

INDUSTRY OVERVIEW

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MACRO-ECONOMIC CONDITIONS IN CHINA

Since the PRC Government's adoption of the open door policy in 1978, China has experienced significant economic growth which has been driven further by its accession to the WTO in 2001. China's GDP increased from approximately RMB12,033 billion in 2002 to approximately RMB30,067 billion in 2008, representing a CAGR of approximately 16.5%, making China one of the fastest growing economies in the world. In line with its GDP growth, China's per capita GDP also rose from approximately RMB9,398 in 2002 to approximately RMB22,640 in 2008, representing a CAGR of approximately 15.8%. Fujian and Jiangsu Provinces and Hefei, Anhui Province, where our business and projects are primarily based, have also experienced relatively high GDP and per capita GDP growth from 2002 to 2008. For each of the years from 2002 to 2008, the per capita GDP of each of these regions surpassed that of China. The following tables illustrate (i) the GDP and (ii) the per capita GDP, for China and the regions mentioned above for the years indicated:

	GDP (RMB billion)							CAGR%
	2002	2003	2004	2005	2006	2007	2008	
China	12,033	13,582	15,988	18,322	21,192	24,953	30,067	16.5
Fujian	447	498	576	657	758	925	1,082	15.9
Xiamen	65	76	89	101	117	139	156	15.7
Jiangsu	1,061	1,244	1,500	1,831	2,165	2,574	3,000	18.9
Nanjing	139	169	207	241	277	328	378	18.1
Wuxi	153	183	225	280	330	386	442	19.3
Yangzhou	54	63	76	92	110	131	157	19.5
Anhui	352	392	476	538	613	736	887	16.7
Hefei	50	59	72	88	107	133	166	22.3
Average⁽¹⁾	620	711	851	1,009	1,179	1,412	1,656	—

Note:

(1) Based on the average GDP (RMB billion) for the year indicated of each of Fujian, Jiangsu and Anhui Provinces.

Sources: *Statistical Yearbook of China, Fujian, Jiangsu, Anhui, Xiamen, Nanjing, Wuxi, Yangzhou, and Hefei*
Statistical Announcement 2008 of China, Fujian, Jiangsu, Anhui, Xiamen, Nanjing, Wuxi, Yangzhou, and Hefei

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CHINA'S PER CAPITA GDP FOR SELECTED REGIONS

	Per capita GDP (RMB)							CAGR%
	2002	2003	2004	2005	2006	2007	2008	
China	9,398	10,542	12,336	14,053	16,165	18,934	22,640	15.8
Fujian	12,938	14,333	16,469	18,646	21,385	25,908	30,123	15.1
Xiamen	30,297	35,009	40,351	44,737	50,130	57,113	62,651	12.9
Jiangsu	14,396	16,830	20,223	24,560	28,814	33,928	40,000	18.6
Nanjing	24,816	29,780	35,770	40,887	46,113	53,500	50,327	12.5
Wuxi	36,151	43,155	52,825	50,958	57,719	65,212	73,053	12.4
Yangzhou	12,044	13,949	16,747	20,389	24,543	29,419	34,200	19.0
Anhui	5,817	6,455	7,768	8,675	10,055	12,045	14,485	16.4
Hefei	11,173	13,047	16,377	19,512	23,203	28,134	34,482	20.7
Average⁽¹⁾	11,050	12,539	14,820	17,294	20,085	23,960	28,203	—

Note:

(1) Based on the average per capita GDP (RMB) for the year indicated of each of Fujian, Jiangsu and Anhui Provinces.

Sources: *Statistical Yearbooks of China, Fujian, Jiangsu, Anhui, Xiamen, Nanjing, Wuxi, Yangzhou, and Hefei*
Statistical Announcement 2008 of China, Fujian, Jiangsu, Anhui, Xiamen, Nanjing, Wuxi, Yangzhou, and Hefei

The global economic crisis beginning in the second half of 2008 generally caused a slowdown in the global capital and credit markets as well as the world economy. This in turn has adversely impacted the economic growth of China. In view of the impact on the PRC economy caused by the global economic crisis, the PRC Government launched a RMB4 trillion economic stimulus plan in November 2008. The funds would be used to finance programs in areas such as infrastructure and residential housing over the next two years. Since the inception of the economic stimulus plan, the PRC stock market has shown signs of recovery. Stock prices of companies in sectors such as real estate, construction, raw materials, machinery and energy started to recover from the downturn. In addition, the economic stimulus plan boosted domestic consumption and demand in the PRC and its GDP amounted to RMB13,986.2 billion for the first half of 2009.

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ANNUAL URBAN DISPOSABLE INCOME

Urban disposable income in China grew rapidly during the period from 2002 to 2008, reflecting a nationwide CAGR of approximately 12.7%. Urban disposable income per capita for urban households in China increased from approximately RMB7,703 in 2002 to approximately RMB15,781 in 2008, signifying an increase in purchasing power for urban households throughout China. In each of Fujian and Jiangsu Provinces, where our business and projects are primarily based, the regional average urban disposable income exceeded that of China for each of the years from 2002 to 2008. The following table illustrates the per capita disposable income for urban households in China and the regions mentioned above for the years indicated:

	Urban disposable income (RMB)							CAGR%
	2002	2003	2004	2005	2006	2007	2008	
China	7,703	8,472	9,422	10,493	11,759	13,786	15,781	12.7
Fujian	9,189	10,000	11,175	12,321	13,753	15,505	17,961	11.8
Xiamen	11,768	12,915	14,443	16,403	18,513	21,503	23,948	12.6
Jiangsu	8,178	9,262	10,482	12,319	14,084	16,378	18,680	14.8
Nanjing	9,157	10,196	11,602	14,997	17,538	20,317	23,123	16.7
Wuxi	9,988	11,647	13,588	16,005	18,189	20,898	23,605	15.4
Yangzhou	7,833	8,705	9,851	11,379	12,945	15,057	17,398	14.2
Anhui	6,032	6,778	7,511	8,471	9,771	11,474	12,990	13.6
Hefei	7,145	7,785	8,610	9,684	11,013	13,427	15,591	13.9
Average⁽¹⁾	7,800	8,680	9,723	11,037	12,536	14,452	16,544	—

Note:

(1) Based on the average urban disposable income (RMB) for the year indicated of each of Fujian, Jiangsu and Anhui Provinces.

Sources: *Statistical Yearbooks of China, Fujian, Jiangsu, Anhui, Xiamen, Nanjing, Wuxi, Yangzhou, and Hefei*
Statistical Announcement 2008 of China, Fujian, Jiangsu, Anhui, Xiamen, Nanjing, Wuxi, Yangzhou, and Hefei

FUJIAN PROVINCE

Fujian Province is located in the southeast coastal area of China with a total population of approximately 36.0 million in 2008. In 2008, Fujian Province contributed approximately 3.6% to China's GDP, and its population accounted for approximately 2.0% of the national population. In line with the overall growth in China's GDP, Fujian Province's GDP reached approximately RMB1,082 billion in 2008. In 2008, a per capita GDP of approximately RMB30,123 was recorded. Fujian Province's urban disposable income increased from approximately RMB9,189 in 2002 to approximately RMB17,961 in 2008, reflecting a CAGR of approximately 11.8%. This is consistent with the overall growth trend in China. For each of the years from 2002 to 2008, Fujian Province's per capita GDP and per capita urban disposable income also exceeded those of China.

Xiamen

Xiamen is located in the southeast region of Fujian Province with a total population of approximately 2.5 million in 2008. It is a coastal city, facing the Taiwan Strait and bordering the cities of Quanzhou to the north and Zhangzhou to the south. Xiamen was one of China's earliest special economic zones in the 1980s. According to the Xiamen Statistical Yearbook 2008, Xiamen's GDP in

2008 was approximately RMB156 billion, representing a CAGR of approximately 15.7% since 2002. The city's GDP per capita was approximately RMB62,651 in 2008, significantly higher than the national average.

JIANGSU PROVINCE

Jiangsu Province is located along the east coast of China with a population of approximately 76.8 million in 2008. It is one of the most important economic and cultural centres in the Greater Yangtze River Delta region. In 2008, Jiangsu Province contributed approximately 10.0% to China's national GDP, and its population accounted for approximately 5.8% of the national population. Jiangsu Province's GDP was approximately RMB3,000 billion in 2008, representing a CAGR of approximately 18.9% since 2002. Jiangsu Province's per capita GDP was approximately RMB40,000 in 2008, representing a CAGR of approximately 18.6% since 2002. Jiangsu Province's per capita GDP and per capita urban disposable income for each of the years from 2002 to 2008 also exceeded those of China.

Nanjing

Nanjing is the capital city of Jiangsu Province with a population of approximately 6.2 million in 2008. Nanjing is an industrial base in eastern China and also one of China's major research and education centres. In 2008, Nanjing's GDP was approximately RMB378 billion, representing a CAGR of approximately 18.1% since 2002. Nanjing's per capita GDP was approximately RMB50,327 in 2008, representing a CAGR of approximately 12.5% since 2002.

Wuxi

Wuxi is one of the most important commercial and industrial hubs in the Greater Yangtze River Delta Region. It is located in the southern part of Jiangsu province with Shanghai to its east and Nanjing to its west. It contributed approximately 1.5% to China's GDP in 2008. Wuxi's GDP was approximately RMB442 billion in 2008, representing a CAGR of approximately 19.3% since 2002. Wuxi's per capita GDP was approximately RMB73,053 in 2008, the highest among all the areas where our business and projects are primarily based.

Yangzhou

Yangzhou is located in the middle of Jiangsu Province, with a population of approximately 4.6 million in 2008. It borders the Yangtze River to the south, Huai'an to the north, Taizhou and Yancheng to the east and Nanjing to the west. Yangzhou's GDP was approximately RMB157 billion in 2008, representing a CAGR of approximately 19.5% since 2002. Yangzhou's per capita GDP was approximately RMB34,200 in 2008, representing a CAGR of approximately 19.0% since 2002.

