industries in which foreign investment is subject to restrictions.

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

Under the Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment of Certain Industries 《關於調整部分行業固定資產投資項目資本金比例的通知》 issued by the State Council in April 2004, the minimum capital ratio of real estate projects (excluding affordable housing projects) has been increased from 20% to 35%. On May 25, 2009, the State Council issued the new Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment 《國務院關於調整固定資產投資項目資本金比例的通知》, under which the minimum capital ratio of low-to-mid-income housing and ordinary commodity housing projects shall be 20% and the minimum capital ratio of other real estate projects shall be 30%.

On July 11, 2006, the Ministry of Construction, the MOFCOM, the NDRC, the PBOC, the State Administration of Industry and Commerce ("the SAIC") and SAFE jointly promulgated 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》. According to this Circular, the access and administration of foreign capital in the property market must comply with the following requirements:

- Foreign institutions or individuals who buy real properties not for their own use in China should follow the principle of commercial presence and apply for the establishment of

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foreign-invested enterprises pursuant to the regulations of foreign investment in real properties. After obtaining the approvals from relevant authorities and upon completion of the relevant registrations, foreign institutions and individuals can then conduct business pursuant to their approved business scope.

- Where the total investment amount of a foreign-invested property enterprise is US\$10 million or more, its registered capital shall be no less than 50 percent of the total investment amount; where the total investment amount is less than US\$10 million, its registered capital shall follow the requirements of the existing regulations.
- For establishment of a foreign-invested property enterprise, the commerce authorities and the administration for industry and commerce shall be responsible for the approval and registration of the foreign-invested property enterprise and the issuance of a temporary approval certificate for a foreign-invested enterprise (which is effective for one year) and a temporary business license. Upon full payment of the land premium for the land-use rights, the foreign-invested property enterprise should apply for the Certificate of Land-Use Rights. With such Certificate of Land-Use Rights, it can obtain a formal Approval Certificate for a Foreign-Invested Enterprise from the commerce authorities and a formal business license which has the same approved business term as the formal Approval Certificate for Foreign-Invested Enterprise.
- Transfers of projects of or equity interests in foreign-invested property enterprises or acquisitions of domestic property enterprises by foreign investors should strictly follow the relevant laws, regulations and policies and obtain the relevant approvals. The investor should submit: a) a written undertaking of compliance with State-owned Land-Use Rights Grant Contract, Construction Land Planning Permit and Construction Work Planning Permit; b) Certificate of Land-Use Rights; c) documents evidencing the filing for modification with the relevant construction authorities; and d) documents evidencing the payment of tax provided by relevant tax authorities.
- When acquiring domestic property enterprises by way of shares transfer or otherwise or purchasing shares from Chinese parties in Sino-foreign equity joint ventures, foreign investors should make proper arrangements for placing employees and handling debts owed to banks, and pay the transfer consideration in one single payment with its own funds. Foreign investors with records of improper activities shall not be allowed to conduct such acquisition activities.

On August 14, 2006, the General Office of MOFCOM enacted the Notice on Relevant Issues Concerning the Carrying out Opinion on Regulatory the Access and Administration of Foreign Capital in the Property Market 《關於貫徹落實《關於規範房地產市場外資准入和管理的意見》有關問題的通知》. According to the Notice, if the total investment of a foreign-invested property development enterprise exceeds US\$3 million, the registered capital must not be less than 50% of the total estimated investment; if the total investment is less than or equal to US\$3 million, the registered

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capital must not be less than 70% of the total estimated investment. When a foreign investor acquires a domestic property development enterprise by equity transfer, the entire consideration for the transfer must be fully paid in one single payment with its own funds within three months of the earlier of the issuance of the business license or the effective date of the equity transfer agreement.

On May 23, 2007 the MOFCOM and the SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Supervision of Foreign Investment in Real Estate Sector 《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》 which provides the following requirements for approval and supervision of foreign investment in real estate:

- foreign investment in the real estate sector in China relating to high-end properties should be strictly controlled;
- before obtaining approval for the establishment of real estate enterprises with foreign investment, (i) both the land use right certificates and housing ownership right certificates should be obtained, or (ii) contracts for obtaining land use rights or housing ownership rights should be entered into;
- enterprises which have been set up with foreign investment need to obtain approval before they expand their business operations into the real estate sector and enterprises which have been set up for real estate development need to obtain new approval in case they expand their real estate business operations;
- acquisitions of real estate enterprises and foreign investment in real estate sector by way of round-trip investment should be strictly regulated. Foreign investors should not evade approval procedures by changing actual controlling persons of domestic real estate enterprises;
- investors in real estate enterprises with foreign investment should not in any way guarantee a fixed investment return;
- filing shall be simultaneously made with the MOFCOM when the establishment of real estate enterprises with foreign investment is approved by local governmental authorities; and
- foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not effectuate foreign exchange settlements regarding capital account items for those which fail to file with the MOFCOM or fail to pass the annual inspection.

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On July 10, 2007, the General Department of the SAFE issued the Notice Regarding the Publication of the First Group of Real Estate Enterprises with Foreign Investment that have Properly Registered with the MOFCOM 《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》. This notice restricts the ability of foreign-invested real estate enterprises to raise funds offshore and then inject funds into the enterprises either through capital increase or by way of shareholder loans. The notice provides, among other things:

- that the SAFE will no longer process foreign debt registration or foreign debt settlement for real estate enterprises with foreign investment that obtained authorization certificate from and registered with the MOFCOM on or after June 1, 2007; and
- that the SAFE will no longer process foreign exchange registration (or change of such registration) or application for sale and purchase of foreign exchange for real estate enterprises with foreign investment that obtained approval certificates from local commerce authorities on or after June 1, 2007 but have not registered with the MOFCOM.

### QUALIFICATIONS OF A REAL ESTATE DEVELOPER

Under the Provisions on Administration of Qualifications of Real Estate Developers 《房地產開發企業資質管理規定》 (the "Provisions on Administration of Qualifications") promulgated by the Ministry of Construction in March 2000, a real estate developer must apply for registration of its qualifications according to such Provisions on Administration of Qualifications. An enterprise may not engage in property development without a qualification classification certificate for real estate development. The Ministry of Construction oversees the qualifications of real estate developers with national operations, and local real estate development authorities at or above the county level oversee the qualifications of local real estate developers.

In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes.

- Class 1 qualifications are subject to preliminary examination by the construction authorities at the provincial level and final approval of the Ministry of Construction. A class 1 real estate developer is not restricted as to the scale of its real estate projects and may undertake a real estate development anywhere in the country.
- Class 2 or lower qualifications are regulated by the construction authorities at the provincial level. A real estate developer of class 2 or lower may undertake a project with a gross floor area of less than 250,000 square meters subject to confirmation by the construction authorities at the provincial level.

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Under the relevant PRC laws and regulations, the real estate development authorities will examine applications for registration of qualifications submitted by real estate developers by considering their professional personnel, financial condition and operating results. A real estate developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. A developer of any qualification classification may only engage in the development and sale of real estate within its approved scope of business and may not engage in business which is limited to another classification.

For a newly established real estate developer, the real estate development authority will issue a provisional qualification certificate, if it is an eligible developer, within 30 days of receipt by the authority of the application. The provisional qualification certificate will be effective for one year from its date of issuance and may be extended for not more than two additional year with the approval of the real estate development authority. The real estate developer must apply for qualification classification to the real estate development authority within one month before expiration of the provisional qualification certificate.

Under the Regulations on Property Development of Hunan Province 《湖南省城市房地產開發經營管理辦法》, the qualifications of property development enterprises are classified into class 1, class 2, class 3, class 4 and provisional qualification. The class 1 qualification shall be subject to preliminary assessment by the property development authority under the provincial government and final approval by the construction authority under the State Council; Classes, 2, 3 and 4 and the provisional qualifications shall be assessed by the property development authority under the provincial government. For classes 3 and 4 and the provisional qualification, the property development authority under the provincial government can entrust the property development authority under the local governments of a lower level to assess the qualifications and report to the relevant provincial governments. The qualification certificates for classes 1 through 4 valid for three years. The provisional qualification certificate is valid for one year. The relevant authorities can extend the validity period of provisional qualification certificate for not more than two years after considering the actual business situation of the enterprise.

Under the Regulations on Property Development of Hunan Province, the gross floor area of a project to be developed by a class 1 property developer is not restricted. The gross floor area of project to be developed by a class 2 property developer should be less than 250,000 square meters. A class 3 property developer may undertake a project with a gross floor area of less than 150,000 square meters. The gross floor area of project to be developed by a property developer of class 4 and with provisional qualification should be less than 50,000 square meters.

The Regulations on Property Development of Chongqing City 《重慶市城市房地產開發經營管理條例》, which came into effect on July 1, 2000, provide that the qualifications of property development enterprises are classified into four classes with different requirements for each class. Property enterprises of class 1 can develop residential communities of various types. Property enterprises of

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class 2 can develop residential communities with a gross floor area of less than 250,000 square metres. Property enterprises of class 3 can develop residential communities with a gross floor area of less than 100,000 square metres. Property enterprises of class 4 can develop residential communities with a gross floor area of less than 20,000 square metres.

