

INDUSTRY OVERVIEW

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MACRO-ECONOMIC CONDITIONS IN THE PRC

GDP and per capita GDP

Since China's adoption of the open door policy in 1978, it has experienced significant economic growth, which has been driven further by its accession to the WTO in 2001. For instance, China's GDP increased from RMB15,987.8 billion in 2004 to approximately RMB30,067.0 billion in 2008, representing a CAGR of approximately 17.1%, and made China one of the fastest growing economies in the world. In line with its GDP growth, China's per capita GDP also rose from RMB12,335.6 in 2004 to RMB22,698.0 in 2008, representing a CAGR of 16.5%. Fujian, Shanxi and Guangdong provinces and Beijing, the regions where our business and developments are located, have also experienced relatively high GDP and per capita GDP growth from 2004 to 2008. For each of the years between 2004 and 2008, the total GDP of the aforementioned regions contributed approximately 21% to 22% of China's total GDP. In addition, the average per capita GDP of such regions surpassed that of the national average for each of the years from 2004 to 2008. The tables below display the GDP and per capita GDP data for China and the aforementioned regions for the years indicated:

GDP (in RMB billions)

	2004	2005	2006	2007	2008	CAGR (2004-2008)
China — Total	15,987.8	18,321.8	21,192.4	25,730.6	30,067.0	17.1%
Fujian Province	576.3	656.9	761.5	924.9	1,082.3	17.1%
Beijing	606.0	688.6	786.1	935.3	1,048.8	14.7%
Shanxi Province	357.1	418.0	475.3	573.3	693.9	18.1%
Guangdong Province	1,886.5	2,236.7	2,620.4	3,108.4	3,569.6	17.3%
Total^(a)	3,426.0	4,000.1	4,643.3	5,542.0	6,394.6	16.9%
% of China — Total	21.4%	21.8%	21.9%	21.5%	21.3%	

(a) Total of Fujian Province, Beijing, Shanxi Province and Guangdong Province

Sources: CEIC

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Per capita GDP (in RMB)

	2004	2005	2006	2007	2008	CAGR (2004-2008)
China	12,335.6	14,053.0	16,165.0	19,524.0	22,698.0	16.5%
Fujian Province	16,469.0	18,645.8	21,471.0	25,908.0	30,123.0	16.3%
Beijing	41,099.0	45,443.7	50,467.0	58,204.0	63,029.0	11.3%
Shanxi Province	10,742.0	12,495.0	14,123.0	16,945.0	20,398.0	17.4%
Guangdong Province	20,870.0	24,435.0	28,332.0	33,151.0	37,589.0	15.9%
Average^(a)	22,295.0	25,254.9	28,598.3	33,522.0	37,784.8	14.1%

(a) Average of Fujian Province, Beijing, Shanxi Province and Guangdong Province

Sources: CEIC

The global economic crisis in the fourth quarter of 2008 has caused a slowdown in global capital and credit markets and the world economy generally, which in turn affected the domestic economy in the PRC, in particular, the economies in coastal provinces such as Fujian Province due to a decrease in demand for overseas exports. In view of the impact on the PRC economy caused by the global economic crisis, the PRC Government adopted a two-year, RMB4 trillion economic stimulus plan in November 2008, much of which was expected to be spent to finance programs in major areas such as basic infrastructure and residential housing. Since then, the PRC stock market has rebounded positively, with stock prices of real estate, construction materials, steel, machinery and coal companies having generally increased. In addition, the stimulus plan boosted domestic investment and consumption in the PRC, leading to a GDP of RMB13,986.2 billion for the first half of 2009.

Annual urban disposable income

Amidst strong GDP growth, annual urban disposable income in China grew rapidly during the period from 2004 to 2008, reflecting a nationwide CAGR of approximately 13.8% during this period. The annual disposable income per capita for urban households in China increased from RMB9,421.6 in 2004 to RMB15,780.8 in 2008, implying increased purchasing power for urban households throughout China. This trend is also reflected in Fujian, Shanxi and Guangdong provinces as well as Beijing, where our business and projects are primarily based, with the regional average annual urban disposable income

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exceeded that of the national average for each of the years from 2004 to 2008. The following table illustrates the per capita annual disposable income for urban households in China and the aforementioned regions:

Per capita annual urban disposable income (in RMB)

	2004	2005	2006	2007	2008	CAGR (2004-2008)
China	9,421.6	10,493.0	11,759.5	13,785.8	15,780.8	13.8%
Fujian Province	11,175.4	12,321.3	13,753.3	15,506.1	17,961.5	12.6%
Beijing	15,637.8	17,653.0	19,977.5	21,988.7	24,724.9	12.1%
Shanxi Province	7,902.9	8,913.9	10,027.7	11,565.0	13,119.1	13.5%
Guangdong Province	13,627.7	14,769.9	16,015.6	17,699.3	19,732.9	9.7%
Average^(a)	12,085.9	13,414.5	14,943.5	16,689.8	18,884.6	11.8%

(a) Average of Fujian Province, Beijing, Shanxi Province and Guangdong Province

Sources: CEIC

Fujian Province:

In line with the overall GDP growth in China, Fujian Province's GDP reached RMB1,082.3 billion in 2008, representing a CAGR of 17.1% for the period from 2004 to 2008. Per capita GDP in Fujian Province generally exceeded that of China for the five years from 2004 to 2008; and the province attained a per capita GDP of RMB30,123.0 in 2008. The growth in per capita annual urban disposable income in Fujian Province, which increased from RMB11,175.4 in 2004 to RMB17,961.5 in 2008, reflecting a CAGR of approximately 12.6%, was also generally consistent with the overall per capita annual urban disposable income growth in China. Per capita GDP and per capita annual urban disposable income in Fujian Province for the period from 2004 to 2008 also exceeded that of the national average. In general, the per capita GDP growth and annual urban disposable income growth in Fujian Province from 2004 to 2008 were both higher than the averages of all the regions in which our Group operates.

Beijing:

Beijing, the capital city of China, has been experiencing fast economic growth in the past few decades and has gradually developed into a relatively mature economy. The statistics shown in the table above suggest that the GDP growth in Beijing has slowed down in recent years, relative to other areas in China, with GDP of RMB1,048.8 billion in 2008. Nevertheless, in absolute terms, per capita GDP in Beijing is the highest among the regions presented above and reached RMB63,029.0 in 2008. Annual disposable income per capita for urban households in Beijing also grew to RMB24,724.9 in 2008, representing a CAGR of 12.1% for the five years from 2004 to 2008, which is largely consistent with the overall growth in China.

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Shanxi Province:

Shanxi Province is situated in the center of the Yellow River valley. Out of all the regions presented above, Shanxi Province appears to be the fastest growing region with CAGR in GDP, per capita GDP, and annual urban disposable income of 18.1%, 17.4% and 13.5%, respectively, for the five years from 2004 to 2008. In view of this growth, our Company has begun expanding our operations into Shanxi Province to capitalize growth opportunities. GDP in Shanxi Province almost doubled from RMB357.1 billion in 2004 to RMB693.9 billion in 2008, with per capita GDP rising from RMB10,742.0 in 2004 to RMB20,398.0 in 2008. However, Shanxi's per capita annual urban disposable income remains slightly lower than that of the national average, which amounted to RMB13,119.1 in 2008.

Guangdong Province:

Guangdong Province is located in the southern part of China. Guangdong Province's GDP amounted to RMB3,569.6 billion in 2008, which represented approximately 11.9% of the national GDP. In terms of growth, the growth in GDP and per capita GDP in Guangdong Province is generally consistent with the nation's growth, which reflected a CAGR of 17.3% and 15.9%, respectively, from 2004 to 2008. Per capita GDP in Guangdong Province increased from RMB20,870.0 to RMB37,589.0 in the same period, with per capita annual urban disposable income also increased from RMB13,627.7 to RMB19,732.9.