ANHUI PROVINCE

Hefei

Hefei is the capital city of Anhui Province with a population of approximately 4.9 million in 2008. It is located in the central region of China between Yangtze River and Huai River and is close to the fast growing Yangtze River Delta Region. Hefei's GDP was approximately RMB167 billion in 2008, representing a CAGR of approximately 22.3% since 2002. Hefei's per capita GDP was approximately RMB34,482 in 2008, representing a CAGR of approximately 20.7% since 2002.

THE WESTERN STRAIT ECONOMIC ZONE

Introduction

Situated opposite to Taiwan and with its major port at Fujian, the Western Strait Economic Zone (the “**Western Strait Zone**”) covers the southern part of Zhejiang Province, the northern part of Guangdong Province and some parts of Jiangxi Province, adjoining two economic zones, the Pearl River Delta Economic Zone and the Yangtze Delta Economic Zone. The Western Strait Zone is a new regional economic community supported by several cities, including Fuzhou, Xiamen, Quanzhou, Wenzhou, Shantou and Nanchang.

The development strategy of the Western Strait Zone was initiated by Fujian Province, and implementation was commenced in early 2004. On May 4, 2009, Premier Wen Jiabao officiated at the standing committee meeting of the State Council. At the meeting, the “Certain Opinions on Supporting Fujian Province to Accelerate the Building of the Western Taiwan Strait Economic Zone” (《關於支持福建省加快建設海峽西岸經濟區的若干意見》) (the “**Opinions**”) were discussed and passed in principle. The development of the Western Strait Zone has now become a national strategy.

Related Policy

According to the Opinions, the Western Strait Zone will evolve into an integrated channel to expedite the opening of cross-strait relations. It was clearly stated in the Opinions that the “first mover policy” and the policy of “introducing innovations to mechanisms and systems” were adopted in the Western Strait Zone to deploy and allocate resources freely within the zone, which means to adopt policies and measures to facilitate trading, investment and transportation.

In this regard, the State Council has decided to: (1) strengthen industrial cooperation and cultural exchanges across the strait; (2) speed up the construction of modern infrastructure; (3) develop advanced industries; (4) promote cooperation across provinces; (5) launch programs to implement reforms for the opening up of the Western Strait Zone to external markets; (6) step up social development in the area; and (7) facilitate green development.

To implement the Opinions, on July 29, 2009, the Fujian Provincial Communist Party Committee passed “The Opinions on the Full Implementation of ‘Certain Opinions on Supporting

Fujian Province to Accelerate the Development of the Western Taiwan Strait Economic Zone' by Fujian Province", which puts forward various opinions with significant impact on the development of Xiamen. Projects to be undertaken include: to establish and expand investment zones in Xiamen and elsewhere; to speed up the construction of the three major ports (including Xiamen Port), and the construction of highways and railways; to accelerate the renovation of airports and the development of urban subway transport in cities such as Xiamen; to build modern industrial systems including to establish aircraft maintenance bases and modern industry bases in Xiamen and elsewhere; to raise the concentration of the population and economy in order to accelerate the development of modern service industries, and also advanced manufacturing industries in key cities such as Xiamen; and to enhance the handling capacity of ports, airports, railways and highways.

As a result, the Western Strait Zone has accelerated the progress of city construction and the development of the real estate industry. Since the beginning of 2009, the demand for land for construction at the provincial and local levels in Fujian Province has increased by over 20% in 2009 as compared to 2008. More than 50 central government-supported cooperation agreements or resolutions with the Fujian People's Government, covering the areas of planning, project construction, customs clearance, financial services and taxation to support the Western Strait Zone have been executed or passed. In the opinion of the research personnel of the Fujian People's Government, in the next Five-Year Plan, with the significant improvement in terms of transportation infrastructure, city development and regional coordination, Fujian Province will become the strategic gateway to central and western China for Taiwan.

THE PROPERTY MARKET IN THE PRC

Real estate reform in the PRC

Reform of the PRC property market commenced in the 1990s. Prior to the 1990s, the PRC real estate industry was part of the nation's planned economy. From the 1990s, the PRC's real estate sector began the transition to a market-oriented system. From 2004 to the first half of 2008, in response to concerns over excessive increase in property investment, national level policies were enacted aimed at slowing down real estate development. However, in late 2008, in light of the recent global financial crisis which resulted in a rapid downturn in the PRC real estate market, certain new policies aimed at easing market decline and boosting real estate investments were introduced. A brief timeline of the key housing reforms is set out below:

- | | |
|------|---|
| 1988 | The PRC Government amended the constitution of the PRC to permit the transfer of state-owned land use rights. |
| 1992 | Public housing sales in major cities commenced. |
| 1994 | The PRC Government further implemented real estate reform and established an employer/employee-funded housing fund. |
| 1995 | The PRC Government issued regulations regarding the sales and pre-sales of real estate, establishing a regulatory framework for real estate sales. |
| 1998 | The PRC Government abolished the state-allocated housing policy. |
| 1999 | The PRC Government extended the maximum mortgage term to 30 years. The PRC Government increased maximum mortgage financing ratio from 70% to 80%. The PRC Government formalized procedures for the sale of real property in the secondary market. |
| 2000 | The PRC Government issued regulations to standardize the quality of construction projects, establishing a framework for administering construction quality. |
| 2001 | The PRC Government issued regulations relating to sales of commodity properties. |
| 2002 | The PRC Government promulgated the Rules Regarding the Grant of State-Owned Land Use Rights through Tender, Auction and Listing-For-Sale. The PRC Government eliminated the dual system for domestic and overseas home buyers in China. |
| 2003 | The PRC Government promulgated rules for more stringent administration of real estate loans with a view to reduce the credit and systemic risks associated with such loans. The State Council issued a notice for sustainable and healthy development of the property market. |

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- 2004 The State Council issued a notice requiring that, with respect to property development projects (excluding ordinary standard residential houses), the proportion of capital funds should be increased from 20% to 35%. The Ministry of Construction amended the Administrative Measures Governing the Pre-sale of Urban Commodity Properties. The CBRC issued the Guidelines for Commercial Banks of Risk Control of Real Estate Loans to further strengthen the risk control of commercial banks on real estate loans.
- 2005 The PRC Government instituted additional measures to discourage speculation in certain regional property markets including increasing the minimum required down payment to 30% of the total purchase price, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% for sales of property within two years of previous purchases, and prohibiting reselling unfinished properties before completion.
- 2006 The PRC Government instituted additional measures aimed at guiding and promoting sustainable and healthy development of the real estate industry through adjusting the housing supply structure and moderating soaring housing prices. The measures included (1) the requirement that the ratio of residential housing with a GFA of less than 90 sq.m. (including affordable housing) reach more than 70% of the total GFA for development and construction; (2) a business tax of 5% levied on the value of the sale of residential housing purchased and held for less than five years, and a business tax of 5% levied on gains realized with respect to luxury commodity residential housing even after such five years; (3) a requirement that commercial banks not make loans to developers whose project capital fund ratio fails to reach a minimum of 35%; (4) a requirement that land supply for villa development projects and the processing of relevant land use rights grant procedures be suspended in order to reign in villa construction; and (5) levying of idle land fees and/ or reclamation of land use rights where the land is left idle or is not developed in accordance with the relevant land use rights grant contract.
- 2007 The PRC Government promulgated the Interim Regulation of the People's Republic of China on Farmland Occupation Tax (《中華人民共和國耕地佔用稅暫行條例》), aimed at ensuring reasonable usage of land resources, strengthening land administration and protecting farmland.
- SAT implemented measures aimed at strengthening collection of LAT taking effect as at February 1, 2007.
- The PRC Government introduced measures requiring registration with the MOC for the establishment of, or the share capital increase in, real estate enterprises with foreign investment for those which are approved by local PRC commerce authorities on or after June 1, 2007. In the absence of such registration, the foreign-invested real estate enterprise will not be permitted to incur foreign debt, including both shareholder loans and foreign commercial loans, and SAFE will not give effect to the foreign exchange registration or the foreign exchange alteration registration, as a result of which foreign currencies, which have been injected, will not be settled into RMB funds.

2008 On January 3, 2008, the State Council of the PRC issued the Notice on Promoting the Saving and Intensification of Use of Land (the “**State Council Notice**”) (《國務院關於促進節約集約用地的通知》國發[2008]3號). The State Council Notice stipulates that the enforcement measures in respect of idle land must be implemented strictly. Pursuant to the State Council Notice, (i) for any idle land without commencement of construction for more than two years, the local government should, if required under PRC law, order forfeiture of such idle land without any compensation, or take other action to fully utilize such idle land, and (ii) for any idle land without commencement of construction for no less than one year (but less than two years), the local government should levy certain idle land fees, in an amount equal to 20% of the land use rights grant premium paid, on idle land, especially in the case of land used for property development. The Department of Finance and Taxation will implement and perfect a tax policy encouraging economical and intensive land use strictly. The Ministry of Land and Resources and concerned departments will study and formulate specific measures for enactment and registration of the land space rights. In addition, the State Council Notice provides, among other things: the transfer of land use rights for industrial and commercial use must be conducted through the public bidding and auction process; no provision of land for villa property development projects is permitted; regarding provision of land for residential property development projects, certain provisions must be inserted into land use rights grant contracts to ensure that no less than 70% of the total GFA of such granted land (for residential property development) be used for construction of economic lease housing (廉租房), economic use housing (經濟適用房), price-limit housing (限價房) and small and medium normal commercial housing (with each unit of no more than 90 sq.m.) (90平方米以下中小套型普通商品房). Moreover, financial institutions are urged (i) not to provide financing to illegal property development projects, and (ii) to take precautionary measures in determining whether to provide financing to those property development projects which, one year after the construction commencement date as stipulated in the relevant land use rights grant contracts, have only completed less than one-third of the approved land development area or have invested less than one-fourth of the approved total investment.