Pursuant to the Provisions on Administration of the Qualifications of Urban Property Development Enterprises of Shandong Province 《山東省城市房地產開發企業資質管理規定》 implemented on March 8, 2005, the qualifications of property development enterprises are classified into four classes and provisional qualification. For enterprises of class 1, the registered capital shall not be less than Rmb 50 million. For enterprises of class 2, the registered capital shall not be less than Rmb 30 million. For enterprises of class 3, the registered capital shall not be less than Rmb 18 million. For enterprises of class 4 and enterprises with provisional qualifications, the registered capital shall not be less than Rmb 10 million. Property development enterprises of other provinces which are engaged in property development in Shandong Province shall be enterprises of class 1. Local property development enterprises which are engaged in trans-city property development shall be enterprises of class 3 or above.

Pursuant to the Rules for Implementation of the Provisions on Administration of the Qualifications of Property Development Enterprises in Jiangsu Province 《江蘇省實施《房地產開發企業資質管理規定》細則》 implemented on August 6, 2001, when property development enterprises are engaged in trans-provincial, trans-regional and trans-municipal (municipalities under the direct control of the provincial government) property development, they shall apply to the local competent property development authorities for registration.

Pursuant to the Provisions on Administration of Qualifications, the qualification of a property developer should be subject to annual inspection. The construction authority under the State Council or the entrusted institution is responsible for carrying out the annual inspection of a class 1 real estate developer's qualification. Procedures for annual inspection of developers of a class 2 or lower qualification shall be formulated by the construction authority under the government of the relevant province, autonomous region or municipality.

### DEVELOPMENT OF A REAL ESTATE PROJECT

#### Commencement of Development with Respect to a Property Project and the Idle Land

Under the Urban Real Estate Administration Law, those who have obtained the land use rights by grant must develop and use the land in accordance with the requirements of the land grant contract. According to the Measures on Disposing Idle Land 《閒置土地處置辦法》 promulgated and implemented by the Ministry of Land and Resources on April 28, 1999, a parcel of land can be defined as idle land under any of the following circumstances:

- after obtaining the land-use rights, the development and construction of the land has not begun within the time limit required for commencement of the development without the consent of the government that originally approved the use of the land;

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- the Contract on Lease of the Right to Use State-Owned Land or the Approval Letter on Land Used for Construction does not stipulate the commencement date for the development and construction, and the development and construction of the land has not begun at the expiry of one year from the date when the Contract on Lease of the Right to Use State-owned Land became effective or when the land administrative authorities issued the Approval Letter on Land Used for Construction;
- the development and construction of the land has begun, but the area of the development and construction is less than one third of the total area to be developed or the invested amount is less than 25% of the total amount of investment, and the development and construction has discontinued for one year without approval; or
- other circumstances provided by laws and administrative regulations.

The municipality or county-level administrative authority shall, with regard to an identified piece of idle land, give notice to the land user and draft a proposal on disposing the idle land, including, but not limited to, extending the time period for development and construction (provided that it shall be no longer than one year), changing the use of the land, arranging for temporary use and ascertaining the new land user by competitive bidding, public auction or listing-for-sale. The land administrative authority under the government of municipality or county level shall, after the government that originally approved the use of the land approves the proposal on disposal, arrange for the implementation of the proposal. With respect to land which is obtained by grant and is within the scope of city planning, if the construction work has not yet started after one year from the construction commencement date as stipulated in the land grant contract, a fine for idle land which is equivalent to less than 20% of the land premium may be imposed on the land user. If the construction work has not begun after two years have elapsed, the right to use the land can be taken back by the government without any compensation. However, the above sanctions shall not apply when the delay in commencement of construction is caused by force majeure or acts of government or indispensable preliminary work before commencement of construction.

On January 3, 2008, the State Council issued a Notice of the State Council on Promoting the Land Saving and Intensive Use (關於促進節約集約用地的通知) with respect to the collection of additional land premium, establishment of a land utilization priority planning scheme and the formulation of a system for assessing the optimal use of land and other measures. The notice emphasizes the enforcement of the current rules on land idle fee for any land left idle for over one year but less than two years, with such land idle fee charged at 20% of the land grant premium. Furthermore, the Ministry of Land and Resources issued a Notice on Restricting the Administration of Construction Land and Promoting the Use of Approved Land 《關於嚴格建設用地管理促進批而未用土地利用的通知》 in August 2009, which reiterates the current rules on idle land.

### Planning of a Property Project

According to the City Planning Law of the People's Republic of China 《中華人民共和國城市規劃法》 promulgated by the Standing Committee of the NPC on December 26, 1989 and implemented on April 1, 1990, the Measures for Control and Administration of Assignment and Transfer of the



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Right to Use Urban State-owned Land 《城市國有土地使用權出讓轉讓規劃管理辦法》 promulgated by the Ministry of Construction on December 4, 1992 and implemented on January 1, 1993 and the Notice of the Ministry of Construction on Strengthening the Planning Administration of Assignment and Transfer of the Right to Use State-owned Land 《建設部關於加強國有土地使用權出讓規劃管理工作的通知》 promulgated and implemented by the Ministry of Construction on December 26, 2002, after execution the land grant contract, a property developer shall apply for a Position Paper of Construction Project's Site Selection and a Construction Land Planning Permit from the relevant city planning authority. After obtaining a Construction Land Planning Permit, a property developer shall organize the necessary planning and design work in accordance with planning and design requirements and apply for a Construction Work Planning Permit from the city planning authority.

According to the City and Countryside Planning Law of the People's Republic of China 《中華人民共和國城鄉規劃法》, promulgated on October 28, 2007 and effective on January 1, 2008, the competent planning authorities of a city or county shall, before granting land use rights in planning area, set forth such planning requirements as location, usage, extent of development, which shall be included in land grant contracts. After executing the land grant contract, a real estate developer shall submit relevant documents to planning authorities and apply for Construction Land Planning Permit. The competent planning authorities of a city or county shall not, at their discretion, alter the planning requirements which are included in the land grant contract. If the planning requirements are not incorporated into a land grant contract, such contract is invalid. If any land has been occupied, such land shall be returned promptly. According to the City and Countryside Planning Law of People's Republic of China, effective January 1, 2008, the City Planning Law of the People's Republic of China has been abolished.

### **Construction of a Property Project**

After obtaining the Construction Work Planning Permit, a property developer shall apply for a Construction Permit from the construction authority under the local government of county level or above according to the Measures for the Administration of Construction Permits for Construction Projects 《建築工程施工許可管理辦法》 promulgated by the Ministry of Construction on October 15, 1999 and as amended and implemented on July 4, 2001.

### **Demolishment and Resettlement**

In accordance with the Regulations for the Administration of Demolishment and Removal of Urban Housing 《城市房屋折遷管理條例》 promulgated by the State Council in June 2001, if demolition of existing structures and resettlement of existing residents on the construction site need to be conducted before commencement of construction of the real estate project contemplated, the developer may apply to the local municipal, district or county level government in the place where the real estate is located for a permit for demolition and resettlement. Upon approval, the local government will issue a demolition and resettlement permit and post a demolition and resettlement notice to inform the existing residents of the area subject to demolition.

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During the demolition and resettlement period announced by the department in charge of demolition and removal, the demolition and resettlement party and the parties subject to demolition and resettlement will enter into a written agreement for compensation and resettlement in respect of the demolition and resettlement.

Compensation for demolition and resettlement may be effected by way of monetary compensation or exchange of property rights. In addition to paying the demolition and resettlement compensation, the demolition and resettlement party will also pay resettlement allowance to the parties subject to demolition and resettlement.

### Completion of a Property Project

According to the Development Regulations, the Regulation on the Quality Management of Construction Projects 《建設工程質量管理規定》 promulgated and implemented by State Council on January 30, 2000, the Interim Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure 《房屋建築工程和市政基礎設施竣工驗收備案暫行辦法》 promulgated by the Ministry of Construction in April 2000 and the Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure 《房屋建築工程和市政基礎設施竣工驗收暫行規定》 promulgated and enforced by the Ministry of Construction on June 30, 2000, after completion of construction of a project, a property developer shall apply for the acceptance examination upon completion to the property development authority under the government of county level or above and report details of the acceptance examination, upon which a Record of Acceptance Examination upon Project Completion will be issued.

### LAND FOR PROPERTY DEVELOPMENT

In April 1988, the National People's Congress amended the PRC Constitution 《中華人民共和國憲法》 to permit the transfer of land use rights for value. In December 1988, the National People's Congress amended the Land Administration Law 《土地管理法》 to permit the transfer of land use rights for value.