ECONOMIC CONDITIONS IN FUJIAN PROVINCE

Fujian Province is situated in the southeastern coastal area of China and is estimated to be the place of origin of more than 10 million overseas Chinese. Due to the close proximity of Fujian Province and Taiwan, business and trade between the two places developed rapidly in recent years. In 2008, Fujian Province contributed 3.6% to China's GDP while comprising approximately 2.7% of the national population. Fujian's GDP grew rapidly to approximately RMB1,082.3 billion in 2008, reflecting a CAGR of approximately 17.1% for the period from 2004 to 2008 and a year-on-year GDP growth of approximately 17.0%. Between 2004 and 2008, per capita GDP in Fujian Province grew at a CAGR of approximately 16.3% and almost doubled in absolute terms from RMB16,469.0 in 2004 to RMB30,123.0 in 2008. The per capita annual disposable income for urban households in Fujian Province also experienced steady growth over the past five years and increased from RMB11,175.4 in 2004 to RMB17,961.5 in 2008, representing a CAGR of 12.6% during the same period, suggesting an improving living standard during the period. In addition, the State Council has adopted certain measures to support Fujian Province in order to accelerate the development of the Western Taiwan Strait Economic Zone. For further details, please see the section headed "Development of the Western Taiwan Strait Economic Zone" below.

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The following tables show the GDP, per capita GDP and per capita annual disposable income for urban households of Xiamen, Quanzhou, Fuzhou and Zhangzhou, which are major cities in Fujian Province in which our businesses are principally operated and our property projects are located. Total GDP of the aforementioned four cities accounted for over 69% of Fujian Province's GDP for each of the years between 2004 and 2008. The per capita GDP and annual urban disposable income of those four cities surpassed the averages for Fujian Province for each of the years from 2004 to 2008, demonstrating that the local economies of the cities where our developments are primarily focused and located generally outperformed other cities in Fujian Province.

GDP (in RMB billions)

	2004	2005	2006	2007	2008	CAGR (2004-2008)
Fujian Province — Total	576.3	656.9	761.5	924.9	1,082.3	17.1%
Xiamen	88.3	100.7	116.8	138.8	156.0	15.3%
Quanzhou	160.3	162.6	190.1	228.4	270.5	14.0%
Fuzhou	154.8	147.6	166.4	197.5	228.4	10.2%
Zhangzhou	70.2	62.9	71.7	85.5	100.2	9.3%
Total^(a)	473.7	473.8	545.0	650.1	755.1	12.4%
% of Fujian Province —						
Total	82.2%	72.1%	71.9%	70.3%	69.8%	

(a) Total of Xiamen, Quanzhou, Fuzhou and Zhangzhou

Sources: CEIC

Per capita GDP (in RMB)

	2004	2005	2006	2007	2008	CAGR (2004-2008)
Fujian Province	16,469.0	18,645.8	21,471.0	25,908.0	30,123.0	16.3%
Xiamen	40,147.0	44,737.0	50,130.0	56,188.0	62,651.0	11.8%
Quanzhou	21,259.6	21,426.9	24,847.0	29,601.0	34,840.0	13.1%
Fuzhou	23,443.7	22,300.8	24,873.7	29,515.0	33,615.0	9.4%
Zhangzhou	15,394.0	13,401.5	15,221.0	18,072.0	21,073.0	8.2%
Average^(a)	25,061.1	25,466.6	28,767.9	33,344.0	38,044.8	11.0%

(a) Average of Xiamen, Quanzhou, Fuzhou and Zhangzhou

Sources: CEIC

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Per capita annual urban disposable income (*in RMB*)

	2004	2005	2006	2007	2008	CAGR (2004-2008)
Fujian Province	11,175.4	12,321.3	13,753.3	15,506.1	17,961.5	12.6%
Xiamen	14,447.0	16,404.9	18,509.5	21,502.8	23,947.6	13.5%
Quanzhou	12,699.0	14,209.0	15,972.0	18,097.0	20,420.0	12.6%
Fuzhou	11,511.4	12,750.7	14,317.5	16,765.0	19,129.5	13.5%
Zhangzhou	10,118.0	11,241.0	12,511.0	14,153.0	16,023.0	12.2%
Average^(a)	12,193.9	13,651.4	15,327.5	17,629.4	19,880.0	13.0%

(a) Average of Xiamen, Quanzhou, Fuzhou and Zhangzhou

Sources: CEIC

Xiamen:

Xiamen was one of China's earliest special economic zones in the 1980s and is a coastal sub-provincial city in southeastern Fujian Province. Xiamen faces the Taiwan Strait and borders the cities of Quanzhou to the north and Zhangzhou to the south. It covers a total area of approximately 1,573 million sq.m. and had a population of 2.5 million in 2008. According to the Bulletin of Xiamen Economic and Social Statistics in 2008 (2008年廈門市國民經濟和社會發展統計公報), Xiamen's GDP in 2008 amounted to approximately RMB156.0 billion, reflecting a growth rate of approximately 11.1% year-on-year. Xiamen's GDP and per capita GDP grew at a CAGR of approximately 15.3% and 11.8%, respectively, from 2004 to 2008, with per capita GDP reached approximately RMB62,651.0 in 2008, which is almost double that of the per capita GDP of Fujian Province in the same year. The urbanization rate of Xiamen has remained over 80% since 2005 and per capita annual disposable income for urban households exceeded the average per capita annual disposable income of Fujian Province for the five years from 2004 to 2008. Xiamen's per capita annual disposable income for urban households amounted to approximately RMB23,947.6 in 2008, which is 20.5% higher than the average of Fujian Province of RMB19,880.0 in the same year. The amount of foreign direct investment in Xiamen also increased significantly from US\$570.0 million in 2004 to US\$1,272.0 million in 2007, reflecting a CAGR of approximately 30.6% and accounting for approximately 31.3% of the total foreign direct investment in Fujian Province in 2007.

Quanzhou:

Quanzhou is a prefecture-level city on the southeastern coast of Fujian Province and faces the Taiwan Strait. It covers a total area of approximately 11,015 million sq.m. and had a population of 7.8 million in 2008. Quanzhou is also well-known for being the hometown of many overseas Chinese and Taiwan compatriots. As of the end of 2007, there were more than 6.2 million overseas Chinese of Quanzhou origin around the world, in particular, 700,000 compatriots resided in Hong Kong and Macau.

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Approximately 9.0 million Taiwan compatriots are of Quanzhou origin, which represents 44.8% of the Han Chinese population residing in Taiwan. Due to its close relationship with overseas Chinese and Taiwan compatriots, Quanzhou's economy has, to a large extent, been driven by foreign direct investments made by overseas Chinese and Taiwan compatriots. Total foreign direct investment in Quanzhou has accounted for over a quarter of the total dollar amount of foreign direct investments in Fujian Province over the past five years. For instance, foreign direct investment in Quanzhou totaled US\$1,275.1 million in 2007, which represented approximately 31.3% of the total dollar amount of foreign direct investments in Fujian Province. Quanzhou's GDP in 2008 amounted to approximately RMB270.5 billion, approximately 25.0% of the total GDP in Fujian Province. Quanzhou's per capita GDP was also above the average of Fujian Province for the five years from 2004 to 2008 and amounted to RMB34,840.0 in 2008. The growth in per capita annual urban disposable income in Quanzhou reflected a CAGR of approximately 12.6% from 2004 to 2008. Quanzhou's urbanization rate reached 50.2% in 2008.

Fuzhou:

Fuzhou is the capital city of Fujian Province, as well as the political, economic, scientific, technology, education and cultural center of Fujian Province. Located in the southeastern coast of Fujian, Fuzhou covers a total area of approximately 12.0 billion sq.m., with a total population of 6.4 million, including an urban population of approximately 1.9 million in 2008. Fuzhou's GDP, which amounted to RMB228.4 billion in 2008, grew at a CAGR of approximately 10.2% from 2004 to 2008. Per capita GDP of Fuzhou slightly outperformed the average of Fujian Province and was RMB33,615.0 in 2008. Per capita annual disposable income totaled RMB19,129.5 in Fuzhou in 2008, reflecting a CAGR of 13.5% from 2004 to 2008 and such amount is generally consistent with the income level of Fujian Province.

Zhangzhou:

Zhangzhou is located in the southeastern region of Fujian Province and is close to Taiwan, facing Xiamen across the sea. It borders Quanzhou to the east, Longyan to the northwest and Shantou of Guangdong Province to the southwest. It covers a total area of 12,600 million sq.m., with a total population of 4.5 million. Zhangzhou's GDP reached RMB100.2 billion in 2008, attributing to approximately 9.3% of the total GDP of Fujian Province and reflecting a CAGR of approximately 9.3% from 2004 to 2008. Per capita GDP of Zhangzhou grew at a CAGR of approximately 8.8% for the period from 2004 to 2008 to RMB21,073.0 in 2008. Per capita annual urban disposable income in Zhangzhou amounted to RMB16,023.0 in 2008, reflecting a CAGR of approximately 12.2% for the period from 2004 to 2008.