The Ministry of Finance and SAT of the PRC jointly issued the Notice on Adjusting the Taxation Policies with Regard to Real Estate Transactions (《關於調整房地產交易環節稅收政策的通知》), effective November 1, 2008, which aims to reduce personal tax liabilities in housing transactions and encourages first-time buyers to purchase ordinary residential properties. The key taxation policies include:

- lowering the deed tax for first-time buyers of ordinary residential properties with a GFA of less than 90 sq.m.;
- giving a stamp duty exemption for individual residential property purchases or sales; and
- giving a LAT exemption for individual residential property sales.

The PBOC announced the Measures to Lower Personal House Commercial Mortgage Rates and Encourage the First-time Purchase of Ordinary Residential Properties (《擴大商業性個人住房貸款利率下浮幅度、支援居民首次購買普通住房》), effective October 27, 2008. According to the measures, both the minimum mortgage rate and the minimum down payment ratio have been further lowered from their previous levels. Financial institutions will determine mortgage rates and down payment ratios based on various factors such as whether the buyer is a first-time buyer, whether the property is to be self-used by the buyer, whether the property is ordinary residential property, and the home buyer's credit records and repayment capability. In cases where there is a first-time purchase of residential property, financial institutions may support a buyer's financing needs at favorable mortgage rates and down payment ratios.

The General Office of the State Council promulgated the Several Opinions Concerning Boosting Healthy Development of the Real Estate Market (《關於促進房地產市場健康發展的若干意見》), which provides incentives to build more houses for low-income urban families, encourage purchasing of ordinary residential properties, support property developers to actively deal with the changing market, enhance the responsibility of local governments in stabilizing the property market, and improve surveillance of the property market. The relevant policies include:

- providing preferential terms for second-time purchases using commercial loans;
- giving business tax exemptions to individual purchasers under certain conditions;
- supporting developers' reasonable financing needs and increasing credit help for developers of low-price units catering to low-income groups; and
- abolishing the urban real estate tax, applying the Provisional Regulations of the People's Republic of China on Real Estate Tax (《中華人民共和國房產稅暫行條例》) to all domestic enterprises, foreign-invested enterprises and individuals.

The PRC Government announced a RMB4 trillion fiscal stimulus package after the global financial crisis hit the PRC economy in November 2008. The package involves the PRC Government's commitment of government spending amounting to RMB4 trillion, an amount expected to come from both the public and private sectors. The NDRC has outlined that the planned spending will be directed to certain key areas including housing. It is believed that the main beneficiaries of the fiscal stimulus package will mainly be PRC construction companies, cement and steel companies, property developers and investors. As at April 2009, a total amount of RMB2.3 trillion was injected under the fiscal stimulus package, mainly into the construction of low-income housing and hospitals, sewage systems, railways and energy efficiency projects.

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2009 On May 25, 2009, the State Council issued the Circular of the State Council Concerning the Adjustment of Capital Ratio of Fixed Assets Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》), lowering the minimum capital ratio of social welfare residential properties and ordinary commodity-type residential properties from 35% to 20%. The minimum capital ratio of other property development projects was decreased from 35% to 30%.

Additional information on real estate reforms and recent regulatory developments is set out in the section headed “Industry Overview — Regulations” and Appendix V headed “Summary of Principal PRC Legal and Regulatory Provisions” of this prospectus.

Key drivers of the property market in the PRC

Housing reforms, together with the economic growth of the PRC, increase in disposable income and savings, emergence of the mortgage lending market, and increase in urbanization rate, are key factors in sustaining the growth of the PRC property market.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008⁽¹⁾</u>	<u>CAGR (%)</u>
Population (million)	1,285	1,292	1,300	1,308	1,314	1,321	1,328	0.6
Urban Population (million)	502	523	542	562	577	593	606	3.2
Urbanization Rate (%)	39	40	41	43	43	44	45	2.6
Total Savings (RMB billion)	8,691	10,362	11,956	14,105	16,159	17,253	21,789	16.6

Note:

(1) Provisional figures from China Statistical Announcement 2008

Source: China Statistical Yearbook 2008

Amid a favorable economic environment that has been characterized by strong GDP per capita growth and an increasing demand for higher living standards, investments in real estate development in the PRC rose rapidly from approximately RMB779 billion in 2002 to approximately RMB3,058 billion in 2008, reflecting a CAGR of 25.6%.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008⁽¹⁾</u>	<u>CAGR (%)</u>
Investments in real estate development (RMB billion)	779	1,015	1,316	1,591	1,942	2,529	3,058	25.6
GFA of commodity properties completed (million sq.m.)	349	414	424	534	558	606	585	8.9
GFA of commodity properties sold (million sq.m.)	268	337	382	554	618	773	620	15.0
Average price of residential properties sold (RMB/sq.m.)	2,092	2,197	2,608	2,937	3,119	3,645	3,654	9.7
Year-on-year change in average selling price (%)	3.7	5.0	18.7	12.6	6.2	16.9	0.2	—
Average price of commercial properties sold (RMB/sq.m.)	3,489	3,675	3,884	5,022	5,247	5,774	—	—
Year-on-year change in average selling price (%)	6.6	5.3	5.7	29.3	4.5	10.0	—	—

Note:

(1) Provisional figures from China Statistical Announcement 2008

Source: China Statistical Yearbook 2008

Commodity property sales

Sales of commodity properties as measured by GFA sold amounted to approximately 620.9 million sq.m., representing a CAGR of approximately 15.0% since 2002. Until 2005, the GFA of commodity properties completed was higher than the GFA of commodity properties sold. The demand for commodity properties increased rapidly from 2005 to 2007, but fell off in 2008.

Recent developments in the PRC property market

In the first half of 2009, the PRC property market has seen a strong sales rebound. According to the National Bureau of Statistics of the PRC, the aggregate sales revenue for commodity properties was approximately RMB1,580.0 billion in the first half of 2009, an increase of approximately 53.0% compared to the same period in 2008. The aggregate investment amount for newly commenced property projects totaled to approximately RMB7,383.0 billion, an increase of approximately 87.3% compared to the same period in 2008. Fixed assets investment also rebounded in the first half of 2009, the aggregate amount of which was approximately RMB9,132.1 billion, growing substantially by approximately 33.5% compared to the same period in 2008, according to the National Development and Reform Commission.

For the period between January and June 2009, the average residential property price in 70 cities grew slightly by approximately 0.2% year-on-year, according to a monthly survey jointly conducted by the National Development and Reform Commission and the National Bureau of Statistics.

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Residential GFA completed and sold

From 2002 to 2008, the GFA of residential properties completed increased steadily whilst the GFA of residential properties sold grew at a relatively faster pace. Prior to 2005, the GFA of residential properties completed was more than the GFA of residential properties sold. In 2005, the GFA of residential properties sold surpassed the GFA of residential properties completed for the first time and the trend continued in the following three years. Due to the global economic crisis beginning in 2008, there was a drop in both the GFA of residential properties sold and the GFA of residential properties completed. In 2008, the GFA of residential properties completed was approximately 477.5 million sq.m., while the GFA of residential properties sold was approximately 558.9 million sq.m. The following tables illustrate (i) the GFA for residential properties sold and (ii) the GFA for residential properties completed, for China and the regions in which our Group operated for the years indicated:

	Residential GFA sold (million sq.m.)						
	2002	2003	2004	2005	2006	2007	CAGR ⁽¹⁾ %
China	237.0	297.8	338.2	495.9	554.2	701.4	24.2
Fujian	8.8	10.8	12.2	17.2	17.4	21.0	19.0
Xiamen	1.9	2.5	2.6	2.7	3.2	3.7	14.3
Jiangsu	20.7	23.6	27.6	45.2	53.2	67.7	26.7
Nanjing	3.4	4.0	5.4	9.0	9.4	10.6	25.5
Wuxi	2.2	2.8	3.5	3.4	5.5	6.8	25.3
Yangzhou ⁽²⁾	—	—	—	—	—	—	—
Anhui	6.8	9.1	11.8	16.9	20.4	27.8	32.5
Hefei	1.8	2.5	3.1	5.4	5.8	9.5	39.5

Notes:

- (1) CAGR represents 2002 to 2007 period only.
(2) There is no data available for Yangzhou.

Source: China Real Estate Statistical Yearbook and Wuxi Statistical Yearbook

	Residential GFA completed (million sq.m.)						
	2002	2003	2004	2005	2006	2007	CAGR ⁽¹⁾ %
China	285.2	337.7	346.8	436.8	454.7	498.3	11.8
Fujian	10.1	10.7	12.6	13.0	11.3	13.4	5.8
Xiamen	1.6	2.2	2.8	2.8	2.1	2.4	8.4
Jiangsu	22.6	26.2	32.2	45.0	47.5	51.6	18.0
Nanjing	3.8	3.3	5.6	5.8	6.7	5.8	8.8
Wuxi	2.5	4.6	4.0	5.4	6.1	6.0	19.1
Yangzhou	1.1	1.6	2.2	2.2	2.4	2.6	18.8
Anhui	8.5	10.4	13.0	14.8	17.3	20.1	18.8
Hefei	1.9	2.6	3.0	4.1	4.5	5.1	21.8

Note:

- (1) CAGR represents 2002 to 2007 period only.

Sources: China Real Estate Statistical Yearbook, Wuxi Statistical Yearbook and Yangzhou Statistical Yearbook

Average selling price for residential properties

During the period between 2002 and 2007, the average selling price for residential properties in China increased gradually achieving a CAGR of approximately 11.7%. In 2007, the average selling

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price in China was approximately RMB3,645 per sq.m. During the period between 2002 and 2007, the CAGRs of average selling price for residential properties for each of the regions in which our Group operated were higher than that of China. The following table illustrates the average selling price for residential properties in China and the regions in which our Group operates for the years indicated:

	Average selling price for residential (RMB/sq.m.)						
	2002	2003	2004	2005	2006	2007	CAGR ⁽¹⁾ %
China	2,092	2,197	2,608	2,937	3,119	3,645	11.7
Fujian	1,744	2,053	2,332	2,801	3,656	4,476	20.7
Xiamen	2,595	3,077	3,768	4,744	6,601	8,907	28.0
Jiangsu	1,806	2,017	2,397	3,146	3,375	3,834	16.2
Nanjing	2,780	2,888	3,098	3,850	4,270	5,011	12.5
Wuxi	1,712	2,006	2,278	2,970	3,687	4,363	20.6
Yangzhou ⁽²⁾	—	—	—	—	—	—	—
Anhui	1,171	1,346	1,591	2,065	2,153	2,505	16.4
Hefei	1,618	1,889	2,271	2,799	2,874	3,154	14.3

Notes:

- (1) CAGR represents 2002 to 2007 period only.
(2) There is no data available for Yangzhou.

