

LEGAL SUPERVISION RELATING TO THE PROPERTY SECTOR IN THE PRC

A. Establishment of a Property Development Enterprise

According to the “PRC Urban Real Estate Administration Law” (the “**Urban Real Estate Law**”) promulgated by the Standing Committee of the NPC on July 5, 1994, effective January 1995 and amended on August 30, 2007, a property developer is defined as an enterprise which engages in the development and sale of properties for the purpose of making profits. Under the “Regulations on Administration of Development of Urban Property” (the “**Development Regulations**”) promulgated and implemented by the State Council on July 20, 1998, a property developer shall satisfy the following requirements: (i) its registered capital should be RMB1 million or more; and (ii) it should have four or more full-time professional property/construction technicians and two or more full-time accounting officers, each of whom should hold relevant qualification certificates. The Development Regulations also stipulate that the local government of a province, autonomous region or municipality directly under the central government may, based on local circumstances, impose more stringent requirements in relation to the registered capital and the number of professional personnel of a property developer.

Pursuant to the Development Regulations, a property developer who aims to establish a property development enterprise must register with the Administration for Industry and Commerce. The property developer must also report its establishment to the property development authority in the location of the registration authority within 30 days of the receipt of its business license.

Under the “Notice on Adjusting the Portion of Capital Fund for Fixed Assets Investment ” issued by the State Council on May 25, 2009, the minimum portion of capital funding for indemnificatory housing projects and ordinary commercial housing projects are 20%, the minimum portion of capital funding for other real estate development projects are 30%.

B. Foreign-invested Property Enterprises

According to the “Foreign Investment Industrial Guidance Catalogue (Revised in 2007)” (the “**Catalogue**”) promulgated by MOFCOM and the NDRC on October 31, 2007, effective December 1, 2007, (i) the development of a whole parcel of land (limited to equity joint ventures and cooperative joint ventures) as well as the construction and management of high-end hotels, villas, premium office buildings, international conference and exhibition centers fall within the category of industries in which foreign investment is subject to restrictions, (ii) the secondary market transactions in real estate sector and real estate intermediaries or agents will fall under the category of industry that foreign investment is subject to restrictions. and (iii) other property developments fall within the category of industry in which foreign investment is permitted. A foreign-invested property 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 will be issued.

On July 11, 2006, the MOHURD, MOFCOM, the NDRC, the PBOC, the SAIC and SAFE jointly promulgated the “Opinions of the MOHURD, MOFCOM, the NDRC, the PBOC, the SAIC and SAFE on Regulating the Access and Management of Foreign Capital in the Real Estate Market (Jian Zhu Fang [2006] No. 171)” (the “**Opinions**”). According to the Opinions, the admittance and administration of foreign capital in the property 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 business operations until they obtain the Approval Certificates for a Foreign-invested Enterprise and business licenses from the 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% of the total investment amount; where the total investment amount is less than US\$10 million, its registered capital must follow the requirements of the existing regulations.
- iv) For the establishment of a foreign-invested property enterprise, the commerce authorities and the Administration for Industry and Commerce will be responsible of the approval and registration of the foreign-invested property enterprise and the issuance of a temporary Approval Certificate for a Foreign-invested Enterprise (which is 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 property enterprise should apply for the land use rights certificate. With the land use rights certificate, the property developer 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 property enterprises or acquisitions of domestic property enterprises by foreign investors should strictly follow the relevant laws, regulations and policies and obtain the relevant approvals. The investor should submit: a) a written undertaking of fulfilment of the State-owned land use rights grant contract, construction land planning permit and construction work planning permit; b) land use rights certificate; 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 property enterprises by way of shares transfer or other means, 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, or who have not fully satisfied any previous acquisition consideration shall not be allowed to undertake the aforementioned activities.

On August 14, 2006, the General Office of MOFCOM enacted the “Notice on Relevant Issues concerning the Carrying out the Opinions on Regulating the Access and Management of Foreign Capital in the Real Estate Market” (the “**Notice on the Real Estate Market**”). According to the Notice on the Real Estate Market, if the total investment of a foreign-invested property development enterprise exceeds US\$3 million, the registered capital must not be less than 50% of the total estimated investment; if the total investment is less than or equal to US\$3 million, the registered capital must not be less than 70% of the total estimated investment. When a foreign investor who merges with a domestic property development enterprise by transferring equity or by other means or by purchasing equity from other Chinese shareholders of a foreign-invested property 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 after the date of the issue of the business license or the effective day of the equity transfer agreement.