DEVELOPMENT OF THE WESTERN TAIWAN STRAIT ECONOMIC ZONE

On May 6, 2009, the State Council promulgated the *Several Opinions in relation to Supporting Fujian Province to Accelerate the Development of the Western Taiwan Strait Economic Zone* (Guo Fa [2009] No. 24) (《關於支持福建省加快建設海峽西岸經濟區的若干意見》(國發 [2009] 24號)), pursuant to which the PRC Government intends to accelerate the development of the Western Taiwan Strait Economic Zone in order to boost the nation's coastal economy as a whole, channel overseas capital to western and central China and to forge stronger economic cooperation with Taiwan.

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We believe Fujian Province is the key constituent of the Western Taiwan Strait Economic Zone and will act as the hub of the economic zones as it directly faces Taiwan across the Straits and links the Pearl River Delta and the Yangtze River Delta, which are two economic powerhouses in the PRC. According to the measures mentioned above, Fujian Province is the key area for future development of the Western Taiwan Strait Economic Zone.



Fujian Province boasts geographic proximity to Taiwan, and shares the same ancestral origins, languages, folk customs and cultural traditions with Taiwan. In August 2005, Fujian Province became the first mainland province to import zero-tariff fruit from Taiwan. Fujian Province has been one of the largest markets for investment from Taiwan since the 1980s, when Taiwan residents started to invest and operate businesses in the PRC. Since then, according to statistics from the Office of Taiwan Affairs in Fujian Province, Fujian Province has attracted more than RMB160 billion in investment from Taiwan and Taiwan has become the second largest offshore investor in Fujian Province in 2009, following Hong Kong.

On July 29, 2009, the 8th Commission of Fujian Communist Party issued implementation rules for the proposed measures mentioned above in order to strictly implement and adopt the proposed development plans for Fujian Province. Pursuant to the implementation rules, the PRC Government intends to promote scientific development and adopt the reform and open door policy in Fujian Province, with the target that the GDP of Fujian Province will reach RMB4 trillion by 2020. In addition, the PRC Government plans to further promote foreign investments in Fujian Province by, among others, (i) loosening restrictions on investment by Taiwan investors in specific regions in Xiamen, Quanzhou, Fuzhou and Zhangzhou and introducing preferential investment policies for Taiwan investors, such as providing preferential tax treatment and exemptions for Taiwan investments, (ii) promoting exports to, and free trade with, Taiwan and expanding certain ports in China's western coastal cities, and (iii) encouraging employment and secondment of Taiwanese employees to China and offering student exchange programs with Taiwan.

Pursuant to the implementation rules, the PRC Government will also focus on the acceleration of urbanization in cities such as Fuzhou, Xiamen and Quanzhou with an aim of transforming such cities into centers for financial, logistics and convention services. The PRC Government also aims to strengthen the infrastructure of cities such as Zhangzhou. In 2009, key infrastructure and development projects in Fujian Province totaled RMB148.0 billion, representing a year-on-year growth of 22.3%. We believe this will contribute to rapid economic growth in Fujian Province and will help consolidate its position as one of the more developed provinces within the PRC. As a result, we believe that the property market in Fujian Province will benefit from the implementation of such measures.

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KEY REAL ESTATE REFORMS IN THE PRC

The property development industry in the PRC is extremely competitive because government policies have led to a heavily restricted market. These barriers include obtaining qualifications related to real estate development; the demand for continuously increasing, or at least replenishing, a land bank; and maintaining adequate working capital for projects. These barriers, in addition to challenges faced by the property development sector in general, resulted in a recent drop in property prices in parts of China. Many of these requirements form a part of China's attempts to reform the market. Prior to the reform of the PRC property market in the 1990s, the PRC real estate development industry was part of the nation's centrally planned economy. In the 1990s, the PRC Government initiated a number of real estate reforms and, as a result, China's real estate and housing sector began its transition to a market-based system. A brief timeline of key real estate reforms is set out below:

1988	National constitution amended by the PRC Government to permit the transfer of state-owned land use rights
1991	Commencement of employer/employee-funded housing fund
1992	Commencement of public housing sales in major cities
1994	Establishment of an all-round employer/employee-funded housing fund
1995	Regulations regarding sales and pre-sales of real estate issued by the PRC Government, establishing a regulatory framework for real estate sales
1998	State-allocated housing policy abolished by the PRC Government
1999	The PRC Government extended maximum mortgage term to 30 years and increased maximum mortgage financing from 70% to 80% of the total purchase price of the property The PRC Government formalized procedures for the sale of real property in the secondary market
2000	Regulations to standardize the quality of construction projects issued by the PRC Government, establishing a framework to administer construction quality
2001	Regulations relating to sales of commodity housing issued by the PRC Government
2002	New rules promulgated by the PRC Government requiring that land use rights for the purposes of commercial use, tourism, entertainment, commodity residential properties and other operational purposes can only be granted by the PRC Government through public tender, auction or listing-for-sale Dual system for domestic and overseas home buyers was eliminated

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- 2003 Regulations relating to property management issued by the PRC Government
- The PRC Government promulgated rules for more stringent administration of real estate loans with a view to reducing the credit and systemic risks associated with such loans
- The State Council issued a notice for sustained and healthy development of the real estate market
- 2004 The State Council issued a notice requiring that, with respect to property development projects (excluding affordable housing), the proportion of financing from capital funds of property developers should be increased from 20% to 35% of the total projected capital outlay
- The MOHURD amended and supplemented the *Administrative Measures on the Pre-sale of Commercial Housing* (《城市商品房預售管理辦法》) imposing more restrictive requirements on the pre-sale of commodity housing in cities
- The CBRC issued the *Guidelines for Commercial Banks on Risks Management of Real Estate Loans (Yin Jian Fa [2004] No. 57)* (《商業銀行房地產貸款風險管理指引》(銀監發[2004]57號)) to further strengthen the risk control of commercial banks over real estate loans and financing
- 2005 The PRC Government instituted additional measures to discourage speculation in certain regional markets including, among others, eliminating the preferential mortgage interest rate for residential housing, imposing a business tax of 5% on the proceeds from sales that occur within two years of purchase, and prohibiting resale of unfinished properties
- 2006 The PRC Government implemented additional land supply, bank financing and other measures to curtail fast increases in property prices, to encourage the development of middle to low-end housing and to promote the healthy development of the PRC real estate industry
- The MOHURD issued a guideline requiring, among others, that the total GFA of units with area below 90 sq.m. must not be less than 70% of total GFA of newly approved or newly constructed projects, the minimum required down-payment shall be increased to 30% of the total purchase price for units larger than 90 sq.m. and banks are not permitted to provide loans to a property developer with an internal capital ratio of less than 35%
- The MOHURD, MOFCOM, the NDRC, the PBOC, the SAIC and the SAFE jointly issued new regulations with the aim of regulating foreign investment in the domestic real estate market and to restrict the abilities of certain offshore entities and foreign individuals to purchase commercial and residential properties in China

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- 2007 Regulations were issued to increase the annual land use tax, and to impose these land use taxes on foreign invested enterprises
- MLR issued regulations requiring land use rights certificates not to be issued unless and until the land premiums have been paid with respect to all of the land use rights under a land grant contract, which effectively stopped the practice of issuing these certificates in installments
- 2008 The State Council issued a notice reinforcing that not less than 70% of any residential land development project must be used for developing low-cost rental units, small to medium sized units, low to medium cost units and units with a GFA of less than 90 sq.m. The notice also imposes an additional land premium surcharge on idle land
- The State Council implemented several tax related policies, including shortening the business tax exemption term for the transfer of ordinary residential housing from five years to two years and unifying the urban real estate tax applicable to foreign-invested and non-foreign-invested companies
- The Ministry of Finance and the State Administration of Taxation of the PRC adjusted real estate related tax rates for property sale or purchase by individuals, including temporarily lowering the deed tax rate to 1% for purchase by individuals of first residential house with a GFA of no more than 90 sq.m., suspending stamp duty and land appreciation tax for sale of residential houses and suspending stamp duty for purchase of residential houses
- The PBOC adjusted the lower limit of the lending rate and the minimum down payment for commercial individual residential house
- 2009 The State Council issued a notice lowering the minimum capital ratio for property development projects
- 2010 The Ministry of Finance and the State Administration of Taxation adjusted the business tax exemption term for the transfer of ordinary residential house from two years to five years.