Source: China Real Estate Statistical Yearbook

Office GFA completed and sold

From 2002 to 2007, the office GFA completed in China was higher than the office GFA sold in China. However, the difference between the office GFA completed and the office GFA sold was gradually becoming smaller. Due to the global economic crisis in 2008, there was a drop in the office GFA completed and the office GFA sold. In 2007, the office GFA completed was approximately 15,450.2 million sq.m., while the office GFA sold was approximately 14,652.3 million sq.m. In Fujian and Jiangsu Provinces and Hefei, Anhui Province, the GFA of office properties sold surpassed the GFA of office properties completed in 2007. The following tables illustrate (i) the office GFA sold and (ii) the office GFA completed, for China and the regions in which our Group operates for the years indicated:

	Office GFA sold (thousand sq.m.)						
	2002	2003	2004	2005	2006	2007	CAGR ⁽¹⁾ %
China	5,389.2	6,304.9	6,928.4	10,962.3	12,310.4	14,652.3	22.1
Fujian	311.9	346.4	218.8	210.5	410.3	801.9	20.8
Xiamen	57.2	119.9	88.8	75.1	261.0	700.2	65.0
Jiangsu	371.9	607.8	525.1	1,191.0	1,143.0	1,334.6	29.1
Nanjing	152.5	249.9	246.6	239.8	217.5	344.9	17.7
Wuxi	4.4	26.2	16.9	111.0	66.4	107.2	89.4
Yangzhou ⁽²⁾	—	—	—	—	—	—	—
Anhui	167.6	228.3	361.0	236.3	331.8	424.2	20.4
Hefei	44.8	95.9	215.8	142.1	223.9	369.2	52.5

Notes:

- (1) CAGR represents 2002 to 2007 period only.
(2) There is no data available for Yangzhou.

Sources: China Real Estate Statistical Yearbook and Wuxi Statistical Yearbook

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	Office GFA completed (thousand sq.m.)						CAGR ⁽¹⁾ %
	2002	2003	2004	2005	2006	2007	
China	9,715.0	10,771.4	10,346.0	14,167.0	13,937.1	15,450.2	9.4
Fujian	465.3	459.8	299.3	222.2	443.5	554.9	3.6
Xiamen	97.7	104.7	109.2	13.6	238.8	439.1	35.1
Jiangsu	630.6	733.9	634.2	1,189.8	1,159.9	1,325.5	16.7
Nanjing	189.2	246.9	279.5	43.4	233.6	308.8	16.0
Wuxi	31.6	24.7	40.4	242.6	20.3	174.2	40.7
Yangzhou ⁽²⁾	—	—	—	—	—	—	—
Anhui	275.4	361.7	576.0	377.9	338.9	477.3	11.6
Hefei	74.0	90.9	299.4	193.3	182.3	351.7	36.6

Notes:

(1) CAGR represents 2002 to 2007 period only.

(2) There is no data available for Yangzhou.

Sources: *China Real Estate Statistical Yearbook and Wuxi Statistical Yearbook*

Average selling price for office properties

During the period between 2002 and 2007, the average selling price for offices in China increased gradually, achieving a CAGR of approximately 14.9%. In 2007, the average selling price for office properties was approximately RMB8,667 per sq.m. The following table illustrates the average selling price for offices properties in China and regions in which our Group operates for the years indicated.

	Average selling price for office properties (RMB/sq.m.)						
	2002	2003	2004	2005	2006	2007	CAGR % ⁽¹⁾
China	4,336	4,196	5,744	6,923	8,053	8,667	14.9
Fujian	2,674	2,899	3,074	4,293	5,377	4,734	12.1
Xiamen	3,803	3,823	4,952	7,631	6,604	4,970	5.5
Jiangsu	3,547	4,136	5,195	5,216	5,247	7,190	15.2
Nanjing	5,085	5,813	7,391	7,399	8,307	11,860	18.5
Wuxi	3,397	4,120	2,310	5,018	8,339	9,933	23.9
Yangzhou ⁽²⁾	—	—	—	—	—	—	—
Anhui	1,462	2,212	3,097	3,663	3,572	3,998	22.3
Hefei	2,249	3,381	3,858	4,829	4,274	4,267	13.7

Notes:

(1) CAGR represents 2002 to 2007 period only.

(2) There is no data available for Yangzhou.

Sources: *China Real Estate Statistical Yearbook and Wuxi Statistical Yearbook*

Retail properties GFA completed and sold

From 2002 to 2007, the GFA of retail properties completed increased steadily while the GFA of retail properties sold grew at a relatively faster pace. For each of the years from 2003 to 2007, the GFA of retail properties completed was higher than the GFA of retail properties sold. However, with the exception of 2006, the difference between the GFA of retail properties completed and the GFA of retail properties sold was gradually becoming smaller. Due to the global economic crisis in 2008, there was a

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drop in both of these GFAs. In 2007, the GFA of retail properties completed was approximately 61.0 million sq.m., while the GFA of retail properties sold was approximately 46.4 million sq.m. The following tables illustrate (i) the retail GFA sold and (ii) the retail GFA completed, for China and the regions in which our Group operates for the years indicated:

	Retail GFA sold (million sq.m.)						CAGR % ⁽¹⁾
	2002	2003	2004	2005	2006	2007	
China	22.2	28.3	31.0	40.8	43.4	46.4	15.9
Fujian	1.1	1.0	1.0	1.2	1.4	1.6	7.8
Xiamen	0.3	0.3	0.3	0.3	0.3	0.2	-7.8
Jiangsu	1.8	2.6	3.1	4.4	5.9	5.9	26.8
Nanjing	0.2	0.2	0.4	0.2	0.4	0.3	8.4
Wuxi	0.1	0.2	0.4	0.4	0.9	0.8	51.6
Yangzhou ⁽²⁾	—	—	—	—	—	—	—
Anhui	0.8	1.5	2.0	1.8	2.2	2.4	24.6
Hefei	0.1	0.3	0.4	0.4	0.4	0.4	32.0

Notes:

- (1) CAGR represents 2002 to 2007 period only.
(2) There is no data available for Yangzhou.

Sources: *China Real Estate Statistical Yearbook and Wuxi Statistical Yearbook*

	Retail GFA completed (million sq.m.)						CAGR % ⁽¹⁾
	2002	2003	2004	2005	2006	2007	
China	35.7	48.3	49.5	58.9	62.9	61.0	6.0
Fujian	2.1	1.4	1.5	1.6	1.5	1.6	-5.3
Xiamen	0.3	0.4	0.5	0.4	0.2	0.3	0.0
Jiangsu	2.8	3.1	4.6	6.8	8.0	7.2	20.8
Nanjing	0.3	0.2	0.4	0.3	0.7	0.3	0.0
Wuxi	0.2	0.3	0.5	0.9	1.5	1.0	38.0
Yangzhou ⁽²⁾	—	—	—	—	—	—	—
Anhui	1.6	2.1	2.9	2.5	2.4	2.1	5.6
Hefei	0.2	0.4	0.5	0.6	0.5	0.3	8.4

Notes:

- (1) CAGR represents 2002 to 2007 period only.
(2) There is no data available for Yangzhou.

Sources: *China Real Estate Statistical Yearbook and Wuxi Statistical Yearbook*

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Average selling price for retail properties

During the period between 2002 and 2007, the average selling price for retail properties in China increased gradually, achieving a CAGR of approximately 10.6%. In 2007, the average price was approximately RMB5,774 per sq.m. During the period between 2002 and 2007 apart from Fujian Province, the CAGR of average selling price for retail properties of each of the provinces in which our Group operated was higher than that of China. The following table illustrates the average selling price for retail properties in China and the regions in which our Group operates for the years indicated:

	Average selling price for retail properties (RMB/sq.m.)						
	2002	2003	2004	2005	2006	2007	CAGR % ⁽¹⁾
China	3,489	3,675	3,884	5,022	5,247	5,774	10.6
Fujian	5,258	4,823	5,777	8,512	8,919	8,478	10.0
Xiamen	6,545	6,705	8,974	13,973	13,890	16,078	19.7
Jiangsu	3,065	3,487	4,512	5,180	5,402	5,832	13.7
Nanjing	4,087	5,356	6,794	9,161	6,929	8,469	15.7
Wuxi	3,416	5,297	4,973	5,412	5,735	5,731	10.0
Yangzhou ⁽²⁾	—	—	—	—	—	—	—
Anhui	2,172	2,455	2,803	3,488	3,714	4,331	14.8
Hefei	3,205	3,165	4,131	4,908	5,757	6,119	13.8

Notes:

- (1) CAGR represents 2002 to 2007 period only.
(2) There is no data available for Yangzhou.

Sources: *China Real Estate Statistical Yearbook and Wuxi Statistical Yearbook*

THE HOTEL INDUSTRY IN THE PRC

China's tourism and hotel industries have benefited from the strong economic growth in China, which has resulted in higher disposable incomes of urban households and a more affluent domestic customer base. In addition, the increased number of international travelers also contributed to the growth of China's tourism and hotel sectors. In 2008, there were 130.0 million inbound visitors to the PRC, including visitors from Hong Kong, Macau and Taiwan.

A more affluent domestic customer base is demonstrated by the growing number of domestic tourists. In 2008, there were approximately 1,710 million person visits. Tourism revenues have also grown in recent years, reaching RMB874.9 billion in 2008.