On May 23, 2007, MOFCOM and SAFE jointly issued the “Notice of MOFCOM and SAFE on Further Strengthening and Regulating the Approval and Supervision of Foreign Direct Investment in the Real Estate Industry (Shang Zi Han [2007] No. 50)” (“**Notice 50**”) which set down the following requirements for approving and supervising of foreign investment in real estate sector:

- i) foreign investment in the real estate sector in the PRC relating to high-grade 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 building ownership certificates should be obtained or, (b) contracts for obtaining land use rights or building ownership rights should be entered into;
- iii) entities which have been set up with foreign investment need to obtain approval before expanding their business operations into the real estate sector and entities with foreign investment 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 by 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 should be immediately effected according to applicable laws with MOFCOM 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 MOFCOM or fail to pass the annual reviews; and
- viii) for real estate entities which are wrongfully approved by local authorities for their setups, (i) MOFCOM should carry out investigation, order punishment and corrections, and (ii) foreign exchange administrative authorities should not carry out foreign exchange registrations for these entities.

Pursuant to the Foreign Investment Industrial Guidance Catalogue (《外商投資產業指導目錄》) issued by MOFCOM and the NDRC which took effect on December 1, 2007, the development and construction of high-end hotels, villas, high-end offices buildings and international convention and exhibition centres by foreign-invested enterprises is within the restricted category.

Pursuant to the “Interim Measures For the Approval of Foreign-invested Projects (NDRC Order No. 22)” (《外商投資項目核准暫行管理辦法》) (中華人民共和國發展和改革委員會令第22號) issued by NDRC which took effect on October 9, 2004, if foreign-invested enterprises invest in the above-mentioned restricted projects, approvals must be obtained from competent authorities, namely, the approval from the local Development and Reform Commission must be obtained if the total investment is less than US\$50,000,000, approval from the NDRC must be obtained if the total investment is US\$50,000,000 or more but less than US\$100,000,000, approval from the State Council must be obtained if the total investment is US\$100,000,000 or more.

Our PRC legal advisor has advised us that the foreign-invested real estate enterprises of our Group engaged in existing property developments (completed projects for sale and investment, projects under development) developed in the PRC, which are within the above-mentioned restricted catalogue, have obtained approvals from the competent authorities, and, therefore, the restriction in Notice 50 with respect to high-grade properties has not adversely impacted the existing property developments of the Group in any material respect.

On the basis of the above, the Directors are of the view that the restriction in Notice 50 with respect to high-grade properties has not adversely impacted our existing property developments in any material respect.

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)”

(“**Notice 130**”). This new regulation restricts the ability of foreign invested real estate enterprises to raise funds offshore and then inject funds into the companies either through capital increase or by way of shareholder loans. The notice stipulates, among other things:

- i) that SAFE and its local branches will no longer process foreign debt registration or approval of exchange settlement of foreign debt for real estate enterprises with foreign investment that obtained authorization certificate from and registered with MOFCOM on or after June 1, 2007; and
- ii) that SAFE and its local branches will no longer process foreign exchange registration (or change of such registration) or application for sale and purchase of foreign exchange in respect of capital account 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 submitted a filing with MOFCOM.

On June 18, 2008, MOFCOM issued the “Notice for fulfilling the Work of Filing of Foreign-Funded Real Estate (Shang Zi Han [2008] No. 23)” that the filings are preliminary examined by the provincial branch of MOFCOM for submission to MOFCOM for registration. MOFCOM may spot-check 5 to 10 registered foreign invested real estate enterprises in every quarter. Regarding the foreign invested real estate enterprises which fail to meet the current regulations after spot-checking, MOFCOM may inform the department of SAFE to cancel their foreign currency registration and statistics.

Our PRC legal advisor has advised us that, except SCE Regent, the foreign-invested real estate enterprises of our Group’s PRC subsidiaries which obtained approval certificates from the local government’s commerce department on or after June 1, 2007 have made the relevant filing with MOFCOM or the provincial branch of MOFCOM. As confirmed by the Company, SCE Regent is making the relevant filings with the provincial branch of MOFCOM. Our PRC legal advisor, has also advised us that, as long as SCE Regent follows the normal procedure regarding such filing, there will be no material legal impediment for SCE Regent to complete such filing. After completing such filing pursuant to Notice 130 and relevant PRC laws and regulations, the registration of foreign exchange (including registration of alteration) or the sale and purchase of foreign exchange under the capital account for these subsidiaries can be made although these subsidiaries will be restricted under Notice 130 from applying for either foreign debt registration or approval of foreign exchange settlement.