REGULATORY MEASURES AFFECTING THE PROPERTY MARKET IN THE PRC

Measures taken by the PRC Government to discourage speculation in residential property market and increase supply of ordinary housing

Since 2004, in an effort to reduce the growth rate of China's economy and achieve balanced and sustainable economic growth, the PRC Government has taken measures to control money supply, credit availability and fixed assets investment. The PRC Government has also taken measures to discourage

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speculation in the residential property market and to increase the supply of ordinary housing. In response to concerns over the scale of the increase in property investment, the PRC Government has introduced policies to restrict future development, including:

- limiting the monthly mortgage payment to 50% of an individual borrower's monthly income and limiting all monthly debt service payments of an individual borrower to 55% of their monthly income;
- increasing the minimum required capital contribution of real estate developers from 20% to 35% of the total projected capital outlay of any property development; and
- increasing the required reserve ratio of funds that a commercial bank must hold on deposit from 7% to 16%, effectively reducing the amount of money a bank is able to lend.

Measures taken by the PRC Government to curtail overheating of the property market

On May 9, 2005, the General Office of the State Council issued the *Circular of the General Office of the State Council on Forwarding the Opinions of the MOHURD and other relevant PRC Government Authorities on Stabilizing Property Prices (Guo Ban Fa [2005] No. 26)* (《國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知》(國辦發[2005]26號)), and subsequently introduced a series of corresponding measures and policies aimed at directly controlling the growth and overheating of the real estate industry in the PRC. These measures include:

- a business tax levy, commencing June 1, 2005, on the sales proceeds subject to certain restrictions concerning the length of holding period and type of properties;
- a ban on onward transfer of acquired interests in pre-sold uncompleted properties;
- the elimination of the preferential mortgage interest rate for residential housing;
- the imposition of a land idle fee for land which has not been developed for one year starting from the commencement date stipulated in the land grant contract and cancellation of land use rights for land which has been idle for two years or more;
- the revocation of projects not in compliance with the relevant planning permits; and
- a ban on land provision for villa construction and a restriction on land provision for luxury and high-end residential property construction.

On May 24, 2006, the General Office of the State Council issued the *Circular of the General Office of the State Council on Forwarding the Opinions of the MOHURD and other relevant PRC Government Authorities on Adjusting the Housing Supply Structures and Stabilizing Property Prices (Guo Ban Fa [2006] No. 37)* (《國務院辦公廳轉發建設部等部門關於調整住房供應結構穩定住房價格意見的通知》(國辦發[2006]37號)). Such measures were initially proposed by nine ministerial departments, including, but not limited to, the MOHURD, the NDRC, the MLR and the State Administration of Taxation with an aim

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to promote sustainable growth and development of the PRC real estate industry as well as slow down the overheating and soaring housing prices, and the respective PRC Government authorities have issued various other circulars and notices to clarify, reconfirm and reiterate the measures and policies stated in the aforementioned circular in 2006. Such measures and policies include:

- a requirement that at least 70% of the land supplied by a local government for residential property development for any given year must be used for developing small to medium-size units at low to medium cost and low-cost rental properties;
- for all new residential development project constructed or commenced on or after June 1, 2006, a requirement that residential units with a GFA of less than 90 sq.m. must comprise at least 70% of the total GFA of all residential development projects within any given city, unless approval is otherwise obtained;
- with effect from June 1, 2006 a minimum down-payment of 20% of the total purchase price is required for residential units purchased for self-use with GFA of 90 sq.m. and below and 30% of the total purchase price for any residential unit with GFA of over 90 sq.m.;
- a business tax of 5% to be levied on the total sale proceeds from the resale of residential properties sold within five years of purchase, as well as a business tax to be levied on any gains from the sale of residential properties (not deemed to be ordinary residential properties) after five years of purchase by an individual;
- prohibiting commercial banks from lending funds to property developers with an internal capital ratio of less than 35%, calculated by dividing internal funds available for the project by total capital required for such project, restricting the grant or extension of revolving credit facilities by commercial banks to property developers holding a large amount of idle land and vacant commodity properties, and prohibiting commercial banks from taking commodity properties which have been vacant for more than three years as security for mortgage loans; and
- strengthening the supervision on land development by (i) increasing the penalties to be levied on idle land which has not been developed for one year starting from the commencement date stipulated in the land grant contract, (ii) forfeiting idle land without compensation if it has not been developed within two years from the date stipulated in the land grant contract, or (iii) disposal of the land if the area of the land developed is less than one-third of the total development area or the investment for land development is less than one-fourth of the amount stipulated in the land grant contract and the development has been suspended for a year or longer without approval.

On November 18, 2009, the Ministry of Finance, MLR, PBOC, the Ministry of Supervision of the PRC (中國監察部) and the National Audit Office of the PRC (中國審計署) jointly issued new rules to require a minimum down payment of 50% of the land premium relating to land purchases from the PRC government. The new rules also provide that the installment period stipulated in the relevant land grant contracts may not exceed one year generally, provided that, for special projects, upon collective approval

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by the relevant government authorities, the installment period stipulated in the relevant land grant contracts can be two years. Developers will not be permitted to acquire any new land if they fail to pay off such land premium in time. The new rules also forbid local governments from giving discounts to developers or allowing developers to delay payments except as stipulated by the State Council.

Measures aiming at restricting and regulating foreign investment in domestic real estate market

Pursuant to the *Opinions of the MOHURD, MOFCOM, the NDRC, the PBOC, the SAIC and the SAFE on Regulating the Access and Management of Foreign Capital in the Real Estate Market (Jian Zhu Fang [2006] No. 171)* (《建設部、商務部、國家發展和改革委員會等關於規範房地產市場外資准入和管理的意見》(建住房 [2006] 171號)) jointly issued by the MOHURD, MOFCOM, the NDRC, the PBOC, the SAIC and SAFE, with an aim to regulate foreign investment in domestic real estate market, foreign investment in the PRC's real estate market is subject to additional restrictive regulations with effect from July 11, 2006. Pursuant to such measures, offshore entities without an onshore branch or representative agency, or foreign individuals who study or work in the PRC for less than a year, are not allowed to purchase commercial and residential properties.

On May 23, 2007, MOFCOM and SAFE jointly issued the Notice of MOFCOM and SAFE on *Further Strengthening and Regulating the Examination, Approval and Supervision of Foreign Direct Investment in the Real Estate Industry (Shang Zi Han [2007] No. 50)* (《商務部、國家外匯管理局關於進一步加強、規範外商直接投資房地產業審批和監管的通知》(商資函 [2007] 50號)), which provides that:

- foreign investment in the real estate sector in the PRC relating to luxury residential properties should be strictly controlled;
- prior to obtaining approval for the establishment of foreign-invested real estate enterprises, either (i) both the land use rights certificates and housing title certificates should be obtained, or (ii) contracts for obtaining land use rights or housing title certificates should be entered into;
- foreign-invested enterprises need to obtain pre-approval for expanding their business scope into the real estate sector and foreign-invested real estate enterprises need to obtain approvals to expand their scope of business;
- acquisitions of real estate enterprises and foreign investment in the real estate sector by way of round trip investment should be strictly regulated. Foreign investors should not avoid approval procedures by way of change of control;
- parties to a foreign-invested real estate enterprise shall not in any way guarantee a fixed investment return;
- foreign-invested real estate enterprises approved by local approval authorities shall immediately register with MOFCOM through a filing made by the local approval authorities;
- foreign exchange administration authorities and banks authorized to conduct foreign exchange business should not affect foreign exchange settlements of capital account items for those foreign-invested real estate enterprises which have not completed their registration with MOFCOM or fail to pass the annual inspections; and

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- for those foreign-invested real estate enterprises approved by local authorities in violation of the applicable rules, (i) MOFCOM shall carry out investigations and impose punishment and rectification, and (ii) foreign exchange administrative authorities shall not accept the foreign exchange registrations of such enterprises.

On July 10, 2007, SAFE issued the *Notice of the General Department of the State Administration of Foreign Exchange on the Publication of the List of the First Batch of Foreign-Funded Real Estate Projects having Passed the Procedures for Registering with MOFCOM (Hui Zong Fa [2007] No. 130)* (《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》(匯綜發[2007] 130 號)). This notice restricts foreign-invested real estate enterprises to fund a company by granting shareholders loans made up of offshore funds. The notice provides that, among other things:

- the branches of SAFE would no longer process foreign debt registration or approval of foreign exchange settlement for foreign debt for foreign-invested real estate enterprises that obtained approval certificates from a competent commerce authority and registered with MOFCOM on or after June 1, 2007; and
- the branches of SAFE would no longer process foreign exchange registration (including registration of alteration) or the sale and purchase of foreign exchange under the capital account for foreign-invested real estate enterprises that obtained approval certificates from the local government's commerce department on or after June 1, 2007 but did not register with MOFCOM.