Both the number of inbound visitors and domestic tourists hit a low in 2003 during the Severe Acute Respiratory Syndrome (SARS) outbreak, but there has been consistent growth since then. From 2002 to 2008, the numbers of inbound visitors and domestic tourists achieved a CAGR of approximately 4.8% and 11.8%, respectively. Domestic tourism revenues showed a similar upward trend and achieved a CAGR of approximately 14.5% during the same period.

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The table below sets out the above-mentioned data from 2002 to 2008.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008⁽¹⁾</u>	<u>CAGR(%)</u>
Inbound visitors (millions)	97.9	91.7	109.0	120.3	124.9	131.9	130.0	4.8
Domestic tourists (million person visits)	878	870	1,102	1,212	1,394	1,610	1,710	11.8
Domestic tourism revenues (RMB billion)	387.8	344.2	471.1	528.6	623.0	777.1	874.9	14.5

Note:

(1) Provisional figures from China Statistical Announcement 2008

Source: China Statistical Yearbook 2006-2008

To accommodate the growing number of inbound visitors, the number of star-rated hotels in China increased from 8,880 in 2002 to 13,583 in 2007, reflecting a CAGR of approximately 8.9% during the period. The table below sets out the number of star-rated hotels and hotel rooms and the average occupancy rates in China from 2002 to 2008.

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>CAGR(%)⁽¹⁾</u>
Star-rated hotels	8,880	9,751	10,888	11,828	12,751	13,583	8.9
Hotel rooms (thousands)	897.2	992.8	1,237.9	1,332.1	1,459.8	1,573.8	11.9
Average occupancy rates (%)	60.2	56.1	60.6	61.0	61.0	61.0	0.3

Note:

(1) CAGR represents 2002 to 2007 period only.

Sources: China Tourism Statistical Yearbook 2003, 2005, 2006 and 2007, China Tourism Yearbook 2004 and 2008 and China Statistical Yearbook 2008

REGULATIONS

The following sets out summaries of certain aspects of PRC laws and regulations which are relevant to our Group's operations and business. These include laws and regulations relating to land, real property development, foreign investment in property development, foreign exchange control and taxation.

Government Policies to Stabilize the Property Market in the PRC

On August 12, 2003, the State Council published the *Notice by the State Council on Facilitating Sustained and Healthy Development of Real Estate Market* (《國務院關於促進房地產市場持續健康發展的通知》), which provides a series of measures to control the property market, including but not limited to increasing the supply of ordinary residential houses, controlling the construction of high-end commodity buildings, and strengthening the supervision of the real property administration. The purpose of the notice is to create a positive influence on the long-term development of the property market in China.

In order to stop illegal occupation and abusive use of land, prevent excessive investment in fixed assets in some areas, and implement strict protection of cultivated land, the General Office of the State Council issued the *Urgent Notice on Further Governing and Rectifying Land Market and Strengthening Administration of Land* (《關於深入開展土地市場治理整頓嚴格土地管理的緊急通知》) on April 29, 2004. The issues addressed in the notice including, (i) continuing the rectification of the land

market by cooperation between the Ministry of Land and Resources and other authorities on problems existing in the grant of State-owned land use rights for business use by way of tender, auction or listing-for-sale; (ii) strictly administering approvals of construction land; (iii) protecting basic agricultural land; (iv) strictly implementing the general strategy and annual plan for land use, and the balance system for occupying and compensating cultivated land; and (v) actively promoting the reform of the administration system of land and resources. Also, according to the notice, the rectification of the land market will take approximately half a year from the issuance of the notice. Approvals for converting agricultural land to non-agricultural construction land will be suspended throughout China during this period, except for certain major public infrastructure projects which shall be approved by the State Council.

On March 26, 2005, the General Office of the State Council promulgated the *Notice on Effectively Stabilizing House Prices* (《關於切實穩定住房價格的通知》) to restrain the excessive growth of house prices and promote the sound development of the property market. The notice provided that housing prices should be stabilized and the system governing housing supply should be vigorously adjusted and improved. In accordance with the notice, seven departments of the State Council issued the *Opinion on Duly Stabilizing the Prices of Residential Properties* (《關於做好穩定住房價格工作的意見》) on April 30, 2005. The opinion stated, among other things, that: (i) where the price of land for residential use and residential properties grows too fast, the proportion of land for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity buildings at medium or low price range and economical buildings should be emphatically increased. Land supply for villa construction shall be continuously suspended, and land supply for high-end housing property construction shall be restricted; (ii) to curb any speculation in the property market, business taxes would be levied from June 1, 2005 on the total revenue arising from any transfer by individuals of houses within two years upon their purchase thereof or on the difference between the transfer price and the original price for any transfer of non-ordinary houses (非普通住宅) by individuals after two or more years upon their purchase thereof, while business taxes would be exempted for the transfer of an ordinary residential property as stipulated by relevant PRC laws after two years from date of purchase; and (iii) the property registration authorities will no longer register the transfer of apartment units which have been pre-sold but have not obtained the relevant property ownership certificates.

On May 24, 2006, the General Office of the State Council further issued the *Opinions on the Adjustment of Housing Supply Structure and Stabilization of Housing Prices* (《關於調整住房供應結構穩定住房價格意見的通知》). The opinions provided for six broad measures including but not limited to the following specific directives to (i) encourage mass-market residential developments and to curb the development of high-end residential properties; (ii) enforce the collection of business taxes on property sales (as at June 1, 2006, business taxes will be levied on the entire sale price of any property sold within five years, or on the profit arising from any non-ordinary property sold after five years); (iii) restrict housing mortgage loan to not more than 70% of the total property price (for houses purchased for self-residential purposes and with an area of less than 90 sq.m., the owners are still able to apply for housing mortgage up to an amount representing 80% of the total property price); (iv) halt land supply for villa projects and restrict land supply for high-end, low density residential projects; (v) moderate the progress and scale of demolition of old properties for redevelopment; (vi) local governments are also required to ensure that at least 70% of the total development and construction area must consist of units of less than 90 sq.m. in size (with any exceptions requiring the approval of the Ministry of Construction); and (vii) banks are not permitted to

provide loans to a property developer whose total capital fund is less than 35% of the total investment amount in an intended development project. To the property developers with a large amount of idle land and vacant commodity buildings, commercial banks should restrict the grant or extension of revolving credit facilities in any form pursuant to the prudence principle. Commodity buildings which are vacant for more than 3 years should not be accepted as an object of pledge by the commercial banks.

On May 30, 2006, the Ministry of Land and Resources published the *Urgent Notice on Further Tighten up Land Administration* (《關於當前進一步從嚴土地管理的緊急通知》). In this notice, the Ministry of Land and Resources stressed that local governments must adhere to their annual overall land use planning and land supply plans and tighten up the control on land supply for non-agricultural use. The notice requires local governments to suspend the supply of land for new villa projects to ensure adequate supply of land for more affordable housing. In this notice, the Ministry of Land and Resources also requires the local governments to conduct thorough investigations of illegal land use and submit a report on such investigations to the Ministry of Land and Resources by the end of October 2006. The government authority should rigidly execute the “Form Text of the State-owned Land-Use Rights Grant Contract” (國有土地使用權出讓合同示範文本) and “Form Text of the State-owned Land-Use Rights Grant Supplementary Agreement (for Trial Implementation)” (國有土地使用權出讓合同補充協議示範文本 (試行)) jointly promulgated by the Ministry of Land and Resources and the SAIC. The documents of the land grant should ascertain the requirements of planning, construction and land use such as the restriction of the dwelling size, plot ratio, and the time limit for the commencement and completion of construction. All these should be set forth in the land use rights grant contract.

On July 6, 2006, the Ministry of Construction promulgated the *Certain Opinions Regarding the Implementation of the Ratio Requirement for the Structure of Newly Constructed Residential Units* (the “**Certain Opinions**”) (《關於落實新建住房結構比例要求的若干意見》). The Certain Opinions provide that as at June 1, 2006, as to the total area of the newly approved and newly commenced construction projects in each city including town and county in any given year, at least 70% of the total construction area must be used for building small apartments with unit floor area of 90 sq.m. or below (including economically affordable apartments). In the case of residential property projects that were granted approvals before June 1, 2006 but without a permit for commencement of construction works by that date, the relevant local governments should ensure that the prescribed residential property size ratio requirement is complied with.

On September 30, 2007, the Ministry of Land and Resources issued the *Notice on Implementation of the State Council’s Certain Opinions on Resolving Difficulties and Further Strengthening Macrocontrol of Land Supply* (《關於認真貫徹〈國務院關於解決城市低收入家庭住房困難的若干意見〉進一步加強土地供應調控的通知》) to further enhance the control of land supply, which stipulates that the supply of the land to be developed for low-rent housing, economical housing and housing at low or medium price and of small or medium size shall be no less than 70% of the total land supply of the current year. The land resources authorities shall control the area of each parcel of land and increase the number of parcels of land to be supplied, in order to prevent the competition of land by property developers. Property developers shall develop their land according to the terms of the relevant land use rights grant contract, and any violation thereof may restrict or prevent such property developers from participating in future land bidding. Generally, the development period of each parcel of land shall not exceed three years.

In order to control the land market and promote reasonable land utility, the Ministry of Land and Resources, the Ministry of Finance and the PBOC jointly promulgated the *Administration Measures on Land Reserve* (《土地儲備管理辦法》) on November 19, 2007, which regulates the earlier stage land development and land reserve by land reserve entities which are affiliates of the land resources authorities at city or county level, before the land resources authorities grant land according to relevant laws and regulations. The enterprises shall be elected through public tender to conduct the earlier stage land development involving road development, supply of water, power and gas, telecommunications, lighting, landscaping and land leveling etc. according to applicable laws and regulations.