On August 29, 2008, the Comprehensive Department of SAFE issued the “Notice on Improving the Operational Administration on the Conversion of Foreign Exchange Capital Contribution of Foreign-invested Enterprises (Hui Zong Fa [2008] No. 142)” 《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》(匯綜發[2008]142號) (“**Notice 142**”). Pursuant to Notice 142, unless otherwise permitted by PRC laws or regulations, Renminbi converted from foreign exchange capital contribution can only be applied to the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition. According to Notice 142, we may not be able to increase the capital contribution to our foreign-invested subsidiaries and subsequently converting such capital contribution into Renminbi for equity investment in China.

As disclosed in the section headed “Future Plans and Use of Proceeds” in this Prospectus, the IPO proceeds are intended to be applied to the development of our existing property development projects in the PRC, the acquisition of new land for development in the PRC and for working capital and general corporate purposes. The IPO proceeds are expected to be remitted to our subsidiaries in the PRC by way of capital contribution and not by way of offshore shareholders loans. Our PRC legal advisor has advised us that if we plan to increase the registered capital of our PRC subsidiaries that are foreign-invested real estate enterprise or convert a PRC subsidiary that is a non-foreign invested real estate enterprise into a foreign-invested real estate enterprise through capital increase, such PRC subsidiaries shall make the relevant filing with the provincial branch of MOFCOM and after the filing, the PRC subsidiaries can register for foreign exchange (including registration of alteration) or the sale and purchase of foreign exchange under the capital account pursuant to Notice 130 and relevant PRC laws and regulations.

Based on the above analysis, our PRC legal advisor has advised us that Notice 130 would not impose any material legal impediments with regard to the remittance of the IPO proceeds to the PRC subsidiaries of the Group in accordance with the proposed use of proceeds as disclosed in this prospectus.

C. Qualifications of a Property Developer

(a) *Classifications of a property enterprises’ qualification*

Under the Development Regulations, a property developer must record its establishment to the governing property development authorities in the location of the registration authority within 30 days after receiving its Business License. The property development authorities should examine applications for classification of a property developer’s qualification by considering its assets, professional personnel and industrial achievements. A property enterprise should only engage in property development projects in compliance with its approved qualification.

Under the “Provisions on Administration of Qualification of Real Estate Developers” (the “**Provisions on Administration of Qualification**”) promulgated by the MOHURD and implemented on March 29, 2000, a property developer shall apply for registration of its qualification according to such Provisions on Administration of Qualification. An enterprise may not engage in the development and sale of property without a qualification classification certificate for property development.

In accordance with the Provisions on Administration of Qualification, qualification of a property enterprise is classified into four classes: class 1, class 2, class 3 and class 4. Different classes of qualification should be examined and approved by corresponding authorities. Class 1 qualification should be subject to preliminary examination by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower qualification should be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority. For a newly established property developer, after it reports its establishment to the property development authority, the latter must issue a Provisional Qualification Certificate to the eligible developer within 30 days. The Provisional Qualification Certificate will be effective for one year from its issuance while the property development authority may extend the validity to a period of no longer than 2 years considering the actual business situation of the enterprise. The property developer should apply for qualification classification by the property development authority within one month before expiry of the Provisional Qualification Certificate.

On December 28, 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)" (the "**Fujian Real Estate Developers Provisions**"), a property developer must register with the local property development authorities within 30 days after receiving its Business License. The latter must issue a Provisional Qualification Certificate to the eligible developers within 20 days after receiving application fillings. The Provisional Qualification Certificate will be effective for one year from the date of its issuance. The property development authority may extend the validity to a period of no more than two years due to the situation of the property developers.

According to the Fujian Real Estate Developers Provisions, the real estate development enterprises in Fujian Province shall be qualified as four classes due to the specific situation of the enterprises. The class 1 qualification is preliminarily examined by the provincial construction authority for submission to the MOHURD for approval. The class 2 qualification is preliminarily examined by the city and county construction authority for submission to provincial construction authority for approval. The class 3 qualification is preliminarily examined by the county (city) construction authority for submission to prefecture construction authority for approval. The class 4 qualification is examined and approved by the city and county construction authority. After obtain the qualification the real estate development enterprises only can engage in the development of property in certain scale according to their qualification classification.