Under current PRC laws and regulations on land administration, land for property development may be obtained through government grant and land acquisitions from secondary market. Under the Regulations on the Grant of State-owned Land Use Rights Through Public Tender, Auction and Listing-for-Sale 《招標拍賣掛牌出讓國有土地使用權規定》 promulgated by the Ministry of Land and Resources in May 2002, land for commercial use, tourism, entertainment and commodity housing development must be obtained through public tender, auction or listing-for-sale. Under these regulations, the relevant land administration authority at city or county level, or the grantor, is responsible for preparing the public tender or auction documents and must make an announcement 20 days prior to the date of public tender or auction with respect to the particulars of the land parcel and the time and venue of the public tender or auction. The grantor must also conduct a qualification verification of the bidding and auction applicants, hold an open public auction to determine the winning tender or hold an auction to ascertain a winning bidder. The grantor and the winning tender

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or bidder will then enter into a confirmation followed by the execution of a contract for grant of state-owned land use rights. Over the years, the Ministry of Land and Resources has promulgated further rules and regulations to define the various circumstances under which the state-owned land use rights may be granted by means of public tender, auction and listing-for-sale or by agreement.

Pursuant to the Regulations on the Grant of Land Use Rights Through Tender and Auction in Shenzhen Special Economic Zone 《深圳經濟特區土地使用權招標、拍賣規定》 promulgated by the People's Government of Shenzhen on February 6, 1998, save as required by the laws and regulations, the following land use rights shall be granted through tender and auction: (I) residential use: (1) land used for villas, (2) land used for mutli-storey residential buildings, (3) land used for mid-to-high-rise residential buildings, (4) land for commercial and residential uses, and (5) land for office and apartment uses; (II) commercial use: (1) land used for catering, (2) land for commercial and office uses, (3) land used for the wholesale and retailing of merchandises, (4) land used for the wholesale and retailing of daily utilities, (5) land used for the wholesale and retailing of materials used for production, (6) land used for the operation of enterprises, (7) leisure and recreational uses; (III) land use for petrol station; (IV) other land which the bid inviter or the auctioneer consider to be appropriate to grant by means of bidding or auction. The tender inviter or the auctioneer may, having taken into consideration of the market environment, grant the land use right for the above land uses by bidding or auction.

On May 21, 2001, the Shanghai Municipal Government updated The Shanghai Land Use Rights Grant Measures 《上海市土地使用權出讓辦法》 (the "Shanghai Measures"), which took effect on July 1, 2001 as amended in November 27, 2008, effective on January 1, 2009. According to the Shanghai Measures, the land use rights to be used for the projects relating to commercial, tourism, entertainment, financial, service and commodity residential properties shall be obtained by way of public tender or auction rather than by way of agreement unless approved by Shanghai Municipal Government under exceptional circumstances. However, upon the effectiveness of the Rules Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Listing-for-sale 《招標拍賣掛牌出讓國有土地使用權規定》 as of July 1, 2002, land use rights for the purposes of commercial use, tourism, entertainment and commodity residential properties can only be granted through tender, auction or listing-for-sale.

In March 2007, the National People's Congress adopted the Property Rights Law of the People's Republic of China 《中華人民共和國物權法》 ("Property Rights Law"), which became effective on October 1, 2007. According to the Property Rights Law, when the term of the right to use construction land for residential (but not other) purposes expires, it will be renewed automatically. Unless it is otherwise provided by any law, the owner of construction land use rights has the right to transfer, exchange, donate, mortgage the land use rights or use such land use rights as equity contributions. If the government expropriate the houses or other real estate owned by entities or individuals for public benefit, it shall provide relocation compensation in accordance with relevant regulations and protect the lawful rights and interests of the owners.

On September 28, 2007, the Ministry of Land and Resources further promulgated the Regulations on the Grant of State-owned Construction Land Use Rights through Public Tender, Auction and Listing-for-sale 《招標拍賣掛牌出讓國有建設用地使用權規定》, which requires that, for acquisition

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of state-owned land for commercial use, tourism, entertainment, commodity housing development and industrial use (except land for mining) in the primary market, the parties must also comply with the tender-auction-listing rule. Only after the grantee has paid the land premium in full pursuant to the land grant contract, can the grantee apply for the land registration and obtain the land use right certificates. Furthermore, land use rights certificates may not be issued separately in proportion to the land premium paid under the land-grant contract.

### SALE OF COMMODITY PROPERTIES

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

Any pre-sale of commodity properties must be conducted in accordance with the Measures for Administration of Pre-sale of Commodity Properties 《城市商品房預售管理辦法》 promulgated by the Ministry of Construction in November 1995, as amended in August 2001 and July 2004, and the other related regulations. According to the current PRC laws and regulations, a pre-sale permit must be in place before commodity properties may be put to pre-sale. Specifically, a developer intending to sell a commodity building before its completion must apply to the real estate development authorities for a pre-sale permit. Commodity properties may be sold before completion only if:

- the land premium has been paid in full for the grant of land use rights involved and a land use rights certificate has been properly obtained;
- a construction planning permit and a construction permit have been properly obtained;
- the funds invested in the development of the commodity properties put to pre-sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been properly ascertained; and
- a pre-sale permit has been obtained.

Pursuant to the Regulations on Transfer of Property of Shenzhen Special Economic Zone 《深圳經濟特區房地產轉讓條例》, the following conditions shall be fulfilled for pre-sale of commodity properties by the property developer: (1) land use rights have been registered in accordance with relevant regulations and the land use rights certificate has been obtained; (2) a Construction Commencement Permit and Construction Permit have been obtained; (3) in addition to the full payment of land premium, the funds invested in the development of the construction shall represent 25% or more of the total investment budget of the developer and have been verified by a registered accountant; (4) the pre-sale payment escrow agreement has been signed by the property developer and relevant financial institution; and (5) land use rights have not been mortgaged or have been released from mortgage.

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Pursuant to the Regulations on Property Development of Hunan Province 《湖南省城市房地產開發經營管理辦法》, the following conditions shall be fulfilled for pre-sale of commodity properties in Hunan province: (1) the Land Use Right Certificate, the Construction Work Planning Permit and the Permit for Construction of Work have been obtained; (2) the progress of high-rise construction projects has reached or has exceeded one-third of the design's progress, the progress of other construction projects has reached or has exceeded one-half of the design's progress; (3) the construction schedule and the date for completion and delivery have been determined. Under the Regulations on Administration of Dealings in Urban Property of Changsha City 《長沙市城市房地產交易辦法》 enacted by the government of Changsha city on January 19, 2004 and enforced on March 1, 2004, to acquire a Permit for Pre-Sale of Commodity Properties, a Changsha property developer must fulfill the following requirements: (1) the Land Use Rights Certificate has been obtained; (2) the Construction Work Planning Permit and the Permit for Construction of Work of the commodity properties have been obtained; (3) 50% or more of the civil engineering construction work has been finished or the roofs of the multi-story buildings have been completed or the 10th floor of the high-rise building has been completed, and the construction schedule and the date for completion and delivery have been determined (including the environmental and supporting facilities construction); (4) the plan on pre-sale of commodity properties has been set down; (5) a bank account for monitoring the pre-sale proceeds has been opened in Changsha and the agreement for monitoring the pre-sale proceeds with the bank has been signed; (6) the plan of property management has been made.

Under the Regulations on the Property Transfer of Shanghai 《上海市房地產轉讓辦法》 issued by the People's Government of Shanghai on April 30, 1997 and as amended on September 20, 2000 and April 21, 2004 respectively, and the Approval Concerning the Adjustment of the Standard of Project Progress for the Pre-sale of Commodity Properties 《關於同意調整商品房預售應達到的工程進度標準的批覆》 issued by the People's Government of Shanghai on September 18, 2000, the following requirements shall be fulfilled for pre-sale of commodity properties by the property developer: (1) the land use rights must be acquired by way of grant and the land premium must have been paid in full; (2) the land use rights must be properly registered and the land use rights certificates must have been obtained; (3) the construction works planning permit must have been obtained; (4) the work commencement permit must have been obtained; (5) for commodity property consisting of seven storeys or less, the basic foundation work and the main structural construction of the building must have been completed, while for commodity property consisting of eight storeys or more, the basic foundation work and at least two-thirds of the main structural construction must have been completed and at least seven storeys must have been completed in any event; (6) the date of completion of the project for use must have been ascertained and the corollary construction planning of municipal works, public works and public architectural facilities have been ascertained; (7) the agreement of pre-sale payment escrow must have been entered into with the local institutions engaging in property project capital supervision; and (8) the property use convention must have been formulated and the prophase property management agreements must have been reached with property management enterprises.