On January 3, 2008, the State Council of China issued the Notice on Promoting the Saving and Intensification of Use of Land (the “**State Council Notice**”) (《國務院關於促進節約集約用地的通知》國發[2008]3號). The State Council Notice stipulates that the enforcement measures in respect of idle land must be implemented strictly. Pursuant to the State Council Notice, (i) for any idle land without commencement of construction for more than two years, the local government should, if required under PRC law, order forfeiture of such idle land without any compensation, or take other actions to fully utilize such idle land, and (ii) for any idle land without commencement of construction for no less than one year (but less than two years), the local government should levy certain idle land fees on idle land, especially in the case of land used for property development, the amount of which shall be equal to 20% of the land use rights grant premium paid for such idle land. The department of finance and taxation shall implement and perfect the tax policy of encouraging economical and intensive land use strictly. The Ministry of Land and Resources and concerned departments shall study and formulate specific measures for enactment and registration of the land space rights timely. In addition, the State Council Notice provides, among other things, the following: transfer of land use rights for commercial use must be conducted through the public bidding and auction process; no provision of land for villa property development projects; regarding provision of land for residential property development projects, certain provisions must be inserted into land use rights grant contracts to ensure that no less than 70% of the total GFA of such granted land (for residential property development) be used for construction of economic lease housing (廉租房), economic use housing (經濟適用房), price-limit housing (限價房) and small and medium normal commercial housing (with each unit of no more than 90 sq.m.) (90平方米以下中小套型普通商品房). Moreover, financial institutions are urged (i) not to provide financing to illegal property development projects, and (ii) to take precautionary measures in determining whether to provide financing to those property development projects which, upon one year after such construction commencement date as stipulated in the relevant land use rights grant contracts, have only completed less than one-third of the approved land development area or have only invested less than one-fourth of the approved total investment.

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

- (i) For first-time home buyers of ordinary residential property with a unit floor area of less than 90 sq.m., the deed tax has been lowered from the original tax rate (which varies from

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province to province) to 1%, and the certification for the first home buying will be issued by the local housing and construction authorities at county or district level;

- (ii) The stamp duty is exempted for individual residential property purchases or sales; and
- (iii) Land Appreciation Tax is exempted for individual residential property sales.

On December 20, 2008, the General Office of the State Council promulgated the Several Opinions Concerning Boosting Healthy Development of the Real Estate Market (《關於促進房地產市場健康發展的若干意見》). The opinions stated incentives to build more houses for low-income urban families, encourage purchasing of ordinary residential properties, support real estate developers to actively deal with the changing market, enhance the responsibility of local governments in stabilizing the real estate market, and improve surveillance on the real estate market. The relevant policies are as follows:

- (i) The government will allow people with smaller-than-average apartments to buy a second apartment using commercial loans on the same preferential terms as applied when they bought the first apartment;
- (ii) Business tax shall be exempted if the property owners of ordinary residential property sell the property after two years from the purchase. Previously, they had to wait at least five years before selling houses tax-free. If they sell their properties within two years from the purchase, owners only have to pay business taxes levied on the profit, not on the sales price. The same principle applies to property owners of non-ordinary residential property who sell the property after two years from the purchase, in which case they only have to pay business taxes levied on the profit, and not the sales price. Previously, this time limit was five years. The abovementioned policies are tentatively effective till December 31, 2009;
- (iii) The government will support developers' reasonable financing needs, and increase credit help for developers of low-price units catering to low-income groups; and
- (iv) The urban real estate tax will be abolished and the Provisional Regulations of the People's Republic of China on Real Estate Tax (《中華人民共和國房產稅暫行條例》) shall be applicable to all domestic enterprises, foreign-invested enterprises and individuals.

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

State Council Fiscal Stimulus Measures and Easing of Benchmark Lending Rate by the PBOC

In response to the current global economic downturn and corresponding decline in the rate of growth of the PRC economy, the PRC Government has adopted increasingly flexible macroeconomic policies, including an announced fiscal stimulus package, aimed at offsetting the slowdown resulting from the global economic downturn and deterioration in the global credit markets. These policies

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include measures specifically designed to encourage development of the domestic property market. This represents a reversal of policies implemented since 2003 which were designed to control perceived overinvestment in the real property market.

Beginning in October 2008, the PBOC announced a series of measures to ease conditions in the credit markets and support the residential housing market. These include the following:

- reducing housing down-payment requirements from 30% to 20% and reducing mortgage rates to bolster the residential property market;
- reducing (1) one-year lending and deposit rates by 1.08%, to 5.58% and 2.52%, respectively, effective November 27, 2008, and (2) large and small to medium bank deposit ratios by 1% and 2%, respectively, effective December 1, 2008;
- setting new preferential lending rates for low-cost housing projects that are 10% below the benchmark rates; and
- reducing base lending and deposit rates by 0.27 percentage points, effective as at December 23, 2008.

Beginning in November 2008, the State Council has also announced a series of measures to stimulate the economy. These include the following:

- On November 9, 2008, the State Council announced a RMB4 trillion (US\$584 billion) economic stimulus plan, RMB120 billion (US\$17.5 billion) of which was to be spent by year end.
- On November 10, 2008, the State Council announced a value-added tax reform, shifting the basis from production to consumption, and effectively reducing the value-added tax rates, effective January 1, 2009.
- On November 26, 2008, the State Council announced six policies for economic stimulus, including plans to support the rail, auto, shipbuilding, logistics, petrochemical, light industry, textile, nonferrous metals, equipment manufacturing, and electronics and information technology industries.
- On December 3, 2008, the State Council announced an additional RMB100 billion (US\$14.6 billion) of lending by PRC policy banks prior to year-end.
- On December 8, 2008, the State Council issued the Opinions on Finance to Boost the Economic Development (《國務院辦公廳關於當前金融促進經濟發展的若干意見》), which provides that relevant credit policies and measures shall be stipulated and performed to support first-time home buyers' purchases of ordinary residential properties and second-time home buyers' purchases of ordinary residential properties for improvement, experiments of real estate investment trusts may be carried out, and the financing channels for real estate developers shall be broadened.
- On December 13, 2008, the State Council announced 30 measures to support the financial industry, including raising China's total money supply by 17% in 2009.

- On December 21, 2008, the State Council announced an exemption on real estate sales taxes to homeowners selling homes after an ownership period of two years, lowered from a previous minimum of five years.

SAFE Regulations

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange control and is not freely convertible into foreign exchange at this time. The SAFE is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to December 31, 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currency was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currency through the Bank of China or other designated banks. Such conversion had to be effected at the official rate prescribed by SAFE on a daily basis. Renminbi could also be converted into foreign currency at swap centres. The exchange rates used by swap centres were largely determined by the demand for, and supply of, the foreign currency and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currency at a swap centre had to obtain the prior approval of the SAFE.

On December 28, 1993, PBOC, under the authority of the State Council, promulgated the *Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System* (《中國人民銀行關於進一步改革外匯管理體制的公告》), effective from January 1, 1994. The notice announced the abolition of the foreign exchange quota system, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centres. On March 26, 1994, the PBOC promulgated the *Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange* (《結匯、售匯及付匯管理暫行規定》), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which is determined by demand and supply of Renminbi. Pursuant to such systems, the PBOC sets and publishes the daily Renminbi-US dollar exchange rate. Such exchange rate is determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. Also, the PBOC, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major foreign currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the rate announced by the PBOC.

According to the *Regulations for the Control of Foreign Exchange* (《中華人民共和國外匯管理條例》) promulgated by the State Council on January 29, 1996 and as amended on January 14, 1997 and August 1, 2008, all international payments and transfers are classified into

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current account items and capital account items. Transactions under current account items are no longer subject to SAFE approval while transactions under capital account items still are.

On June 20, 1996, the PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (《結匯、付匯及售匯管理規定》) which became effective on July 1, 1996. The Settlement Regulations superseded the Provisional Regulations and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On July 21, 2005, the PBOC announced that, beginning from July 21, 2005, China will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC will announce the closing price of a foreign currency such as the US dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each business day, setting the central parity for trading of the Renminbi on the following business day.

Enterprises in China (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, upon presentation of valid receipts and proof. Foreign-invested enterprises which need foreign currencies for the distribution of profits to their shareholders, and Chinese enterprises which, in accordance with regulations, are required to pay dividends to shareholders in foreign currencies, may with the approval of board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or its competent branch.

In January and April 2005, SAFE issued two regulations that require PRC residents to register with and receive approvals from SAFE in connection with their offshore investment activities. SAFE also announced that the purpose of these regulations is to achieve the proper balance of foreign exchange and the standardization of all cross-border flows of funds.

On October 21, 2005, SAFE issued the *Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies* (《國家外匯管理局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》) which became effective as at November 1, 2005. The notice replaced the two regulations issued by SAFE in January and April 2005 mentioned above. According to the notice, “**special purpose company**” refers to the offshore company established or indirectly controlled by the PRC residents for the special purpose of carrying out financing with their assets or equity interest in PRC domestic enterprise. Prior to the establishing or assuming control of such 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. As a result, PRC residents who have established or acquired control of such offshore companies that have made

onshore investments in the PRC in the past are required to complete the relevant overseas investment foreign exchange registration procedures by March 31, 2006.

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

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

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

Laws and Regulations Related to Taxation Policies with Regard to Real Estate Transactions

Income Tax

According to the *PRC Income Tax Law 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》) promulgated by the National People's Congress on April 9, 1991 and implemented on July 1, 1991 and its detailed rules promulgated by the State Council on June 30, 1991, the income tax on enterprises with foreign investment should be computed on the taxable income at the rate of 30%, and local income tax should be computed on the taxable income at the rate of 3%, whereas foreign-invested productive enterprises established in special economic zones (including the Xiamen Special Economic Zone) should be applicable to a preferential income tax rate of 15%. 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

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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 Ministry of Finance on February 4, 1994, the income tax rate applicable to Chinese enterprises other than foreign-invested enterprises and foreign enterprises was 33%.

Under the *Approval on Construction of Xiamen Special Economic Zone* (《對福建省關於建設廈門經濟特區的批復》), enterprises established within the Xiamen Economic Special Zone should be applicable to a preferential income tax rate of 15%.