(b) ***The business scope of a property developer***

Under the Provisions on Administration of Qualification, a developer of any qualification classification may only engage in the development and sale of the property within its approved scope of business and may not engage in business which falls outside the approved scope of its qualification classification. A class 1 property developer may undertake a property development project anywhere in the country without any limit on the scale of property project. A property developer with class 2 or a lower

qualification may undertake a project with a gross floor area of less than 250,000 square meters and the specific scopes of business must be as formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under central government.

Under the Fujian Real Estate Developers Provisions, a property developer must, after obtaining its qualification certificate, only engage in the development of the property according to its qualification classification: (i) the construction scale of a property development project undertaken by a property developer with class 1 qualification is not subject to restriction; (ii) a property developer with class 2 qualification may undertake any property development project with a gross floor area of less than 250,000 square meters (including 250,000 square meters); (iii) a property developer with class 3 qualification may undertake any property development project with a gross floor area of less than 200,000 square meters (including 200,000 square meters); and (iv) a property developer with class 4 qualification may undertake any property development project with a gross floor area of less than 100,000 square meters (including 100,000 square meters).

(c) ***The annual inspection of a property developer's qualification***

Pursuant to the Provisions on Administration of Qualification, the qualification of a property developer shall be inspected annually. The construction authority under the State Council or its authorized institution is responsible for the annual inspection of a class 1 property developer's qualification. Procedures for annual qualification inspection with property developers of class 2 or lower qualifications must be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under central government.

Under the Fujian Real Estate Developers Provisions, all property developers' qualification is inspected on an annual basis by the authority which has originally granted the qualification. Any property developer who fails to participate in the annual inspection without any due reasons shall be deemed as failing the annual inspection, and its qualification certificate issued will be revoked by the original approval authority.

D. **Development of a Property Project**

(a) ***Land for property development***

In April 1988, the Constitution of the PRC was amended by the National Municipal Congress to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law of the PRC was amended to permit the transfer of land use rights for value.

Under the "Provisional Regulations of the People's Republic of China on Assignment and Transfer of the Land Use Rights of State-owned Urban Land" (the "**Provisional Regulations on Assignment and Transfer**") promulgated and implemented by the State Council on May 19, 1990, a system of assignment and transfer of the right to use State-owned land is adopted. A land user must pay an

assignment price to the State as consideration for the assignment of the right to use a land site within a certain term, and the land user may transfer, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the “Provisional Regulations on Assignment and Transfer and the Urban Real Estate Law”, the land administration authority under the local government of the relevant municipality or county must enter into an assignment contract with the land user to provide for the assignment of land use rights. The land user must pay the assignment price as provided by the assignment contract. After full payment of the assignment price, the land user shall register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The Development Regulations provide that the land use rights for a land parcel intended for property development must be obtained through assignment except for land use rights which may be obtained through allocation pursuant to PRC laws or the stipulations of the State Council.

Under the “Regulations on the Assignment of State-Owned Land Use Right through Competitive Bidding, Auction and Listing-for-Sale” (the “**2002 Regulations**”), as amended by the 2007 Regulations (as defined below) on September 28, 2007 enacted by the Ministry of Land and Resources on May 9, 2002 and enforced on July 1, 2002, land for commercial use, tourism, entertainment and commodity housing development shall be assigned by way of competitive bidding, public auction or listing-for-sale. The procedures are as follows:

- i. The land authority under the people’s government of the city and county (the “**assignor**”) shall make an announcement at least 20 days prior to the date of the proposed competitive bidding, public auction or listing-for-sale. The announcement should include basic particulars such as land parcel, qualification requirement of the bidder and auction applicants, methods and criteria on confirming the winning tender or winning bidder, and other conditions such as the deposit of the bid.
- ii. The assignor shall conduct a qualification verification of the bidding applicants and auction applicants, inform the applicants who satisfy the requirements set out in the announcement and invite them to attend the competitive bidding, public auction or listing-for-sale.
- iii. After determining the winning tender or the winning bidder by the competitive bidding, public auction or listing-for-sale, the assignor and the winning tender or winning bidder shall then enter into a confirmation. The assignor should return the bidding or tender deposit to other bidding or auction applicants.
- iv. The assignor and the winning tender or winning bidder shall enter into a contract for State-owned land use right assignment according to the time and venue set out in the confirmation. The deposit of the bid paid by the winning tender or winning bidder will be used to set off part of the assignment price of the state-owned land use rights.
- v. The winning tender or winning bidder should apply for the land registration after paying off the assignment price in accordance with the State-owned land use right assignment contract. The people’s government above the city and county level should issue the “Land Use Rights Certificate for State-Owned Land”.