On October 31, 2007, MOFCOM and the NDRC jointly issued a revised *Foreign Investment Industrial Guidance Catalogue* (《外商投資產業指導目錄》), which took effect on December 1, 2007 and provides, among other things, that the development and construction of ordinary residential properties will be removed from the category of industries in which foreign investment is encouraged and emphasizes that the development and construction of villas, high-end hotels, high-end office buildings and international convention centers by foreign investment enterprises is restricted.

On June 18, 2008, MOFCOM issued the *Notice for fulfilling the Work of Registration of Foreign-Funded Real Estate (Shang Zi Han (2008)23)* (《商務部關於做好外商投資房地產業備案工作的通知》(商資函[2008] 23號)) requiring that registration filings be preliminarily examined by the provincial branch of MOFCOM before submitting to MOFCOM for registration. MOFCOM may select approximately 5 to 10 registered foreign invested real estate enterprises as samples for test examinations in each quarter, and for any enterprise which is found to have failed to comply with current regulations, MOFCOM may inform SAFE and request their foreign currency registration and status be cancelled.

Measures regulating land development, idle land and land reserves

On April 28, 1999, the MLR promulgated and implemented the “*Measures on Disposal of Idle Land*” (《閑置土地處置辦法》). Pursuant to the Measures, a parcel of land can be defined as idle land under any of the following circumstances:

- after obtaining the land use rights, the developer has not commenced development and construction of the land within the stipulated time limit for commencement of the development without the consent of the people's government that originally approved the use of the land;

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- the “Contract on Lease of the Right to Use State-Owned Land” does not stipulate or the “Approval Letter on Land Used for Construction” does not prescribe the date of starting the development and construction, and the development and construction of the land has not begun at the expiry of one year from the day when the “Contract on Lease of the Right to Use State-owned Land” became effective or when the administrative department of land issued the “Approval Letter on Land Used for Construction”;
- the development and construction of the land has begun, but the area of the development and construction is less than one third of the total area to be developed and constructed, or the invested amount is less than 25% of the total amount of stipulated investment, and the development and construction has been continuously suspended for one year or more without approval; or
- other circumstances prescribed by laws and administrative regulations.

The municipality or county-level municipality administrative authority shall, with regard to an identified piece of idle land, give notice to the land user and draft a proposal on disposing of the idle land, including, but not limited to, extending the time period for development and construction (provided that it shall be no longer than one year), changing the use of the land, arranging for temporary use and ascertaining the new land user by public tender, auction or listing-for-sale. The administrative department of land under the people’s government at the municipality or county level shall, after the people’s government that originally approved the use of the land approves the proposal on disposal, arrange for the implementation of the proposal. With respect to land which is obtained by assignment and is within the scope of city planning, if the construction work has not yet started after one year from the granting of the relevant approvals, since the duration in which construction may be commenced has elapsed, a fine for idle land which is equivalent to less than 20% of the assignment price may be imposed on the land user. If the construction work has not been begun after two years have elapsed, the right to use the land can be taken back by the State without any compensation. However, pursuant to the *Urban Real Estate Administration Law* (《城市房地產管理法》), implemented on January 1, 1995 and amended on August 30, 2007 by the Standing Committee of NPC, the above sanctions will not apply and the parcel of land will not be defined as idle land when the delay in commencement of construction is caused by force majeure or acts of government or indispensable preliminary work before commencement of construction.

On February 27, 2007, the Ministry of Finance and the MLR issued the *Interim Measures for the Financial Administration of Land Reserve Funds* (Cai Zong [2007] No. 17) (《土地儲備資金財務管理暫行辦法》(財綜[2007]17號)). Pursuant to the Interim Measures, land reserve funds refer to funds used by land reserve institutions for expropriation, acquisition, pre-emption and pre-development of the reclaimed land in accordance with relevant PRC laws and regulations. The Interim Measures require the land reserve funds to be collected from certain resources, including but not limited to land premium of the granted land, and should be strictly used for the above-mentioned purposes. The Ministry of Finance and the MLR shall have the authority to supervise the use of the land reserve fund.

On March 16, 2007, the NPC promulgated the *Properties Rights Law of the PRC* (《中華人民共和國物權法》), which stipulates, amongst others, that construction land use rights may be given by grant or

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allotment. Land used for the purposes of industrial, business, entertainment, commercial or residential uses, as well as land with two or more intended uses, will be granted by tender, auction or listing-for-sale. The allotment of construction land is severely restricted. The Properties Rights Law came into effect on October 1, 2007.

On August 30, 2007, the Standing Committee of the NPC promulgated the revised *PRC Urban Real Estate Administration Law* (《中華人民共和國城市房地產管理法》), which took immediate effect. The law stipulates that the PRC Government, for public benefit, can, with full or partial compensation, reclaim state-owned land and/or the premises owned by enterprises or individuals that are built on state-owned land.

The *Regulations on the Grant of State-owned Land Use Rights for Construction through Public Tender, Auction and Listing-for-sale* (《招標拍賣掛牌出讓國有建設用地使用權規定》) issued by the MLR on September 28, 2007, which became effective on November 1, 2007, also reiterated that land for industrial, commercial, tourism or entertainment use or for commodity property development will be granted by means of public tender, auction or listing-for-sale. No land use rights certificates will be issued before the land premium has been fully paid up pursuant to the land grant contract and the land use rights certificates cannot be separately issued based on the proportion of the payment of the land premium.

On September 30, 2007, the MLR issued a new notice to further enhance the control of land supply, which stipulates that the supply of land for the development of low-rent housing, economical housing and housing at low or medium price and of small or medium size must constitute no less than 70% of the total land supply of the current year; the land and resources authorities shall control the area of each piece of land and increase the number of pieces of land to be supplied, in order to prevent the coemption of land by property developers. Property developers must develop land according to the terms of the land grant contracts, and any violation thereof may restrict or prevent such developers from participating in future land bidding. Generally, the development period of each piece of land cannot exceed three years.

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

On December 1, 2007, the State Council issued the *Interim Regulations of the PRC on Agricultural Land Occupation Tax (State Council Order No. 511)* (《中華人民共和國耕地佔用稅暫行條例》(國務院令 第511號)), which took effect on January 1, 2008. The Interim Regulations require that any person who occupies agricultural land for construction of buildings or for non-agricultural purposes must pay agricultural land occupation tax. The tax ratio varies according to the site area of the actual occupation of the agricultural land. A 50% increase in the tax rate will be applied for the occupation of agricultural land in areas where agricultural land is very limited or for occupation of basic agricultural land.

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On January 3, 2008, the State Council issued the *Notice on Promoting the Saving and Intensification of Use of Land (Guo Fa [2008] No. 3)* (《國務院關於促進節約集約用地的通知》(國發 [2008] 3號)). The notice reinforced the existing policy in respect of idle land. The notice stipulates, among other things, that the disposal policies for idle land shall be strictly implemented. If the land approved for development remains unused for more than two years, it shall be forfeited to the PRC Government without consideration and the PRC Government authorities shall charge for the land appreciation value of the idle land. The requirement that a GFA of less than 90 sq.m. (including affordable housing) must reach not less than 70% of the total GFA for development and construction of residential land is also reinforced in this notice.

On August 11, 2009, the MLR issued the *Notice Regarding the Strict Enforcement of the Management of Construction Land and Promotion on the Utilization of Acquired but Unused Land* (《國土資源部關於嚴格建設用地管理促進批而未用土地利用的通知》), pursuant to which construction land that has been acquired and held for two years but on which construction work has not commenced should be disposed of strictly in accordance with the disposal of idle land policies, in order to promote the utilization of such land as soon as possible. The notice also stipulated that the PRC Government will seriously investigate the illegal use of land for golf course purposes and will strictly control such illegal use, and also stipulated that the PRC Government may reclaim land use for such illegal purposes.

Policies regulating the settlement of LAT by property development enterprises and other tax related matters

In addition, the State Administration of Taxation has issued the *Notice of the State Administration of Taxation on the Administration of the Settlement of LAT of Property Development Enterprises (Guo Shui Fa [2006] No. 187)* (《國家稅務總局關於房地產開發企業土地增值稅清算管理有關問題的通知》(國稅發 [2006] 187號)) on December 28, 2006, with an aim to more stringently regulate the settlement of LAT by property development enterprises. Such measures became effective from February 1, 2007 and regulated, among others, (i) the conditions under which LAT must be settled; (ii) the methods in which taxable gains are computed; (iii) identifying items which are allowable deductible costs; (iv) time frame for settlement of the LAT, and (v) requirements for filing of documents.