According to the *New PRC Enterprise Income Tax Law* (《中華人民共和國企業所得稅法》) (the “**EIT Law**”), 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 investment and foreign enterprises which have set up institutions or facilities in the PRC as well as PRC enterprises. The EIT Law supersedes the *PRC Income Tax Law 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》) and the *PRC Provisional Regulation on Enterprise Income Tax* (《中華人民共和國企業所得稅暫行條例》). 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 EIT 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 the PRC, unless there exists a tax treaty between the PRC and the relevant jurisdictions in which such non-PRC enterprise shareholders reside whereupon the relevant tax may be reduced or exempted. In accordance with the EIT Law and the *PRC Implementation Rules on the Enterprise Income Tax Law* (《中華人民共和國企業所得稅法實施條例》) 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 EIT 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 transit 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 Preferential Policies for the Enterprise Income Tax* (《關於實施企業所得稅過渡優惠政策的通知》), under which, 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%, respectively, in 2008, 2009, 2010, 2011 and 2012.

Business Tax

Business tax is payable in respect of certain business activities in China as set out in the *Provisional Regulations 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 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 activities to which the business tax applies include construction, leases and sales of real estate properties in China. The tax is a turnover tax charged on gross revenue. No deduction of the tax incurred on purchased services or materials is allowed. However, deductions from gross revenue are allowed for subcontracting fees paid among the transportation, tourism and construction industries. The rate of business tax payable for property sale and leasing transactions is 5% of the proceeds from the sale or leasing of real estate/immovable properties in China.

Land Appreciation Tax

According to the requirements of the *Provisional Regulations of the People's Republic of China on Land Appreciation Tax* (the “**LAT Provisional Regulations**”) (《中華人民共和國土地增值稅暫行條例》) 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 “**LAT 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:

- (i) land acquisition costs;
- (ii) costs related to the development of land, new buildings and related facilities;
- (iii) expenses, including finance costs and selling and general administrative expenses, of the land development and project construction, the total of which is capped at 10% of the aggregate of (i) and (ii) above;
- (iv) the appraised price of any existing buildings and structures above ground;
- (v) taxes related to the transfer of the real property; and
- (vi) for taxpayers that are real property developers, a further deduction which is equal to 20% of the aggregate of (i) and (ii) above.

According to the requirements of the LAT Provisional Regulations, the LAT 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 SAT on January 27, 1995, LAT shall be exempted under any of the following circumstances:

- (i) taxpayers construct ordinary standard residences for sale (i.e. the residences built in accordance with the local standard for general civilian used residential properties. Deluxe

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apartments, villa, resorts etc. are not under the category of ordinary standard residences.) and the appreciation amount does not exceed 20% of the sum of deductible items;

- (ii) property is taken back and repossessed according to laws due to the construction requirements of the State;
- (iii) 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;
- (iv) transfers of real properties under property transfer contracts signed before January 1, 1994, regardless of when the properties are transferred; and
- (v) 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 before January 1, 1994, 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 property projects which are approved by the government for the development of the whole lot 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 SAT 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 LAT exemption policy as mentioned in paragraph (v) above to the end of 2000.

After the issuance of the LAT Provisional Regulations and the LAT Detailed Implementation Rules, due to the longer period for property development and transfer, many districts, while they were implementing the regulations and rules, did not force the property development enterprises to declare and pay the LAT. Therefore, the Ministry of Finance, the SAT, the Ministry of Construction and the Ministry of Land and Resources had separately and jointly issued several notices to restate the following: after the property transfer contracts are signed, the taxpayers shall declare the tax to the local tax authorities where the properties are located, 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 SAT also issued the *Notice on Serious Handling of Administration of the Collection of Land Appreciation Tax* (《國家稅務總局關於認真做好土地增值稅徵收管理工作的通知》) on July 10, 2002 to request local tax authorities to modify the management system of LAT collection and operation details, to build up a sound taxpaying declaration system for LAT, to modify the methods of pre-levying. The notice also pointed out that either for the properties development contract which were signed before

January 1, 1994 or where the project proposal has been approved and capital was injected for development before January 1, 1994, the privilege 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 of State on Further Strengthening of Administration Work in Relation to the Collection of Land Use Tax in Cities and Towns and Land Appreciation Tax* (《國家稅務總局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 on August 5, 2004 by the SAT. This notice as well as the *Notice on Strengthening of Administration of the Collection of Land Appreciation Tax* (《國家稅務總局關於加強土地增值稅管理工作的通知》) required that the system of tax declaration and tax sources registration in relation to the LAT should be further established and perfected.

On March 2, 2006, the Ministry of Finance and SAT 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 residential housing built by taxpayers as well as in the transfer of ordinary residential houses by individual residents

The notice sets out the standards for ordinary residential houses. Where any developers build ordinary residential houses as well as other commercial houses, the appreciation amount of land shall be verified separately. Before the day when this notice is publicized, as to any application for tax exemption for ordinary standard residential houses that has been filed to the tax authority at the locality of the property, especially any ordinary standard residential houses which have been exempted from LAT upon examination by the tax authority according to the then standards for ordinary standard residential houses as determined by the people's government of a Province, autonomous region or municipality directly under the Central Government, no adjustment shall be retroactively made.

- (ii) as to the advance collection and settlement of LAT
 - (a) 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 residential houses, non-ordinary residential houses and commercial houses. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment refunded or any underpayment being made up;
 - (b) as to any tax that fails to be collected in advance within the advance collection term, the overdue fines shall be collected as at the day following the expiration of the prescribed advance collection term according to the relevant provisions of the Tax Collection and Administration Law as well as its detailed rules for implementation;
 - (c) 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

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from the transfer of property and the amount under the item of deduction. The specific method of settlement shall be prescribed by the local tax authority of a Province, autonomous region or municipality directly under the Central Government, or a city under separate state planning; and

- (iii) as to the tax collection and exemption for investment or association by means of the property. As to any investment or association by using land (property) as payment for the purchase of shares, where an enterprise involved in the investment or association engages in the property development or where any other property development enterprise makes investment or conducts association with the commercial houses it builds itself, 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 SAT issued the *Notice on the Relevant Issues on the Settlement Management of Land Appreciation Tax on Real Estate Enterprise* (《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 circular, a property developer shall settle and clear the LAT payment of its development projects under certain circumstances 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. LAT must be settled if (i) the property development project has been completed and fully sold; (ii) the property developer transfers the whole incomplete development project; or (iii) the land-use rights with respect to the project is transferred. In addition, the relevant tax authorities may require the developer to settle the LAT if one of the following events occurs: (i) for completed property development projects, the transferred GFA represents more than 85% of total saleable GFA, or where the proportion represented is less than 85%, the remaining saleable GFA has been leased out or used by the developer; (ii) sales have not been completed for more than three years after a sale or pre-sale permit has been granted; (iii) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (iv) other conditions stipulated by the tax authorities at provincial levels.

This notice also indicated that, under any of the following circumstances, the tax authorities shall levy and collect LAT upon a property developer as per the levying rate no lower than the pre-payment rate with reference to the bearing rate of LAT of local enterprises with a similar development scale and income level: (i) failure to maintain account book required by law or administrative regulation; (ii) destroying the account book without authorization or refusing to provide taxation information; (iii) the accounts are in a state of mess or cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine transferred income or amount of deductible items; (iv) failure to go through LAT settlement within the prescribed period, and such failure is not cured within the period required by the relevant tax authorities; or (v) the basis for tax calculation as submitted is obviously low without justifiable cause. Local provincial tax authorities at provincial levels can formulate their own implementation rules according to the notice and local situation.

On December 18, 2005, the *People's Government of Xiamen issued the Approval on Starting Imposing Land Appreciation Tax of Xiamen* (《廈門市人民政府關於開徵我市土地增值稅的批復》) under which LAT shall be applicable to any entity or individual engaging in development, sale and transfer

of properties to gain appreciation in Xiamen as at January 1, 2006 in accordance with the LAT Provisional Regulations. According to this Approval, a prepaid LAT rate of 0.5% shall be applicable to the proceeds from the sale of ordinary standard residences, and a rate of 1% shall apply to the proceeds from the sale of properties other than ordinary standard residences. Pursuant to the *Notice on Adjusting the Prepaid Land Appreciation Tax Rate of Xiamen* (《關於調整我市土地增值稅預征率的通知》) issued by the local taxation bureau of Xiamen on April 15, 2008, for property projects conducted on the land acquired by means other than public tender, auction, or listing-for-sale, prepaid LAT rate of 3% and 5% shall be applicable to residential properties and villa respectively, while commercial business housings, office buildings, and other property projects shall be subject to the rate of 4% since April 1, 2008; for property projects of which 85% or more of the total saleable GFA has been sold before January 1, 2006, prepaid LAT rate of 3%, 4% and 5% shall be applicable to the remaining residential, commercial and villa part respectively, and the settlement of LAT may not be required; for property projects of which sold GFA before January 1, 2006 is less than 85% of the total saleable GFA, the gains from the sale of the remaining part shall be settled in accordance with the Circular on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises.

Real Estate Tax

Under the Provisional Regulations of the *People's Republic of China on Real Estate Tax* (《中華人民共和國房產稅暫行條例》) promulgated by the State Council on September 15, 1986 and implemented on October 1, 1986, urban real estate 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 income.

Deed Tax

Pursuant to the *Provisional regulations of the People's Republic of China on Deed Tax* (《中華人民共和國契稅暫行條例》) enacted by the State Council on July 7, 1997 and enforced on October 1, 1997, the transferee, whether an entity or individual, of the title to a land site or building in the PRC shall have to pay deed tax. The rate of deed tax is 3%-5%. The governments of Provinces, autonomous regions and municipalities directly under the central government may, within the foresaid range, determine and report their effective tax rates to the Ministry of Finance and the SAT for the record.

Stamp Duty

Persons who have executed or received dutiable documents within China are subject to stamp tax according to the *Provisional 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. Dutiable documents include contracts or documents of a contractual nature for the sale of goods, the undertaking of processing work, the contracting of construction and engineering projects, the leasing of property and technology, as well as transfer of property. Stamp tax shall be paid at the rate of 0.05% in respect of transfer of properties based on the contractual price and at the rate of 0.1% of the total rent amount in respect of the leasing of properties.