On June 11, 2003, the MLR promulgated the “Regulation on Grant of State-owned Land Use Rights by Agreement”. According to such regulation, if there is only one intended user on a piece of land, the land use rights (excluding land use rights used for business purposes, such as commercial, tourism, entertainment and commodity residential properties) may be granted by way of agreement. The local land bureau, together with other relevant government departments including the city planning authority, will formulate the plan concerning issues including the specific location, boundary, purpose of use, area, term of grant, conditions of use, conditions for planning and design, time of supply as well as the proposed land premium, which shall not be lower than the minimum price regulated by the State, and submit such plan to the relevant government for approval. The local land bureau and the person who is interested will negotiate and enter into the grant contract based on such plan. If two or more entities are interested in the land use rights proposed to be granted, such land use rights shall be granted by way of tender, auction or putting up for bidding.

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” promulgated by the MLR on September 4, 2003, from the day of issuance of the Notice, the grant of land use rights for luxurious commodity properties shall be stringently controlled, and applications of land use rights for villas are to be stopped. On March 21, 2004, the Ministry of Land and Resources together with the Ministry of Supervision promulgated the “Notice in Respect of Enforcing and Supervising the Transfer of Operative Land Use Rights Through Tenders, Bidding and Public Auction” (關於繼續開展經營性土地使用權招標拍賣掛牌出讓情況執法監察工作的通知), which expressively required that after August 31, 2004, no land use rights transfer in the form of agreement by the excuse of historical difficulties will be allowed. On May 30, 2006, the MLR issued the “Urgent Notice of the MLR on Further Tightening of Land Administration (Guo Tu Zi Dian Fa [2006] No.17)” (“**Notice No.17**”). Notice No.17 stated that land for property development must be assigned by public tender, auction or listing-for-sale; the rules prohibiting development projects for villas should be strictly enforced; and land supply and relevant procedures of land use for villas ceased to have effect from the date of Notice No.17.

Under Notice No.17, the land authority must rigidly execute the “Model Text of the State-owned Land Use Rights Assignment Contract” and “Model Text of the State-owned Land Use Rights Assignment Supplementary Agreement (for Trial Implementation)” jointly promulgated by the MLR and the SAIC. The documents of the land assignment must ascertain the requirements of planning, construction and land use such as the restrictions on the dwelling size, plot ratio, and the time limit for the commencement and completion of construction. All these must be set forth in the land use rights assignment contract.

On September 28, 2007, the MLR promulgated the “Regulation on Bidding, Auction and Listing Required for Assignment of State Owned Construction Land” (招標拍賣掛牌出讓國有建設用地使用權規定) (the “**2007 Regulations**”). This Regulation specifies that the assignee of state owned construction land use right shall fully pay up the premium for the land use right in accordance with the state owned land assignment agreement before it could proceed with the relevant procedures for land use right registration and apply for a state owned construction land use right certificate. No assignee could be

granted a state owned construction land use right certificate for the land in proportion to the partial payment of the premium that the assignee has paid up. In 2007, it is provided in detail that operative lands for properties to be used for industrial, commercial, tourism, entertainment and commodity residential purposes as well as lands with two or more prospective users must be granted only through competitive bidding.

In order to stop illegal occupation and abusive use of land, prevent overheating in 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” on April 29, 2004.

The notice addresses issues including: (i) further governing and rectifying land market; (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.

In accordance with the “Regulations on the Grant of State-owned Land Use Rights for Construction through Public Tender, Auction and Listing-for-sale” issued by the MLR on September 28, 2007 and effective November 1, 2007, land for industrial, commercial, tourism or entertainment use or for commodity property development shall be granted by means of public tender, auction or listing-for-sale. No land use rights certificates shall be issued before all the land premium has been fully paid up pursuant to the land use rights grant contract and the land use rights certificates must not be issued separately according to the proportion of the payment of the land premium.