On December 20, 2008, the general office of the State Council issued the *Several Opinions Concerning Boosting Healthy Development of the Real Estate Market (Guo Ban Fa [2008] No.131)* (《關於促進房地產市場健康發展的若干意見》(國辦發 [2008] 131號)). The Opinions implemented several tax related policies, including shortening the business tax exemption term for the transfer of ordinary residential house from five years to two years beginning the earlier of the date of issuance of building ownership certificates or the date of the deed tax payment receipt, and revising the basis for calculating the business tax by fixing it at the middle point between the transfer price and the purchase price if the individual owner transfers the house within two years after purchase. The Opinions also encourage residents who have already bought a house but the per capita housing area is less than the local average level to buy a second house in order to improve their living condition by applying the first-house preferential treatment to such buyers.

On December 31, 2008, the State Council decided to unify the urban real estate tax applicable to foreign-invested and non-foreign-invested companies.

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The Ministry of Finance and the State Administration of Taxation of the PRC adjusted real estate tax rates for individual property sale or purchase, including temporarily lowering the deed tax rate to 1% for individual purchase of first residential house with a GFA of no more than 90 sq.m., suspending the stamp duty and LAT for sale of residential house and suspending stamp duty for purchase of residential house.

On December 22, 2009, the Ministry of Finance and the State Administration of Taxation jointly issued the *Notice on Adjusting the Business Tax Policies upon Transferring Residential Properties by Individuals (Cai Shui [2009]No.157)* 《關於調整個人住房轉讓營業稅政策的通知》(財稅[2009]157號). Pursuant to the notice, commencing from January 1, 2010, business tax will be levied upon the transfer of a non-ordinary residential house by an individual within five years from the date of purchase and the business tax to be levied will be calculated based on the full amount of the sale proceeds. For an individual transferring a non-ordinary residential house after five years from the date of purchase, or transferring an ordinary residential house within five years from the date of purchase, the business tax to be levied will be calculated based on the difference between the income from the sale of such property and its purchase price. An individual transferring an ordinary residential house after five years from the date of purchase, will be exempt from the business tax.

Measures regulating the financing and granting of credits to property developers

On September 27, 2007, the PBOC and the CBRC jointly issued the *Notice of the PBOC and the CBRC on Strengthening the Administration of Commercial Real Estate Credit Loans (Yin Fa [2007] No. 359)* 《中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的通知》(銀發 [2007] 359 號), which reiterates the existing policies on commercial property loans and further provides, among other things, that:

- loans obtained from commercial banks must be used solely to fund local property developments where the bank providing the loan is operated; and
- a residential property owner who purchases additional properties with a mortgage loan should pay at least 40% of the purchase price as down-payment with a loan interest rate of not less than 1.1 times the PBOC benchmark rate; whereas first-time purchasers who purchase property with a GFA of 90 sq.m. or less are required to make a down-payment of at least 20% of the purchase price and those who purchase property with a GFA more than 90 sq.m. are required to make a down-payment of at least 30% of the purchase price.

Further, on December 5, 2007, the PBOC and CBRC jointly issued the *Supplementary Notice of the PBOC and CBRC on Strengthening the Administration of Commercial Real Estate Credit Loans (Yin Fa [2007] No. 452)* 《中國人民銀行、中國銀行業監督管理委員會關於加強商業性房地產信貸管理的補充通知》(銀發 [2007] 452 號), which clarifies that the total number of property mortgage loans obtained by the purchaser will be determined on a family basis, which will include all property mortgage loans obtained by the borrower and his or her spouse and minor children.

On October 27, 2008, to cope with the possible impact on China of the international financial crisis and to support the expansion of domestic demand, the PBOC issued the *Measures to Lower House Mortgage Rates and Encourage the First-time Purchase of Ordinary Residential Properties* 《擴大商業

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性個人住房貸款利率下浮幅度支持居民首次購買普通住房》)。The PBOC adjusted the lower limit of the lending rate for commercial individual residential house to 70% of the benchmark lending rate and adjusted the minimum down-payment to 20% of the total purchase price. The interest rate that may be charged should be different according to the following circumstances: (i) whether the borrower is a first-time buyer, (ii) whether the house is for self-use and (iii) whether the house is an ordinary residential house and (iv) the credit of the borrower, which should be decided by individual financial institutions. Financial institutions may increase the condition on loans for non-first-time buyers, or if the house is not for self-use house or if the residential house is not ordinary. The PBOC also lowered the lending rate for real estate developers of low-rent housing to 90% of the benchmark lending rate.

Measures regarding the loosening of the capital requirements for property development projects

On 25 May 2009, the State Council issued a *Notice on Adjusting Capital Ratios of Fixed Asset Investment Projects* (Guo Fa [2009] No. 27) (《國務院關於調整固定資產投資項目資本金比例的通知》(國發 [2009] 27號)) which, among others, lowered the minimum capital ratio for ordinary commodity housing projects and affordable housing projects from 35% to 20%. The minimum capital ratio for all other property development projects is lowered from 35% to 30%. This policy is expected to enhance property developers' ability to procure project financing.

Regulatory measures adopted by Fujian Provincial Government

On May 14, 2001, the Fujian Provincial Government issued the *Administration Measures Regarding the Grant of State-owned Land Use Rights by Way of Tender, Auction and Putting up for Bidding in Fujian Province* (Fujian Government No. 64) (《福建省國有土地使用權招標拍賣管理辦法》(福建省人民政府令第64號)) requiring that land use rights for properties for commercial use, tourism, entertainment and commodity residential purposes can only be granted through tender, auction or listing-for-sale in Fujian Province.

On December 28, 2005, the Construction Department of Fujian Province issued the *Notice of revising the Implementation Provision on Administration of Qualification of Real Estate Development Enterprise in Fujian Province* (Min Jian Fa [2005] No. 85) (《福建省建設廳關於修改福建省〈房地產開發企業資質管理規定〉實施細則的通知》(閩建法[2005]85號)). Under this notice, real estate development enterprises in Fujian Province are categorized into four classes with reference to their qualification obtained from and as approved by different levels of government authorities, with the attainment of class 1 qualification being subject to the approval from the MOHURD, class 2 from the relevant provincial construction authority, class 3 from prefecture city construction authority and class 4 from the relevant local city or county construction authority. The scope and scale of property development that a real estate developer may engage in is dependent on its qualification classification. Our PRC legal advisors have advised that, save as disclosed in the paragraph headed "Business — Compliance with Relevant PRC Regulations and Requirements — Qualification certificates" in this prospectus, we have attained the relevant class of qualification for each of our property development projects.

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On February 14, 2009, the General Office of the Fujian Province Government issued the *Opinions on Facilitating Healthy Development of Real Estate Market* (Min Zheng Ban [2009] No. 25) (《福建省人民政府辦公廳關於促進房地產市場健康發展的若干意見》(閩政辦[2009] 25號)), which provides that:

- the standards for ordinary commercial house will be revised;
- the minimum lending interest rates for mortgage loans to first-time homebuyers of ordinary housing may be lowered to 70% of the benchmark lending rate and the minimum down-payment required be lowered to 20% of the total purchase price;
- stamp duty and LAT will be temporarily exempted for the sale and/or purchase of real estates;
- the local and municipal government may revise and loosen regulations and policies governing the procedures for applying for urban residence certificates by non-local residents who purchase commercial and second-hand houses;
- the deadline for payment of land transfer fees regarding commercial land use rights newly granted through tender, auction or listing-for-sale may be extended to 12 months and further extended to a maximum of 18 months for high priced and large scale land parcels. For land granted after January 1, 2007, if the transferee cannot commence the construction in time, the deadline for completion of the construction of a project development may be extended to up to one year and the time extension shall be determined with reference to the scale of the relevant land; and
- LAT may be levied in stages or suspended to be levied on property developers with high credit rating, no records of non-payment of tax and proper construction planning.

For additional information on housing reforms and recent regulatory developments, please refer to the section headed “Summary of PRC Laws Relating to the Property Sector” in Appendix VI to this prospectus.