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 RMB0.2 and RMB10 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* (《關於外商投資企業征免土地使用稅問題的批復》) issued by the SAT 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 at January 1, 2007, land use tax shall be paid by foreign-invested enterprises. The annual tax on every square meter of urban land shall be between RMB0.6 and RMB30.0.

Municipal maintenance tax

Under the *Provisional 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》) issued by the SAT on February 25, 1994, the municipal maintenance tax shall not be applicable to foreign-invested enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

Laws and Regulations on Residential Mortgages for First Time Home Buyers

On October 22, 2008, the PBOC announced the Measures to Lower House Mortgage Rates and Encourage the First-time Purchase of Ordinary Residential Properties (《擴大商業性個人住房貸款利率下浮幅度、支援居民首次購買普通住房》). According to the measures, effective as at October 27, 2008, the minimum mortgage loan rates can be as low as 70% of the benchmark lending rates for house mortgage loans and the minimum down payment ratio is lowered from the original minimum down payment ratio (which varies according to first-time or second-time purchase and to size of property in terms of square meters) to 20%. Financial institutions shall determine the lending interest rates and the down payment ratios taking various factors into consideration including, without limitation to, whether the buyer is a first-time buyer, whether the property is to be self-used by

the buyer, whether the property is ordinary residential property, the home buyer's credit records and repayment capability. For people buying their first self-use home of ordinary residential property or buying self-use ordinary residential property for improvement, financial institutions shall support the buyers' loan demands at the favorable lending interest rates and down payment ratios, and shall appropriately raise the standards of lending for purchase of properties not for self-use or those other than ordinary residential properties.

Laws and Regulations on Foreign Investment in Real Estate Development

According to the *Foreign Investment Industrial Guidance Catalogue* (《外商投資產業指導目錄》) (the “**Catalogue**”) promulgated by the MOC and the National Development and Reform Commission (the “**NDRC**”) on October 31, 2007 and effective on December 1, 2007, the real estate development business falls within the category of industry in which foreign investment is permitted, except that the development of a whole land lot which shall be operated only by Sino-foreign equity joint ventures or Sino-foreign cooperative joint ventures, the construction and operation of high-end hotels, villa premium office buildings and international conference centres, property transactions in secondary market and real estate intermediaries fall within the category of industries in which foreign investment is subject to restrictions. A foreign-invested real estate development enterprise can be established in the form of Sino-foreign equity joint venture, Sino-foreign cooperative joint venture or wholly owned enterprise by foreign investors. Prior to its registration, the enterprise must be approved by the commerce authorities, upon which an Approval Certificate for a Foreign-Invested Enterprise (外商投資企業批准證書) will be issued.

On July 11, 2006, the Ministry of Construction, the MOC, the NDRC, the PBOC, the SAIC and the SAFE jointly promulgated the *Opinion on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market* (《關於規範房地產市場外資准入和管理的意見》). According to this opinion, the admittance and administration of foreign capital in the real estate market must comply with the following requirements:

- (i) foreign institutions or individuals who buy property not for their own use in China should follow the principle of “commerce existence” and apply for the establishment of foreign-invested enterprises pursuant to the regulations of foreign investment in property. After obtaining the approvals from relevant authorities and upon completion of the relevant registrations, foreign institutions and individuals can then carry on their business pursuant to their approved business scope;
- (ii) foreign investors may not carry out property development and operation business until they obtain the Approval Certificates for a Foreign-invested Enterprise and business licenses from relevant authorities;
- (iii) 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;
- (iv) for establishment of a foreign-invested real estate enterprise, the commerce authorities and the administration for industry and commerce authorities shall be responsible for the

approval and registration of the foreign-invested real estate enterprise and the issuance of a temporary approval certificate for a foreign-invested enterprise (which is only effective for one year) and a temporary business license. Upon full payment of the land grant fee for the land-use rights, the foreign-invested real estate enterprise should apply for the land use rights certificates. With such land use rights certificates, it can obtain a formal Approval Certificate for a Foreign-Invested Enterprise from the commerce authorities and a formal business license with the same approved business term as the formal Approval Certificate for Foreign-Invested Enterprise;

- (v) transfers of projects or equity interests in foreign-invested real estate enterprise (“**FIREE**”) or acquisitions of domestic real estate 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 fulfillment of the State-owned land use rights grant contract, planning permit for construction land and planning permit for construction works; (b) land use rights certificates; (c) documents evidencing the filing for modification with the construction authorities; and (d) documents evidencing the payment of tax from the relevant tax authorities;
- (vi) when acquiring domestic real estate enterprises by way of share transfer or otherwise or purchasing shares from Chinese parties in Sino-foreign equity joint ventures, foreign investors should make proper arrangements for the employees, handle the debts of the banks and pay the consideration in one single payment with its own capital. Foreign investors with unsound records shall not be allowed to undertake the aforementioned activities; and
- (vii) offshore entities without an onshore branch or representative agency, or foreign individuals who have studied or worked in the PRC for less than one year, are not allowed to purchase commercial properties and commercial properties.

On August 14, 2006, the General Office of MOC enacted the *Notice on Relevant Issues Concerning the Carrying out Circular on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate 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 real estate development enterprise exceeds US\$3 million, the registered capital must not be less than 50% of the total investment; if the total investment is less than or equal to US\$3 million, the registered capital must not be less than 70% of the total investment. When a foreign investor who merges with a domestic real estate development enterprise by way of, among others, transferring equity or purchasing equity from other Chinese shareholders of a foreign-invested real estate development enterprise, the original employees of the merged companies must be arranged properly, bank debts must be settled and the entire consideration for the transfer must be paid off within three months respectively after the earlier of the issue of the business license or the effective day of the equity transfer agreement.

On September 1, 2006, SAFE and the Ministry of Construction jointly issued the *Notice on Regulating Issues Relating to Administration of Foreign Exchange in Real Estate Market* (《關於規範房地產市場外匯管理有關問題的通知》). The notice provides: (i) where a foreign-invested real estate enterprise fails to pay the registered capital in full or to acquire a state-owned land use rights certificate or to make its capital fund for a development project reach 35% of the total investment to

the project, the foreign exchange bureau will not process its foreign debt registration or approve its settlement of foreign currencies; (ii) where a foreign institution or individual acquires a domestic property enterprise, if it (he) fails to pay the transfer price in a lump sum by its (his) own fund, the foreign exchange bureau will not process the registration of foreign exchange income derived from transfer of equities; (iii) the domestic and foreign investors of a foreign-invested real estate enterprise shall not reach an agreement containing any clause which promises a fixed return or fixed revenue in any disguised form to any party, otherwise the foreign exchange bureau will not process the foreign exchange registration or registration modification of foreign-invested enterprise; and (iv) the fund in the foreign exchange account exclusive for foreign investor opened by a foreign institution or individual in a domestic bank shall not be used for property development or operation. The notice also provides for foreign exchange working process related to branches of overseas institutions established within the PRC, overseas individuals, Hong Kong, Macao or Taiwan residents and overseas Chinese purchasing or selling commodity properties within the PRC.

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

- (i) foreign investment in the real estate sector in the PRC relating to high-end properties should be strictly controlled;
- (ii) before obtaining approval for the setup of real estate entities with foreign investment, (a) both the land use rights certificates and housing ownership right certificates should be obtained or, (b) contracts for obtaining land use rights or housing ownership rights should be entered into;
- (iii) entities which have been set up with foreign investment need to obtain approval before they expand their business operations into the real estate sector and entities which have been set up for real estate development operation need to obtain new approval in case they expand their real estate business operations;
- (iv) acquisitions of real estate entities and foreign investment in real estate sector in a way of round trip investment should be strictly regulated. Foreign investors should not avoid approval procedures by changing actual controlling persons;
- (v) parties to real estate entities with foreign investment should not in any way guarantee a fixed investment return;
- (vi) registration shall be immediately effected according to applicable laws with the MOC regarding the setup of real estate entities with foreign investment approved by local PRC government authorities;
- (vii) foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not effectuate foreign exchange settlements regarding capital account items to those which fail to file with the MOC or fail to pass the annual reviews; and

- (viii) for those real estate entities, which are wrongfully approved by local authorities for their setups, (a) the MOC should carry out investigation, order punishment and corrections, and (b) foreign exchange administrative authorities should not carry out foreign exchange registrations for these real estate entities.

On July 10, 2007, the SAFE issued the *Circular of the General Affairs Department of SAFE on the Distribution of the List of the First Batch of Foreign-Invested Real Estate Projects Filed with the Ministry of Commerce* (《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》). This new regulation restricts the ability of foreign-invested real estate companies to raise funds offshore and then inject funds into the companies either through capital increase or by way of shareholder loans. The notice stipulates that, among other things:

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

Notice Related to Examination and Approval of Land Use in Urban Construction

According to the “Notice of the Ministry of Land and Resources on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction” enacted by the Ministry of Land and Resources on September 4, 2003 (the “**Notice**”), commencing from the day of distribution of the Notice, land use for luxurious commodity houses shall be stringently controlled, and applications for land use for building villas shall be stopped.

Notice on Financially Promoting the Saving and Intensification of Use of Land

On July 29, 2008, PBOC and CBRC jointly promulgated a *Notice on Financially Promoting the Saving and Intensification of Use of Land* (《關於金融促進節約集約用地的通知》). According to the notice, no loan shall be granted to the projects that violate the city planning or illegally use land. No loan shall be granted to real estate developers for the purpose of paying land premium. Loans must be prudently granted to those projects that, after one year as at the commencement date as set forth in the land use rights grant contracts, the area of land construction is less than one third of the total area to be developed and the invested amount is less than 25% of the total amount of investment. In addition, the renewal of such loans or revolving credit line shall be strictly controlled. Neither real estate loan nor any other loan guaranteed by land mortgage shall be granted to those projects of which the land is idle for more than two years.