Pursuant to the Regulations on Administration of City and Town Real Estate Transaction in Chongqing 《重慶市城鎮房地產交易管理條例》 promulgated on June 7, 2002 and implemented on August 1, 2002, the prerequisites for a developer to obtain pre-sale permit are as below: (1) the developer is in possession of valid business license and qualification certificate; (2) the developer is

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in possession of land use rights permission documents, and when land use rights are obtained by grant, it shall have paid the land premium in full and obtained land use rights certificate; (3) the developer is in possession of construction work planning permit and permit for construction of work; (4) in relation to commodity properties for pre-sale, more than 25% of the projected total investment has been invested for the development. And if the pre-sale units are in a multi-storey building, the roofs of the building have been completed and if the re-sale units are in a high-rise building, the completed floor area shall exceed one-third of the floor area in accordance with the planning approval; (5) the plan for pre-sale of the commodity properties shall specify the commodity properties' location, fitment standard, progress of construction, date of completion and delivery, total floor area of pre-sale, property management after delivery, together with other documents required; (6) the developer shall have opened a bank account for the pre-sale proceeds with commercial banks in the area of the development, and also signed monitoring agreements with the banks; (7) if the development involves demolition, the developer shall obtain the permit for demolition issued by the relevant administrative authority; (8) there shall be no mortgage on the commodity properties for pre-sale and the relevant land use rights; and (9) other conditions set forth by laws and regulations.

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

Commodity properties may be put to post-completion sale and delivery after they have passed the clearance examination and otherwise satisfy the various preconditions for such sale. Before the post-completion sale of commodity properties, the developer must, among other things, submit the Real Estate Development Project Manual and other documents relating to the project evidencing the satisfaction of the preconditions for post-completion sale to the real estate development authority for its record.

### TRANSFER OF REAL ESTATE

According to the PRC laws and the Provisions on Administration of Transfer of Urban Real Estate 《城市房地產轉讓管理規定》 promulgated by the Ministry of Construction in August 1995, as amended in August 2001, real estate owners may transfer real estate by trading, bestowing or other legal methods. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred together. The parties to a real estate transfer must enter into a real estate transfer contract in writing and register the transfer with the real estate administration authority in the place where the real estate is located within 90 days after the execution of the transfer contract.

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

- the land premium has been paid in full for the grant of the land use rights as required by the land grant contract and the land use rights certificate has been properly obtained; and
- in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed; or

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- in case of a comprehensive development project of tracts of land, construction work has been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been leveled and made ready for industrial or other construction purposes.

If the land use rights were originally obtained by grant, the term of the land use rights after transfer of the real estate will be the remaining portion of the original term in the land grant contract. In the event that the transferee intends to change the use of the land provided in the land grant contract, consent must first be obtained from the original land use rights grantor and the relevant planning administration authority of city or county level and an agreement to amend the land grant contract or a new land grant contract must be signed in order to change the use of the land and adjust the land premium accordingly.

If the land use rights were originally obtained by allocation, approval of applicable government authorities must be obtained when the real estate is to be transferred. Upon such approval, the transferee shall complete the required procedures for the grant of the land use rights and pay the land premium according to the relevant laws and regulations.

Pursuant to the Regulations on Transfer of Property of Shenzhen Special Economic Zone 《深圳經濟特區房地產轉讓條例》 promulgated by the Standing Committee of the People's Congress of Shenzhen on August 21, 1993 and amended on June 30, 1999, the following real estates shall be transferred only upon the approval of the administrative authority and full payment of land premium: (1) land use right is obtained by administrative allocation; (2) land premium has been reduced when obtaining the land use right; (3) otherwise as required by laws and regulations. The following real estates shall not be transferred: (1) land use right is revoked by the municipal government in accordance with the urban planning; (2) the land use right is ordered or decided to be attached or otherwise restricted by relevant judicial authority or administrative authority; (3) jointly-owned real estate, without the written consent of the other joint owner(s); (4) mortgaged real estate, without the consent of mortgagee; (5) the ownership is in dispute; (6) other situation under which the transfer is forbidden by the laws, regulations or provisions of municipal governments.

Pursuant to the Regulations on Property Development of Chongqing City 《重慶市城市房地產開發經營管理條例》 which came into effect on July 1, 2000, the following conditions shall be satisfied for the transfer of property development projects: (1) The transferor holds the relevant documents evidencing approvals of the project by the relevant administrative authorities; (2) the transferor has fully paid the land premium; (3) the transferor has paid the taxes and fees incurred in the initial stages; (4) the transferor has completed more than 25% of the total investment amount for the development of the project; (5) the transferee has the corresponding property development qualifications; (6) the transferee has project capital representing more than 25% of the remaining outstanding investment amount for the project; and (7) other conditions as provided by laws and regulations. A property development project shall not be transferred until it is jointly considered and approved by the relevant administrative authorities in charge of construction, planning, land and housing, etc.

Pursuant to the Regulations on Property Development of Shandong Province 《山東省城市房地產開發經營管理條例》 which was promulgated on October 12, 1995 and amended in July 2002 and November 2004 respectively, a written contract shall be executed for the transfer of properties. The transfer contract shall be submitted to the competent property development authority and the property ownership administration for registration.

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### LEASES OF BUILDINGS

Under the PRC laws and the Measures for Administration of Leases of Buildings in Urban Areas 《城市房屋租賃管理辦法》 promulgated by the Ministry of Construction in May 1995, parties to a lease of a building must enter into a lease contract in writing. China has adopted a system to register the leases of real properties. When a lease agreement is signed, amended or terminated, the parties must register the details with the real estate administration authority at the city or county in which the building is situated.

Pursuant to the Regulations on House Leasing of Shenzhen Special Economic Zone 《深圳經濟特區房屋租賃條例》 promulgated by the Standing Committee of the People's Congress of Shenzhen on May 1, 1993 and amended on April 16, 2004, and its implementation rules, the property lease market is centrally administered by the property administration authorities of the People's Government of Shenzhen. The parties to a lease shall register and submit the lease agreement with the local administrative authority in respect of the entry into or the alteration of the lease agreement within 10 days from the signing of the lease agreement. Local administrative authority shall register such lease agreement within 5 days from the date of registration application. Lessors who have registered the lease agreement in respect of the property leased shall pay the management fee for the property lease which represents 2% of the monthly rent to the local administrative authority. Lessors who have made filing to the lease of property shall pay the management fee for the property lease which represents 3% of the monthly rent to the local administrative authority. Where the parties to a lease violate the requirements and have not registered or filed in registration in respect of the property leased, a one-time penalty amounting to 20% of the total rent provided in the lease agreement will be imposed on the lessor or sub-lessor during the term of lease agreement and the management fee for the property lease and delinquency charges will be demanded. A penalty amounting to 10% of the rent will be imposed on the lessee or sub-lessee at fault.

### MORTGAGES OF REAL ESTATE

Under the PRC Urban Real Estate Administration Law, the PRC Security Law 《中華人民共和國擔保法》 promulgated by the National People's Congress in June 1995, and the Measures for Administration of Mortgages of Urban Real Estate 《城市房地產抵押管理辦法》 promulgated by the Ministry of Construction in May 1997, as amended in August 2001, when a mortgage is created on the ownership of a building legally obtained, a mortgage shall be simultaneously created on the land use rights of the land on which the building is situated. The mortgagor and the mortgagee must sign a mortgage contract in writing. China has adopted a system to register mortgages of real estate. After a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority at the location where the real estate is situated. A real estate mortgage contract will become effective on the date of registration of the mortgage. If a mortgage is created on the real estate in respect of which a property ownership certificate has been obtained legally, the registration authority will, when registering the mortgage, make an entry under "third party rights" on the original property ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on the commodity properties put to pre-sale or



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on work in progress, the registration authority will, when registering the mortgage, record the details on the mortgage contract. If construction of a property is completed during the term of a mortgage, the parties involved will re-register the mortgage of the property after issuance of the certificates evidencing the rights and ownership to the real estate.

The PRC Property Rights Law adopted in March 2007 further widens the scope of assets that can be mortgaged, allowing for any asset associated with property rights to be mortgaged as collateral unless specifically prohibited under other laws or regulations.

According to the PBOC Notice on Regulating Home Financing Business 《中國人民銀行關於規範住房金融業務的通知》 promulgated in June 2001, all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial property mortgage loans:

- Property development loans from banks may only be granted to real estate developers with development qualification and credit ratings in the higher categories. Such loans may be offered to residential projects with good market potential. While the borrowing enterprise's own capital may not be less than 30% of the total investment required for the project, the project itself must have been issued the land use rights certificate, construction land planning permit, construction works planning permit and construction permit.
- In respect of the grant of individual home mortgage loans, the ratio between the loan amount and actual value of the collateral may not exceed 80%. Where an individual applies for a home purchase loan to buy a pre-sale property, the property must have achieved the following stages: (i) for multi-storey buildings, the roofs of the main structure have been completed, and (ii) for high-rise buildings, two thirds of the total investment has been completed.
- In respect of the grant of individual mortgage loans for properties for commercial use, the ratio between the loan amount and actual value of the collateral may not exceed 60%, the maximum loan period is 10 years and the subject properties must have been completed.