On March 16, 2007, the NPC promulgated the “Properties Rights Law of the People’s Republic of China” (the “**Properties Rights Law**”) effective October 1, 2007, which stipulates that the construction land use rights may only be created through grant or allotment, etc. For land used for industrial, business, entertainment or commercial residential purposes, etc. the construction land use rights must be granted by means of public tender, auction or listing-for-sale. There are stringent restrictions imposed upon creating the construction land rights through allotment. For adopting such means, the provisions on land uses in the laws and administrative regulations must be observed.

On September 30, 2007, the MLR issued a new notice 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 and 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 coemption 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 must not exceed three years.

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)”. The notice stipulates, among other things:

- i) The land use standards must be strictly implemented in the process of designing and constructing construction projects and approving construction lands. The land area beyond the land use standard must be deducted accordingly;
- ii) The disposal policies for idle land must be implemented strictly. If the land approved for development remains unused for more than two years, it must be recovered without any compensation by the government according to applicable laws and regulations; even if the land may not be recovered according to relevant laws and regulations, the land should be disposed in time and used efficiently through altering usage of the land, equivalent exchange, arranging temporary use, or bringing into land reserve by the government. A appreciation premium should be levied on the idle land, especially on those used for property development, and the relevant rules will be formulated jointly by the MLR and other authorities;
- iii) The area of each parcel of land to be granted should be reasonably determined. The detailed controlling rules and land supply plans should be formulated before granting the land as well as the plot ratio, greenery ratio, and site coverage must be clarified accordingly. The planning stipulations may not be adjusted without relevant approvals;
- iv) The tender, auction and listing-for-sale system for the grant of land used for industry and business purposes must be strictly enforced;
- v) The land grant contracts or allocation approvals must stipulate or clarify that the government may take back and re-grant the land use rights in relation to the alteration of the land usage from non-business into business;
- vi) Land supply for the development of villas must keep suspended. The minimum plot ratio, the unit numbers on per area of land and the dwelling size for the residential construction must be stipulated in the grant contract or allocation approvals of the land for residential purpose. More than 70 percent of the land used for construction of urban housing must be designated for residential purposes for low-rent units, cheaper commercial homes and smaller units of less than 90 square meters;
- vii) The completion inspection and examination system for construction projects must be improved. Whether the land has been legally used and whether the land grant contracts or allocation approvals have been duly performed should be inspected and examined for the purpose of the completion inspection and examination of the construction projects. The construction projects may not pass the completion inspection and examination procedures without or failing to obtain the approvals from relevant land and resources authorities.

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 “The Notice on Further Strengthen the Management of Revenue and Expenditure from Land Granting (Cai Zong [2009]

No.74)” 《關於進一步加強土地出讓收支管理的通知》(財綜[2009]74號) to require a minimum down payment of 50% of the land premium relating to land purchases from the PRC government. The notice also provides 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 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 buy 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.

(b) ***Resettlement***

Pursuant to the “Administration Rules of Demolition and Removal of Housing in Urban Areas” promulgated by the State Council on June 13, 2001, the party responsible for resettlement (the “**Resettling Party**”) should apply for a resettlement permit before commencing resettlement. The Resettling Party must enter into written agreements with the relevant residents detailing, among other things, the compensation to be provided to the residents, which will be determined on the basis of, among other things, the property’s location, permitted use and gross floor area. For leased housings, the resettlement and compensation agreements shall be reached among the Resettling Party, the relevant residents and the lessees. If the Resettling Party and the residents fail to reach agreement, either party may apply to the relevant authority for a ruling. A ruling will be given within 30 days of the application, following which either party may initiate proceedings in the People’s court within three months from the ruling if they contest the ruling. The Resettling Party shall provide monetary compensation or alternative residence for the residents to be resettled according to relevant laws and regulations. There is no need to provide any compensation for the resettlement of illegal housings and temporary constructions, the valid term of which has expired. However, it is necessary to provide proper compensation to demolish those temporary constructions within the valid terms.