THE PROPERTY MARKET IN THE PRC

Residential GFA completed and GFA sold

From 2004 to 2008, the GFA of residential property completed increased steadily and the area sold grew at a relatively quicker pace. Until 2004, the GFA of residential properties completed was higher than the GFA of residential properties sold. The GFA of residential properties sold surpassed the GFA of residential properties completed for the first time in 2005 and the trend continued in the following two years. Due to the global economic crisis in 2008, the GFA of residential properties completed and sold in 2008 suffered a drop. In 2008, the GFA of residential properties completed was approximately 477.5

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million sq.m., while the GFA of residential properties sold was approximately 558.9 million sq.m. The tables below set out the residential GFA completed and sold for China and in regions in which our Group operated for the years indicated:

Residential GFA completed (in '000 sq.m.)

	2004	2005	2006	2007	2008
China — Total	426,197.2	436,828.5	454,717.5	498,313.5	477,497.3
Fujian Province	12,605.5	13,048.5	11,285.9	13,444.2	12,724.7
Beijing	26,670.4	28,414.2	21,933.2	18,539.5	13,993.0
Shanxi Province	4,566.8	5,573.8	5,926.1	6,863.7	7,476.3
Guangdong Province	35,639.0	34,767.3	34,171.2	35,021.3	34,762.2
Total^(a)	79,481.7	81,803.9	73,316.4	73,868.7	68,956.2
% of China — Total	18.6%	18.7%	16.1%	14.8%	14.4%

(a) Total of Fujian Province, Beijing, Shanxi Province and Guangdong Province

Source: CEIC

Residential GFA sold (in '000 sq.m.)

	2004	2005	2006	2007	2008
China — Total	397,226.8	495,878.3	554,229.5	701,358.8	558,864.7
Fujian Province	13,191.0	17,205.6	17,433.9	20,963.7	12,550.0
Beijing	25,525.9	28,236.5	22,050.3	17,314.8	10,314.3
Shanxi Province	4,133.8	6,198.6	7,407.3	8,465.0	8,042.5
Guangdong Province	36,027.8	45,463.2	46,933.9	56,038.8	43,783.8
Total^(a)	78,878.5	97,103.8	93,825.4	102,782.3	74,690.5
% of China — Total	19.9%	19.6%	16.9%	14.7%	13.4%

(a) Total of Fujian Province, Beijing, Shanxi Province and Guangdong Province

Source: CEIC

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Residential average selling price

Nationwide residential property price went up gradually during the period between 2004 and 2008, achieving a CAGR of approximately 8.2%. In 2008, the average price was approximately RMB3,576.0 per sq.m., decreased 1.9% from RMB3,645.2 per sq.m. in 2007. The average selling price for residential properties of the regions in which our Group operated were above the national average for each of the years from 2004 to 2008. The table below illustrates the average selling price for residential properties in China and regions in which our Group operated for the five years from 2004 to 2008:

Residential average selling price (RMB per sq.m.)

	2004	2005	2006	2007	2008
China	2,608.0	2,937.0	3,119.3	3,645.2	3,576.0
Fujian Province	2,332.0	2,800.9	3,655.7	4,476.0	4,498.0
Beijing	4,972.0	6,162.1	7,375.4	10,661.2	11,648.0
Shanxi Province	1,534.0	1,876.4	1,805.5	2,052.4	2,253.0
Guangdong Province	3,597.0	4,149.0	4,588.6	5,682.1	5,723.0
Average^(a)	3,108.8	3,747.1	4,356.3	5,717.9	6,030.5

(a) Average of Fujian Province, Beijing, Shanxi Province and Guangdong Province

Sources: CEIC

Commercial GFA completed and GFA sold

The GFA of commercial properties completed amounted to approximately 71.4 million sq.m. in China in 2008, and GFA sold was approximately 49.6 million sq.m. in China in 2008. The tables below set out the commercial GFA completed and sold for China and in regions in which our Group operated for the years indicated:

Commercial GFA completed (in '000 sq.m.)

	2004	2005	2006	2007	2008
China — Total	77,512.2	73,047.3	76,794.6	76,415.1	71,365.5
Fujian Province	2,195.9	1,787.5	1,897.0	2,187.9	2,367.9
Beijing	4,125.1	4,687.0	5,936.2	6,299.3	6,777.1
Shanxi Province	1,008.4	1,033.4	726.3	957.3	1,044.3
Guangdong Province	6,262.9	5,453.6	5,603.6	4,419.7	4,903.3
Total^(a)	13,592.3	12,961.5	14,163.2	13,864.3	15,092.6
% of China — Total	17.5%	17.7%	18.4%	18.1%	21.2%

(a) Total of Fujian Province, Beijing, Shanxi Province and Guangdong Province

Source: CEIC

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Commercial GFA sold (in '000 sq.m.)

	2004	2005	2006	2007	2008
China — Total	49,074.1	51,776.1	55,688.3	61,098.4	49,627.4
Fujian Province	1,645.5	1,418.1	1,829.8	2,355.7	1,534.2
Beijing	1,527.1	2,720.7	3,690.2	4,004.9	2,517.8
Shanxi Province	635.2	623.8	484.0	632.6	885.8
Guangdong Province	3,041.9	3,848.4	4,014.8	4,169.5	3,031.8
Total^(a)	6,849.7	8,611.0	10,018.8	11,162.8	7,969.6
% of China — Total	14.0%	16.6%	18.0%	18.3%	16.1%

(a) Total of Fujian Province, Beijing, Shanxi Province and Guangdong Province

Source: CEIC

Commercial average selling price

Driven by an increased demand for office and retail properties, the average selling price of commercial properties experienced an overall CAGR of approximately 10.3% in China during the period between 2004 and 2008. In 2008, the national average selling price of commercial properties was approximately RMB7,132.0 per sq.m.. From 2004 to 2008, the average selling price of commercial properties of Fujian Province, Beijing and Guangdong Province had surpassed and almost doubled that of the national average selling price, demonstrating a relatively stronger pricing power in these regions. The table below illustrates the average selling price of commercial properties in China and individual regions in which our Group operated for the five years from 2004 to 2008:

Commercial average selling price (RMB per sq.m.)

	2004	2005	2006	2007	2008
China	4,814.0	5,972.1	6,649.7	7,220.4	7,132.0
Fujian Province	4,253.5	6,402.7	7,148.1	6,606.3	6,844.5
Beijing	8,868.5	13,672.4	14,259.7	16,368.3	16,851.0
Shanxi Province	3,449.0	5,333.8	4,560.8	4,619.5	4,491.0
Guangdong Province	6,533.0	8,210.5	8,561.5	10,341.2	9,592.0
Average^(a)	5,776.0	8,404.8	8,632.5	9,483.8	9,444.6

(a) Average of Fujian Province, Beijing and Guangdong Province

Sources: CEIC

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Fujian Province:

The annual total GFA of residential properties completed in Fujian Province remained relatively stable at an average level of approximately 12.0 million sq.m. from 2004 to 2008. The GFA of residential properties sold exceeded the GFA of residential properties completed for each of the years from 2004 to 2008. The GFA of residential properties sold in Fujian Province reached 21.0 million sq.m. in 2007, which then decreased to 12.6 million sq.m. in 2008 as a result of the global economic crisis towards the end of 2008. The average selling price for residential properties in Fujian Province was generally consistent with the national average in 2004 and 2005. It then has, since 2006, exceeded that of the national average, resulting in a CAGR of 17.8% from 2004 to 2008. The annual total GFA of commercial properties completed in Fujian Province between 2004 and 2008 ranged from 2.2 million sq.m. to 2.4 million sq.m.. The average selling prices for commercial properties in Fujian Province reached RMB6,844.5 per sq.m. in 2008, reflecting a CAGR of 12.6% from 2004 to 2008.

Beijing:

Both the GFA of residential properties completed and sold in Beijing had shown a declining trend in recent years. Nevertheless, the average selling price of residential properties in Beijing reached RMB11,648.0 per sq.m. in 2008, representing a CAGR of 23.7%. Beijing's commercial property market experienced a CAGR of 13.2% in terms of GFA completed, with a total GFA completed reaching 6.8 million sq.m. in 2008. Total GFA of commercial property sold in Beijing increased by approximately 62.0% from 1.5 million sq.m. in 2004 to 4.0 million sq.m. in 2007, which then experienced a slowdown in 2008 as a result of the global economic crisis, representing a CAGR of approximately 13.3% from 2004 to 2008. Average selling price for commercial properties in Beijing also doubled from RMB8,868.5 per sq.m. in 2004 to RMB16,851.0 in 2008, reflecting a CAGR of 17.4% over the five-year period.