The PBOC issued the Circular on Further Strengthening the Management of Loans for Property Business 《關於進一步加強房地產產業信貸業務管理的通知》 on June 5, 2003 to specify the requirements for banks to provide loans for the purposes of residential development, individual home mortgage and individual commodity properties as follows:

- Commercial banks may grant only property development loans to property enterprises, and the grant of working capital loans and loans of other type are strictly prohibited. No loans shall be granted for the projects which have not obtained Land-Use Rights Certificates, Construction Land Planning Permits, Construction Planning Permits and Construction Permits;
- Commercial banks shall not grant loans to property developers to pay off land premium; and

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- Commercial banks may only provide home loans to individual buyers when the roofs of the main structure of the buildings have been completed. When a borrower applies for individual home loans for his or her first residential unit, the minimum first instalment remains 20% of the total purchase price. In respect of a borrower's loan application for additional purchase of residential unit(s), the minimum percentage of the first instalment shall be increased.

Pursuant to the Guidance on Risk Management of Property Loans of Commercial Banks 《商業銀行房地產貸款風險管理指引》 issued by the CBRC on September 2, 2004, any property developer applying for property development loans shall have at least 35% of the capital required for the development.

According to the Notice of the People's Bank of China on the Adjustment of Commercial Bank Housing Credit Policies and the Interest Rate of Excess Reserve Deposit 《中國人民銀行關於調整商業銀行住房信貸政策和超額存款準備金存款利率的通知》, promulgated by the PBOC on March 16, 2005, from March 17, 2005, in the cities and areas where the housing prices grow too fast, the minimum percentage of first instalment of individual home loans increases from 20% to 30%. The commercial banks can independently determine the specific cities or areas for such adjustment according to special situations in different cities or areas.

On May 24, 2006, State Council issued the Opinions of the Ministry of Construction and other Departments on Adjusting the Housing Supply Structure and Stabilizing the Housing Prices 《關於調整住房供應結構穩定住房價格的意見》, which provides that:

- Tighten credit conditions on property development. In order to restrain property development enterprises from stocking up land and houses by use of bank loans, commercial banks shall not provide loans to those property enterprises whose project capital ratio is less than 35%. For property development enterprises that have sizable idle land and vacant commodity properties, the commercial banks shall, following the principle of prudent operations, strictly control the renewal of loans or any form of revolving credit. The commercial banks shall not accept any commodity property that has been idle for more than three years as collateral for loans; and
- From June 1, 2006, the ratio of initial payment of individual home mortgage loans shall not be lower than 30%. However, considering the demands for housing by the low-to-mid-income population, the minimum ratio for purchase of housing for self-use with gross floor area no more than 90 square meters is still 20%.

According to the Circular on Standardizing the Admittance 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》 effective July 11, 2006, foreign-invested property enterprises which have not paid up their registered capital, or failed to obtain a Land-Use Rights Certificate, or with less than 35% of the capital for the project, will be prohibited from obtaining a loan inside or outside China, and the SAFE shall not approve the registration of foreign loans by such enterprises.

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On July 10, 2007, the SAFE issued a notice indicating that it will no longer process foreign debt registration or foreign debt settlement for real estate enterprises with foreign investment that obtained authorization certificates from and registered with the MOFCOM on or after June 1, 2007.

In September 2007, the PBOC and CBRC promulgated a Circular on Strengthening the Administration of Commercial Real-estate Credit Loans 《關於加強商業性房地產信貸管理的通知》. The circular aims to tighten the control over real estate loans from commercial banks to prevent excessive credit granting. The measures adopted include:

- for a first-time home owner, increasing the minimum amount of down payment to 30% of the purchase price of the underlying property if the underlying property has an unit floor area of 90 square meters or more and the purchaser is buying the property as its own residence;
- for a second-time home buyer (unless the buyer has paid off its outstanding loans on his or her first property), increasing (i) the minimum amount of down payment to 40% of the purchase price of the underlying property and (ii) the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark lending interest rate;
- for a commercial property buyer, (i) requiring banks not to finance any purchase of pre-sold properties, (ii) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property, (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark lending interest rate, (iv) limiting the terms of such bank loans to no more than 10 years, although the commercial banks are allowed flexibility based on its risk assessment;
- for a buyer of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property, with the other terms to be decided by reference to commercial properties; and
- prohibiting commercial banks from providing loans to real estate developers who have been found by relevant government authorities to be stocking up land and properties.

On December 5, 2007, the PBOC and CBRC jointly issued the Supplemental Circular on Strengthening the Management of Commercial Real-estate Credit Loans 《關於加強商業性房地產信貸管理的補充通知》, which clarifies that the number of mortgage loans should be calculated on a family basis. Pursuant to the circular, family includes the borrower and the borrower's spouse and minor children.

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On December 20, 2008, the General Office of the State Council issued Certain Opinions on Promoting the Healthy Development of Real Estate Market 《國務院辦公廳關於促進房地產市場健康發展的若干意見》 to expand domestic demand and promote the healthy development of real estate. The opinion provides that, among other things:

- while the policy of preferential treatments on mortgage rate and down-payment percentage applies to those who purchase ordinary housing for their own use on first mortgage, similar policy may be, with necessary changes, applied to those whose living space is below local average standard and who apply for mortgage to purchase a second ordinary housing unit to improve living condition. For others who purchase their second or more housing units, mortgage rate will be determined by commercial banks based on benchmark interest rate with consideration of relevant risk factors.
- while the current business tax exemption applies to transfer of ordinary housing that has been held over 5 years (including 5 years) by the individual who purchased such housing, the new business tax exemption will apply to transfer of ordinary housing that has been held over 2 years (including 2 years). For those who transfer ordinary housing that has been purchased for less than 2 years, the current business tax calculation is based on the total proceeds from the transfer. This base will be changed to the total proceeds minus such housing's original purchase price. The current business tax on transfer of non-ordinary housing by individuals is calculated based on the proceeds from the transfer minus such housing's original purchase price, and it applies to those housing purchased for more than 5 years (including 5 years). The new business tax will be modified to apply to those housing purchased for more than 2 years (including 2 years). For transfer of non-ordinary housing purchased for less than 2 years, business tax calculation will still be based on the total proceeds from the transfer. The policies above will be effective until December 31, 2009.

### MAJOR TAXES APPLICABLE TO PROPERTY DEVELOPERS

#### Income Tax

According to the Income Tax Law of The People's Republic of China for Foreign-invested Enterprises and Foreign Enterprises 《中華人民共和國外商投資企業和外國企業所得稅法》, which was promulgated by the National People's Congress on April 9, 1991 and implemented on July 1, 1991, and its detailed rules promulgated by State Council on June 30, 1991, the income tax on enterprises with foreign investment shall be computed on the taxable income at the rate of 30%, and local income tax shall be computed on the taxable income at the rate of 3%, whereas foreign-invested enterprises established in economic special zones (including the Shenzhen Economic Special Zone) shall be entitled to a preferential income tax rate of 15%.

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Pursuant to the Provisional Regulations of the People's Republic of China on Enterprise Income Tax 《中華人民共和國企業所得稅暫行條例》 issued by the State Council on December 13, 1993 and enforced on January 1, 1994 and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Enterprise Income Tax 《中華人民共和國企業所得稅暫行條例實施細則》 issued by the PRC Ministry of Finance (the "MOF") on February 4, 1994, the income tax rate applicable to Chinese enterprises other than foreign-invested enterprises and foreign enterprises is 33%.

Under the Rules Regarding to Issues on Enterprise Taxation Policies of the Shenzhen Economic Special Zone 《關於深圳特區企業稅收政策若干問題的規定》 issued by the People's Government of Shenzhen on August 1, 1988 and effective September 1, 1988 and the Notice to Forward the Provisional Regulations of the People's Republic of China on Enterprise Income Tax and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Enterprise Income Tax 《關於轉發《中華人民共和國企業所得稅暫行條例》和《中華人民共和國企業所得稅暫行條例實施細則》的通知》 issued by the local tax bureau of Shenzhen on March 14, 1994, enterprises established within the Shenzhen Economic Special Zone shall be entitled to a preferential income tax rate of 15%.

According to the PRC Enterprise Income Tax Law 《中華人民共和國企業所得稅法》 enacted by the National People's Congress on March 16, 2007 and effective since January 1, 2008, a uniform income tax rate of 25% should be applied to foreign-invested enterprises and foreign enterprises which have set up institutions or facilities in China as well as PRC enterprises. This new tax law supersedes the Income Tax Law of the PRC for Foreign-invested Enterprises and Foreign Enterprises and the Provisional Regulation of the PRC on Enterprise Income Tax.

Furthermore, unlike the Income Tax Law of the People's Republic of China for Foreign-invested Enterprises and Foreign Enterprises, which specifically exempted withholding tax on any dividends payable to non-PRC enterprise investors, the PRC Enterprise Income Tax Law provides that an income tax rate of 20% will normally be applicable to dividends payable to non-PRC enterprise investors which are derived from sources within China, unless there exists a tax treaty between China and the relevant jurisdictions in which such non-PRC enterprise shareholders reside. In such case, the relevant tax may be reduced or exempted pursuant to such tax treaty. In accordance with the PRC Enterprise Income Tax Law and the Implementation Rules of the People's Republic of China on the Enterprise Income Tax Law 《中華人民共和國企業所得稅法條例》 promulgated by the State Council on December 6, 2007 and effective January 1, 2008, a reduced income tax rate of 10% shall be applicable to any dividends payable to non-PRC enterprise investors from foreign invested enterprises.

The PRC Enterprise Income Tax Law also provides a five-year transition period starting from its effective date for those enterprises which were established before the promulgation date of the new tax law and which were entitled to a preferential lower income tax rate under the then effective tax laws or regulations. The income tax rate of such enterprises will gradually transition to the uniform tax rate within the transition period in accordance with implementing rules issued by the State Council. On December 26, 2007, the State Council issued the Circular to Implement the Transition

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Preferential Policies for the Enterprise Income Tax, which provides that, for those enterprises then entitled to a preferential income tax rate of 15% and established before March 16, 2007, the transition income tax rate should be 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012, respectively.

### Business Tax

Pursuant to the Interim Regulations of the People's Republic of China on Business Tax 《中華人民共和國營業稅暫行條例》 promulgated by the State Council on December 13, 1993 and implemented on January 1, 1994 and the Detailed Implementation Rules on the Provisional Regulations of The People's Republic of China on Business Tax 《中華人民共和國營業稅暫行條例實施細則》 issued by the Ministry of Finance on December 25, 1993, the tax rate for the transfer of real properties, their superstructures and attachments is 5%.

### Land Appreciation Tax

According to the requirements of the Provisional Regulations of The People's Republic of China on Land Appreciation Tax 《中華人民共和國土地增值稅暫行條例》 (the "Land Appreciation Tax Provisional Regulations") which was promulgated by the State Council on December 13, 1993 and effected on January 1, 1994, and the Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (the "Land Appreciation Tax Detailed Implementation Rules") 《中華人民共和國土地增值稅暫行條例實施細則》 which was promulgated by the Ministry of Finance and came into effect on January 27, 1995, any appreciation gain from a transfer of property shall be subject to LAT. LAT shall be 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. The related deductible items aforesaid include the following:

- amount paid for obtaining the land use rights;
- costs and expenses for development of land;
- costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;
- related tax payable for transfer of property;
- other deductible items as specified by the Ministry of Finance.

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According to the requirements of the Land Appreciation Tax Provisional Regulations, the Land Appreciation Tax Detailed Implementation Rules, and the Notice on the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts signed before January 1, 1994 《關於對1994年1月1日前簽訂開發及轉讓合同的房地產徵免土地增值稅的通知》 issued by the Ministry of Finance and the State Administration of Taxation on January 27, 1995, LAT shall be exempted under any of the following circumstances:

- taxpayers construct ordinary standard residences for sale (i.e., residences built in accordance with the local standard used as residential properties. Deluxe apartments, villas, resorts, etc., do not fall within the category of ordinary standard residences) and the appreciation amount does not exceed 20% of the sum of deductible items;
- property is taken back and repossessed according to laws due to the construction requirements by relevant authorities;
- due to redeployment of work or improvement of living standard, individuals transfer self-used residential property, in which they have been living for 5 years or more, subject to tax authorities' approval;
- transfers of real properties under property transfer contracts signed before January 1, 1994, regardless of when the properties are transferred;
- if the property development contracts were signed before January 1, 1994 or the project proposal has been approved and that capital was injected for development in accordance with the conditions agreed, the LAT shall be exempted if the properties are transferred within 5 years after January 1, 1994 for the first time. The date of signing the contract shall be the date of signing the sale and purchase agreement. Particular properties projects which are approved by the government for the comprehensive development of tracts of land and long-term development, of which the properties are transferred for the first time after the 5-year tax-free period, the tax-free period may be appropriately prolonged subject to the approval of the Ministry of Finance and the State Administration of Taxation.

On December 24, 1999, the Ministry of Finance and the State Administration of Taxation issued the Notice in respect of the extension of the period for the Land Appreciation Tax Exemption Policy 《關於土地增值稅優惠政策延期的通知》 that extended the period for the Land Appreciation Tax exemption policy as mentioned in last bullet point above to the end of 2000.

After the issuance of the Land Appreciation Tax Provisional Regulations and the Land Appreciation Tax Detailed Implementation Rules, due to the longer period for property development and transfer, many local authorities, while implementing the regulations and rules, did not force the property development enterprises to declare and pay the LAT. Therefore, the Ministry of Finance, State Administration of Taxation, Ministry of Construction and the Ministry of Land and Resources had separately and jointly issued several notices to restate the following: after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the property is located,

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and pay LAT in accordance with the amount as calculated by the tax authority and the time as required. For those who fail to acquire proof of payment or exemption from LAT from the tax authorities, the property administration authority shall not process the relevant title change procedures, and shall not issue the property title certificate.

The State Administration of Taxation also issued the Notice on Serious Handling of Administration of the Collection of Land Appreciation Tax 《關於認真做好土地增值稅徵收管理工作的通知》 on July 10, 2002. The Notice pointed out that either for the properties development contract which were signed before January 1, 1994 or where the project proposal has been approved and capital was injected for development, the preferential policy for LAT exemption for the properties that are transferred for the first time is expired, and such tax shall be levied again. This requirement is restated in the Notice on Strengthening of Administration of the Collection of Land Appreciation Tax 《關於加強土地增值稅管理工作的通知》 and the Notice of State on Further Strengthening of Administration Work in relation to the Collection of Land Appreciation Tax and Land Use Tax in Cities and Towns 《關於進一步加強城鎮土地使用稅和土地增值稅徵收管理工作的通知》 issued separately on August 2, 2004 and August 5, 2004 by State Administration of Taxation.

According to the Approval on Issues Concerning Starting Levying Land Appreciation Tax 《關於我市開徵土地增值稅有關問題的批復》 issued by the general office of the People's Government of Shenzhen on October 25, 2005, the Notice on Starting Levying Land Appreciation Tax 《關於我市開徵土地增值稅的通告》 and the Provisional Regulation on Administration of Land Appreciation Tax of Property Developer in Shenzhen 《深圳市房地產開發企業土地增值稅征收管理暫行辦法》 issued by the local taxation bureau of Shenzhen respectively on November 2, 2005 and on November 9, 2005, since November 1, 2005, LAT shall apply to any property developer engaging in property development to gain appreciation in Shenzhen.

On March 2, 2006, the Ministry of Finance and State Administration of Taxation issued the Notice on Several Points on Land Appreciation Tax 《關於土地增值稅若干問題的通知》 to clarify the relevant issues regarding LAT as follows:

- i) *As to the tax collection and exemption in the sale of ordinary standard residences built by taxpayers as well as in the transfer of ordinary residences by individual residents.*

The notice sets out the standards for ordinary standard residences. Where any developers build ordinary residences as well as other commercial properties, the appreciation amount of land shall be verified respectively. Before the day when this notice is publicized, as to any application for tax exemption for ordinary standard residences that has been filed to the tax authority at the locality of the property, especially any ordinary standard residences which have been given the treatment of exemption from LAT upon examination according to the standards for ordinary standard residences as determined by the government of a province, autonomous region or municipality directly under the central government, no adjustment shall be retroactively made.



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ii) *As to the advance collection and settlement of LAT*

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

On December 28, 2006, the State Administration of Taxation issued the Notice 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》 which came into effect on February 1, 2007. Pursuant to the Notice, a property developer shall settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT tax rates. The LAT shall be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT shall be settled in stages.

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### Deed Tax

Pursuant to the Interim Regulations of the People's Republic of China on Deed Tax 《中華人民共和國契稅暫行條例》 promulgated by the State Council on July 7, 1997 and implemented on October 1, 1997, the transferee, whether an individual or otherwise, of the title to a land parcel or building in the PRC shall be the obliged taxpayer for deed tax. The rate of deed tax is 3% to 5%. The governments of provinces, autonomous regions and municipalities directly under the central government may, within the aforesaid range, determine and report their effective tax rates to the Ministry of Finance and the State Administration of Taxation for the record.

### Urban Land Use Tax

Pursuant to the Provisional Regulations of the People's Republic of China Governing Land Use Tax in Urban Areas 《中華人民共和國城鎮土地使用稅暫行條例》 promulgated by the State Council on September 27, 1988 and implemented on November 1, 1988, the land use tax in respect of urban land is levied according to the area of relevant land. The annual tax on every square meter of urban land shall be between Rmb 0.2 and Rmb 10 and be collected according to the tax rate determined by the local tax authority. According to the Notice on Land Use Tax Exemption of Foreign-Invested Enterprises and Institutions of Foreign Enterprises in China 《關於對外商投資企業和外國企業在華機構的用地不徵收土地使用稅的通知》 promulgated by the Ministry of Finance on November 2, 1988 and the Approval on Land Use Tax Exemption of Foreign-Invested Enterprises 《關於外商投資企業徵免土地使用稅問題的批復》 issued by State Administration of Taxation on March 27, 1997, land use fees should be collected instead of land use tax in a foreign-invested enterprise. However, the Provisional Regulations of the People's Republic of China Governing Land Use Tax in Urban Areas were revised by the State Council on December 31, 2006. As of January 1, 2007, land use tax shall be collected from foreign-invested enterprises. The annual tax on every square meter of urban land shall be between Rmb 0.6 and Rmb 30.0.