Shanxi Province:

The real estate market in Shanxi Province began to develop and expand in early 2000. For the period from 2004 to 2008, amongst the various regions in which our Group operates, the residential property market in Shanxi Province experienced the highest growth in terms of GFA completed. Total GFA completed in Shanxi Province reached 7.5 million sq.m. in 2008, while the total GFA sold reached 8.0 million sq.m., representing a CAGR of 13.1% and 18.1%, respectively, from 2004 to 2008. The average selling price for residential properties in Shanxi Province increased from RMB1,534.0 per sq.m. in 2004 to RMB2,253.0 per sq.m. in 2008, representing a CAGR of 10.1%. The total GFA of commercial properties completed in Shanxi Province remained fairly stable from 2004 to 2008 with approximately 1.0 million sq.m. being completed each year. In addition, the total GFA of commercial properties sold in Shanxi Province was also fairly stable and grew from 0.6 million sq.m. in 2004 to 0.9 million sq.m. in 2008.

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Guangdong Province:

The residential property market in Guangdong Province is relatively mature and has remained fairly stable over the five years from 2004 to 2008. During this five year period, total GFA of residential properties completed was maintained at the level of approximately 35.0 million sq.m. each year and the total GFA of residential properties sold was approximately 43.8 million sq.m. each year. The total GFA of residential properties completed and sold in Guangdong Province contributed approximately 7.3% and 7.8%, respectively, of the total GFA of residential properties completed and sold in China in 2008. The average selling price of residential properties increased steadily from RMB3,597.0 per sq.m. in 2004 to RMB5,723.0 per sq.m. in 2008, reflecting a CAGR of 12.3%. The total GFA of commercial properties completed declined from 6.3 million sq.m. in 2004 to 4.9 million sq.m. in 2008, with average selling price increased from RMB6,533.0 in 2004 per sq.m. to RMB9,592.0 per sq.m. in 2008.

THE PROPERTY MARKET IN FUJIAN PROVINCE

The property market in Fujian Province grew rapidly from 2004 to 2007, with total investment in real estate increasing from RMB67.8 billion in 2004 to RMB178.9 billion in 2007, reflecting a CAGR of 38.2%. In 2008, the investment in real estate decreased 20% to RMB142.7 billion as a result of the global economic crisis towards the end of 2008. Based on the statistics set out in the table below, fixed assets investments are mainly funded by domestic loans, self-raised funds and other loans and borrowings. Total foreign investment amount increased from RMB1.6 billion in 2004 to RMB4.1 billion in 2008, reflecting a CAGR of 27.5% from 2004 to 2008, and representing approximately 2.9% of the total real estate investment in Fujian Province.

Source of funds of Fujian Fixed Assets Investments (in RMB millions)

	2004	2005	2006	2007	2008
Domestic Loans	10,013.1	15,685.0	29,235.8	46,410.2	31,356.4
Foreign Investment	1,551.1	1,481.2	1,447.0	2,277.0	4,101.9
Self-raised Funds	19,633.7	21,715.4	31,187.3	47,600.2	42,550.3
Others	36,356.0	41,511.2	64,223.4	82,653.1	64,644.4
Total Funds	67,553.9	80,392.8	126,093.5	178,940.6	142,653.0

Sources: National Bureau of Statistics

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Residential GFA completed and GFA sold

The total GFA of residential properties completed in Fujian Province remained relatively stable at an average level of approximately 12.0 million sq.m. from 2004 to 2008, with the GFA of residential properties sold exceeded the GFA of residential properties completed for each of the years from 2004 to 2007. The following tables set out the total GFA of residential properties completed and sold in major cities in Fujian Province in which our business are principally operated and our property developments are located:

Residential GFA completed (in '000 sq.m.)

	2004	2005	2006	2007	2008
Fujian Province — Total	12,605.5	13,048.5	11,285.9	13,444.2	12,724.7
Xiamen	2,815.6	2,767.6	2,109.5	2,413.6	3,739.9
Quanzhou	N/A	N/A	N/A	N/A	N/A
Fuzhou	4,729.3	4,481.1	4,111.2	4,118.0	N/A
Zhangzhou	N/A	N/A	N/A	N/A	N/A
Total^(a)	7,544.9	7,248.7	6,220.7	6,531.6	N/A
% of Fujian Province — Total	59.9%	55.6%	55.1%	48.6%	N/A

(a) Total of Xiamen and Fuzhou

Sources: CEIC

Residential GFA sold (in '000 sq.m.)

	2004	2005	2006	2007	2008
Fujian Province — Total	13,191.0	17,205.6	17,433.9	20,963.7	12,550.0
Xiamen	2,550.5	2,723.2	3,173.9	3,695.6	1,696.4
Quanzhou	2,024.3	2,536.3	1,612.6	2,550.4	2,186.4
Fuzhou	3,950.2	7,963.1	6,214.2	5,925.3	N/A
Zhangzhou	N/A	1,467.2	1,456.2	2,446.6	N/A
Total^(a)	8,525.0	14,689.8	12,456.8	14,617.9	N/A
% of Fujian Province — Total	64.6%	85.4%	71.5%	69.7%	N/A

(a) Total of available data of Xiamen, Quanzhou, Fuzhou and Zhangzhou

Sources: CEIC, Quanzhou Statistics Bureau

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Residential average selling price

As mentioned above, average selling price for residential properties in Fujian Province is generally consistent with the national average in 2004 and 2005, which then grew faster than that of China since 2006 and experienced a CAGR of 17.8% from 2004 to 2008. The following table displays the average selling price for residential properties in the cities indicated:

Residential average selling price (in RMB per sq.m.)

	2004	2005	2006	2007	2008
Fujian Province	2,332.0	2,800.9	3,655.7	4,476.0	4,498.0
Xiamen	3,768.0	4,744.0	6,600.7	8,907.0	9,979.0
Quanzhou	N/A	2,255.0	N/A	3,224.0	N/A
Fuzhou	2,463.0	2,981.1	3,976.3	4,899.6	5,395.0
Zhangzhou	N/A	1,882.0	N/A	2,900.0	N/A
Average^(a)	N/A	2,965.5	N/A	4,982.7	N/A

(a) Average of available data of Xiamen, Quanzhou, Fuzhou and Zhangzhou

Sources: CEIC

Xiamen:

The total GFA of residential properties completed showed a steady growing trend over the five years from 2004 to 2008, increasing from 2.8 million sq.m. in 2004 to 3.7 million sq.m. in 2008. The total GFA of residential properties sold in Xiamen also grew steadily from 2004 to 2008 at a CAGR of approximately 7.4%. A total GFA of 1.7 million sq.m. was sold in 2008, representing a decrease of 54.1% from its peak of 3.7 million sq.m. sold in 2007. However, the average selling price of residential properties in Xiamen remained higher than that of Fujian Province and reached RMB9,979 per sq.m. in 2008, reflecting a CAGR of 27.6% from 2004 to 2008.

Quanzhou:

The sales of residential property in Quanzhou experienced the highest growth amongst the various cities indicated above. A total GFA of 2.2 million sq.m. were sold in Quanzhou in 2008, reflecting a CAGR of 1.9% from 2004 to 2008. The average selling price of residential properties also grew steadily, increasing from RMB2,255 per sq.m. in 2005 to RMB3,224 per sq.m. in 2007.

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Fuzhou:

The residential property market in Fuzhou grew rapidly in 2004 and 2005, with total GFA of residential properties sold in Fuzhou doubling from 4.0 million sq.m. in 2004 to 8.0 million sq.m. in 2005. The demand for residential properties in Fuzhou began to decline in 2007 after the implementation of PRC Government policies to curtail the overheating of the PRC property market with total GFA of residential properties sold decreasing to 5.9 million sq.m.. Nevertheless, Fuzhou still achieved a CAGR of 14.5% in total GFA of residential properties sold from 2004 to 2007. The average selling price of residential properties in Fuzhou is largely consistent with that of Fujian Province and was approximately RMB5,395.0 per sq.m. in 2008.

Zhangzhou:

The growth of residential property sales in Zhangzhou paralleled the growth of residential property sales in Quanzhou, and achieved a CAGR of 29.1% from 2005 to 2007. A total GFA of 2.4 million sq.m. was sold in Zhangzhou in 2007. The average selling price of residential properties in Zhangzhou also grew steadily with an increase of approximately 54.1% from 2005 to 2007.