### Buildings Tax

Under the Interim Regulations of the People's Republic of China on Building Tax 《中華人民共和國房產稅暫行條例》 promulgated by the State Council on September 15, 1986 and implemented on October 1, 1986, building tax shall be 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.

On December 31, 2008, the State Council announced that as of January 1, 2009, buildings tax will be levied on foreign invested enterprises and foreign individuals. On January 12, 2009, the Ministry of Finance and State Administration of Taxation jointly issued the Notice About the Relevant Issues Regarding Levying Building Tax on Foreign Invested Enterprises and Foreign Individuals 《關於對外資企業及外籍個人徵收房產稅有關問題的通知》.

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### Stamp Duty

Under the Interim Regulations of the People's Republic of China on Stamp Duty 《中華人民共和國印花稅暫行條例》 promulgated by the State Council on August 6, 1988 and implemented on October 1, 1988, for property transfer instruments, including those in respect of property ownership transfer, the stamp duty rate shall be 0.05% of the amount stated therein. For permits and certificates relating to rights, including property title certificates and land-use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

### Municipal Maintenance Tax

Under the Interim Regulations of the People's Republic of China on Municipal Maintenance Tax 《中華人民共和國城市維護建設稅暫行條例》 promulgated by the State Council on February 8, 1985, any taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall be required to pay municipal maintenance tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county and 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 Foreign-invested Enterprises and Foreign Enterprises 《關於外商投資企業和外國企業暫不徵收城市維護建設稅和教育費附加的通知》, and the Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-invested Freightage Enterprises 《關於外商投資貨物運輸企業徵免城市維護建設稅和教育費附加問題的批復》 issued by State Administration of Taxation on February 25, 1994 and on September 14, 2005 respectively, the municipal maintenance tax shall not apply to foreign-invested enterprises until further explicit stipulations are issued by the State Council.

### Education Surcharge

Under the Interim Provisions on Imposition of Education Surcharge 《徵收教育費附加的暫行規定》 promulgated by the State Council on April 28, 1986 and as amended on June 7, 1990 and August 20, 2005 respectively, a taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax shall pay an education surcharge, unless such obliged taxpayer is instead 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 《國務院關於籌措農村學校辦學經費的通知》. Under the Supplementary Notice Concerning Imposition of Education Surcharge 《關於教育費附加徵收問題的補充通知》 issued by the State Council on October 12, 1994, the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge for Foreign-invested Enterprises and Foreign Enterprises and the Reply on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-invested Freightage Enterprises issued by State Administration of Taxation on February 25, 1994 and September 14, 2005, respectively, the education surcharge shall not apply to foreign-invested enterprises until further explicit stipulations are issued by the State Council.

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### REAL ESTATE MANAGEMENT

According to the Regulation on Property Management 《物業管理條例》 enacted by the State Council on June 8, 2003, enforced on September 1, 2003, and as amended on August 26, 2007, a qualification system is implemented in monitoring the property management enterprises.

Under the Measures for the Administration of Qualifications of Property Service Enterprises 《物業服務企業資質管理辦法》 promulgated by the Ministry of Construction in March 2004 and as amended on November 26, 2007, a property service enterprise must apply for assessment of its qualification by the relevant qualification approval authority. An enterprise which passes such qualification assessment will be issued a qualification certificate. No enterprise may engage in property management without undertaking a qualification assessment conducted by the relevant authority and obtaining a qualification certificate.

According to the Measures for the Administration on Qualifications of Property Service Enterprises, the qualifications of a property service enterprise shall be classified as class one, class two and class three. The competent construction department of the State Council shall be responsible for issuance and administration of the qualification certificate of the class one property service enterprises. The competent construction departments of the governments of provinces and autonomous regions shall be responsible for issuance and administration of the qualification certificate of the class two property service enterprises, and the competent realty departments of the governments of municipalities directly under the central government shall be responsible for issuance and administration of the qualification certificate of the classes two and three property service enterprises. The competent realty departments of the governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the class three property service enterprises.

The property service enterprises with the class one qualification may undertake various real estate management projects. The property service enterprises with the class two qualification may undertake the property management business of residential management projects of less than 300,000 square meters and the non-residential management projects of less than 80,000 square meters. The property service enterprises with the class three qualification may undertake the property management business of residence projects of less than 200,000 square meters and non-residential projects under 50,000 square meters. An annual inspection system shall be implemented on the qualifications of property service enterprises.

The annual inspection on the property service enterprises of various classes of qualifications shall be conducted by the corresponding departments of qualification examination and approval.

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### INSURANCE

There is no mandatory provision in PRC laws, regulations and government rules which require a property developer to take out insurance policies for its real estate developments. According to the common practice of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies must pay for the insurance premium at their own costs and take out insurance to cover their liabilities, such as third party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and other kinds of risks associated with the construction and installation works throughout the construction period. The insurance coverage for all these risks will cease immediately after the completion and acceptance upon inspection of construction.

### MEASURES ON STABILIZING HOUSING PRICE

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

- Where the housing price is growing too fast, while the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, the housing construction should mainly involve projects of ordinary commodity houses at medium or low prices and low-cost affordable houses. The construction of low-density, high-end houses should be strictly controlled. The relevant local government authorities are authorized to impose conditions on planning and design such as building height, plot ratio and green space and to impose such requirements as sale price, type and gross floor area as preconditions on land assignment.
- Where the price of land for residential use and the price for residential housing are growing too fast, the proportion of land supply for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high-end housing property construction should be strictly restricted.
- Land idle fee must be imposed on land that has not been developed for one year from the contractual construction commencement date. Land use rights of land that has not been developed for two years must be forfeited without compensation.

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- Commencing from June 1, 2005, a business tax upon transfer of a residential house by an individual within two years from his/her purchase will be levied on the gain from such sale. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted. For an individual to transfer a property other than an ordinary residential house after two years from his/her purchase, the business tax will be levied on the difference between the price of such sale and the original purchase price.
- Transfer of uncompleted commodity properties by any pre-sale purchaser is forbidden. In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale contract must also be filed with the relevant government agencies electronically immediately after its execution.

In May 2006, the Ministry of Construction, the NDRC, the PBOC and other relevant PRC government authorities jointly issued their Opinions on Adjusting the Housing Supply Structure and Stabilizing the Housing Prices 《關於調整住房供應結構穩定住房價格的意見》. Such opinions reiterated the existing measures and ushered additional measures that aim to further curb rapid increases in property prices in large cities and to promote healthy development of the PRC property market. These measures include:

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

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- imposing a business tax levy on the entire sales proceeds from re-sale of properties if the holding period is shorter than five years, effective from June 1, 2006, as opposed to two years when such levy was initially implemented in June 2005, and allowing such business tax to be levied on the difference between the price for such re-sale and the original purchase price in the event that an individual transfers a property other than an ordinary residential property after five years from his/her date of purchase.

On September 27, 2007, the PBOC and the CBRC further tightened mortgage lending by PRC commercial banks, by increasing the amount of down payment a property purchase must make before seeking mortgage financing.

On December 20, 2008, the General Office of the State Council issued Certain Opinions on Promoting the Healthy Development of Real Estate Market 《國務院辦公廳關於促進房地產市場健康發展的若干意見》 to increase domestic demand and promote the healthy development of real estate. The opinion provides that, among other things:

- while the policy of preferential treatments on mortgage rate and down-payment percentage applies to those who purchase ordinary housing used for themselves on first mortgage, similar policy may be, with necessary changes, applied to those living space is below the local standard and who apply mortgage for a second ordinary housing unit to improve living condition. For others who purchase their second or more housing units, mortgage rate will be determined by commercial banks based on benchmark interest rate with consideration of relevant risk factors.
- from January 1, 2009 to December 31, 2009 the business tax exemption will apply to purchases of ordinary housing over 2 years (including 2 years). For those who transfer ordinary housing purchased within 2 years, the business tax will be levied on the proceed minus the cost of the original purchase. The business tax on transfer of non-ordinary housing by individuals whose holding has been purchased for 2 years or more will be calculated based on the proceed of the transfer minus the cost of the original purchase. For transfer of non-ordinary housing purchased for less than 2 years, business tax calculation will still be based on the total proceed of the transfer.

### Urban Redevelopment in Shenzhen

In accordance with the "Interim Rules on Redevelopment of Inner-City Villages of Shenzhen" 《深圳市城中村(舊村)改造暫行規定》 issued by the People's Government of Shenzhen on October 22, 2004 and effective November 1, 2004, competitive institutions are encouraged to conduct or anticipate in the redevelopment of old city area in Shenzhen through tender procedures. The district government shall elect the entities to conduct redevelopment of inner-city villages (城中村改造項目) through public tender or listing-for-sale jointly with relevant land authorities except that the cooperative

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enterprises (城中村內現有股份合作企業) of the inner-city villages to be redeveloped choose to conduct the redevelopment on its own or jointly with other entities subject to the approval of the district government. For the villages’ housing within the old city area, the compensation may be in property exchange or the combination of property exchange and cash. The enterprises engaging in redevelopment are responsible for demolition and relocation of the area to be redeveloped and bear the relocation and compensation expenses. The compensation for redevelopment of old city area shall be in cash in principle. For the compensation by way of property exchange, the gross floor area of the compensated residential properties for every family shall be less than 480 sq.m. in principle. The enterprises shall enter into the demolition and compensation agreements with the villages. In order to further regulate the administration of redevelopment of old city area in Shenzhen, the People’s Government of Shenzhen issued the “Circular on Carrying out the Interim Rules on Redevelopment of Inner-City Villages of Shenzhen” 《關於深圳市城中村(舊村)改造暫行規定的實施意見》. The “Circular on Carrying out the Interim Rules on Redevelopment of Inner-City Villages of Shenzhen” stipulates among others, the objectives, policy-making and rules for handling affairs, the determination of the scope of redevelopment, the classification of the redevelopment mode, the preparation and approval of the redevelopment plan, admittance system in respect of the redevelopment of old city areas. Pursuant to the “Circular on Carrying out the Interim Rules on Redevelopment of Inner-City Villages of Shenzhen”, the scope of redevelopment of inner-city villages are built-up areas within the scope of non-agricultural construction land retained for use by villagers and succeeding units of original village collective economic organizations. The admittance system for the redevelopment of old city areas is developed and implemented by regional governments. Meanwhile, regional governments may determine the number of households subject to relocation and compensation and develop the standards for relocation and compensation in accordance with the relevant laws, regulations and regulatory documents.

On October 8, 2007, the general office of the People’s Government of Shenzhen promulgated the Notice on Issues Concerning Redevelopment of Inner-City Villages of Shenzhen 《關於開展城中村(舊村)改造工作有關事項的通知》, which clarifies the following:

- For the inner-city villages redevelopment projects implemented in accordance with the relevant rules and policies such as the “Interim Rules on Redevelopment of Inner-City Villages of Shenzhen”, all buildings that will be demolished and reconstructed (other than political housing) are commercial housings in the market if they are subject to the payment of land premium or if the premium is reduced or exempt;
- For the “one household, one house” buildings reconstructed for original villagers in the inner-city villages redevelopment projects, reconstructed housings with an area of less than 480 square metres per household are not included in the dwelling ratio. The remaining portion shall be subject to the relevant national and local requirements on the dwelling ratio;



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- For buildings used for relocation and settlement, authorities in charge of state-owned land and housing shall not be issued “Real Estate Pre-sale Permit”. Instead, the redevelopment entity and the party subject to demolition shall apply to the authorities in charge of state-owned land and housing for the registration of the transfer of secondary property rights pursuant to the relocation and compensation agreement entered into between them according to law;
- Regional government shall formulate steps to implement the inner-city villages redevelopment projects in stages in accordance with the practical situation of redevelopment so as to ensure the successful implementation of the old city area redevelopment projects.

The Circular on Carrying out the Interim Rules on Redevelopment of Inner-City Villages of Shenzhen and the Notice on Issues Concerning Redevelopment of Inner-City Villages of Shenzhen further regulate and clarify the redevelopment of inner-city villages in Shenzhen on the basis of the Interim Rules on Redevelopment of Inner-City Villages of Shenzhen. Companies which intend to proceed with the redevelopment of inner-city villages in Shenzhen shall comply with the above regulations. We have complied with all relevant regulations in our urban redevelopment projects.

We have yet to acquire land use rights through such inner-city village redevelopment programs. Therefore, for the time being, the Circular on Carrying out the Interim Rules on Redevelopment of Inner-City Villages of Shenzhen and Notice on Issues Concerning Redevelopment of Inner-City Villages of Shenzhen will have limited impact on our overall business operations although such impact may increase over time.

### **Primary Land Development in Beijing**

Pursuant to the Interim Measures of Beijing Municipality on Administration of Land Reserve and Primary Land Development 《北京市土地儲備和一級開發暫行辦法》, jointly issued by Beijing Municipal Bureau of Land and Resources, Beijing Municipal Commission of Development and Reform, Beijing Municipal Commission of Urban Planning and Beijing Municipal Commission of Housing and Urban-Rural Development and effective on August 3, 2005, land reserve and primary land development refer to reserve of state-owned construction land by the government through such means as acquisition, reclamation and expropriation, and implementation of house demolition and construction of municipal infrastructure, to meet conditions for land supply. Land reserve and primary land development can be undertaken by the land reserve authorities or property developers with relevant qualifications and selected through bidding process.

Pursuant to the Interim Measures of Beijing Municipality on Administration of Land Reserve and Primary Land Development, in case that the land reserve authorities are responsible for organizing and implementing primary land development, they should undertake such matters as raising funds, applying for planning and project approval, land expropriation, house demolition and construction of large-scale municipal infrastructure. If a property developer is selected through bidding process to manage primary land development, an entrustment management contract with respect to primary land development shall be entered into by the property developer and the land reserve authority. The

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management fees paid to the property developer should not exceed 2% of the total cost of land reserve and primary land development. In case that a property developer is selected through bidding process to organize and implement primary land development, the property developer should undertake the same matters as land reserve authorities would undertake with respect to land primary development. The profit margin for the property developer shall not exceed 8% of the estimated total cost of land reserve and primary land development.

Pursuant to the Interim Measures of Beijing Municipality on Bidding of Primary Land Development Project 《北京市土地一級開發項目招標投標暫行辦法》 issued by Beijing Municipal Bureau of Land and Resources and effective on May 20, 2006, except for major projects determined by the municipal government and the primary land development by an entity of the land owned by itself, any other primary land development projects shall be conducted by an entity selected through an open bidding process. A bidder who intends to participate in primary land development should meet the following conditions: (i) holding a qualification certificate for property development in Beijing; (ii) no negative credit record on the part of the bidder and its major shareholders; (iii) owning a certain amount of project capital; and (iv) other conditions stipulated in the bidding documents.

### OVERSEAS LISTING

In August 2006, the MOFCOM, the State Assets Supervision and Administration Commission, the State Taxation Bureau, the State Administration of Industry and Commerce, the China Securities Regulatory Commission, and the SAFE jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》, or the New M&A Rule, which became effective on September 8, 2006 and was amended on June 22, 2009. This New M&A Rule requires, among other things, that offshore special purpose vehicles, formed for overseas listing purposes through acquisitions of PRC domestic companies controlled by PRC companies or individuals, obtain the approval of the China Securities Regulatory Commission prior to publicly listing their securities on an overseas stock exchange. In September 2006, China Securities Regulatory Commission published a notice on its official website specifying documents and materials required to be submitted to it by special purpose vehicles seeking China Securities Regulatory Commission approval of their overseas listings.

### ENVIRONMENTAL PROTECTION

The laws and regulations governing the environmental protection requirements for real estate development in China include the PRC Environmental Protection Law 《中華人民共和國環境保護法》, the PRC Prevention and Control of Noise Pollution Law 《中華人民共和國環境噪聲污染防治法》, the PRC Environmental Impact Assessment Law 《中華人民共和國環境影響評價法》 and the PRC Administrative Regulations on Environmental Protection for Development Projects 《建設項目環境保護管理條例》. Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by a developer before the relevant

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## APPENDIX VI

## SUMMARY OF PRC LAWS RELATING TO THE PROPERTY SECTOR

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authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities will also inspect the property to ensure compliance with the applicable environmental protection standards and regulations before the property can be delivered to the purchasers.

### FOREIGN EXCHANGE CONTROLS

Under the PRC Foreign Currency Administration Rules 《中華人民共和國外匯管理條例》 promulgated in 1996 and revised in 1997 and various regulations issued by the SAFE and other relevant PRC government authorities, Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments and the payment interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside China for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from SAFE or its local office. Payments for transactions that take place within China must be made in Renminbi. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by the SAFE or its local office. Unless otherwise approved, domestic enterprises must convert all of their foreign currency proceeds into Renminbi.

In October 2005, the SAFE issued a Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies 《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》. According to the notice, a special purpose company refers to an offshore company established or indirectly controlled by PRC residents for the special purpose of carrying out financing of their assets or equity interest in PRC domestic enterprises. Prior to establishing or assuming control of a special purpose company, each PRC resident, whether a natural or legal person, must complete the overseas investment foreign exchange registration procedures with the relevant local SAFE branch. The notice applies retroactively. These PRC residents must also amend the registration with the relevant SAFE branch in the following circumstances: (1) the PRC residents have completed the injection of equity investment or assets of a domestic company into the special purpose company; (2) the overseas funding of the special purpose company has been completed; (3) there is a material change in the capital of the special purpose company. Under the rules, failure to comply with the foreign exchange registration procedures may result in restrictions being imposed on the foreign exchange activities of the violator, including restrictions on the payment of dividends and other distributions to its offshore parent company, and may also subject the violators to penalties under the PRC foreign exchange administration regulations.