(c) ***The termination of the land use rights***

In accordance with the “Land Administrative Law of the People’s Republic of China” promulgated by the Standing Committee of the NPC on June 25, 1986 and amended on August 28, 2004, under any of the following cases, the land administrative authorities may recover the State-owned land use rights with the approval of the people’s governments that originally gives the approvals or the relevant competent people’s governments:

- i) use land for the sake of public interests;
- ii) use land for adjustment in re-building old city districts in order to implement urban construction plans;
- iii) when the term for the land use rights expires, the land user has failed to apply for extension or failed to get approval for extension;
- iv) the use of land originally allocated has been stopped due to cancellation or removal of units;

- v) roads, railways, airports and mining sites that have been approved to be abandoned.

Proper compensation should be given to the land users whereas the land use right is recovered according to the provisions of i) and ii) of the preceding paragraph.

Under the Provisional Regulations on Assignment and Transfer, the maximum term of the land use rights shall be determined, respectively, in the light of the purposes listed below: i) 70 years for residential purposes; ii) 40 years for commercial, tourism and entertainment purposes; iii) 50 years for education, science, culture, public health, physical education, industrial, comprehensive utilization or other purposes. According to the Properties Rights Law and the Urban Property Law, when the term of the construction land use rights for residential purpose expires, it shall be renewed automatically; as regards the term of the construction land use rights for other purposes, the land user must apply for extension at least one year before the expiration of the term and the application will be approved except that the tract of land needs to be taken back out of public interest consideration. Once extension is approved, it is necessary to re-sign a land grant contract and pay land premium accordingly in accordance with the re-signed land grant contract. If the term of land use rights expires and the land user has not applied for extension or the application for extension has not been approved, the land use rights shall be returned to the State gratis. Also, the land use rights should terminate with the extinction of the land use. Where the construction land use right is terminated, the grantor shall go through deregistration formalities in time, and the construction land use rights certificate will be taken back by the land registration authority.

(d) ***Land reserve***

In order to control the land market and promote reasonable land utility, the Ministry of Land and Resources, Ministry of Finance and PBOC jointly promulgated the “Administration Measures on Land Reserve” on November 19, 2007, which regulates the preliminary land development and land reserve by land reserve entities, affiliates of the land and resources authorities at city or county level, before the land and resources authorities grant land according to relevant laws and regulations. The enterprises should be elected through public tender to conduct the land development involving road development, supply of water, power and gas, telecommunications, lighting, landscaping and land leveling etc. according to applicable laws and regulations.

(e) ***Development of a property project***

i. *Commencement of development with respect to a property project and the idle land*

Under the Urban Real Estate Law, those who have obtained the land use rights by assignment must develop the land in accordance with the use and period of commencement as prescribed by the contract for the land use right assignment. According to the “Measures on Disposal of Idle Land” promulgated and implemented by the MLR on April 28, 1999, a parcel of land can be defined as idle land under any of the following circumstances:

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

- the “Contract on 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 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 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 of 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.

ii. *Planning of a property project*

According to the “City and countryside Planning Law of the People’s Republic of China” promulgated by Standing Committee of the NPC on October 28, 2007 and implemented on January 1, 2008, the “Measures for Control and Administration of Assignment and Transfer of the Right to Use Urban State-owned Land” promulgated by the MOHURD on December 4, 1992 and implemented on January 1, 1993 and the “Notice of the MOHURD on Strengthening the Planning Administration of Assignment and Transfer of the Right to Use State-owned Land” promulgated and implemented by the MOHURD on December 26, 2002, after signing the assignment contract, a property developer must apply for a Position Paper of a Construction Project’s Site Selection and a construction land planning permit from the city planning authority. A property developer must apply for a construction work planning permit from the city planning authority with relevant requisite documents and the city planning authority shall issue the construction work planning permit according to the relevant city planning requirements.

iii. *Construction of a property project*

After obtaining the construction work planning permit, a property developer must apply for a permit for commencement of construction work from the construction authority under the local people's government at the county level or above according to the "Measures for the Administration of Permits for Commencement of Construction Work for Construction Projects" promulgated by the MOHURD on October 15, 1999 and as amended and implemented on July 4, 2001.

iv. *Completion of a property project*

According to the Development Regulations, the "Regulation on the Quality Management of Construction Projects" promulgated and implemented by State Council on January 30, 2000, the "Interim Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure" promulgated by the MOHURD in April 2000 and the "Interim Provisions on Acceptance Examination Upon Completion of Buildings and Municipal Infrastructure" promulgated and enforced by the MOHURD on June 30, 2000, after the completion of construction of a project, a property developer must apply for the acceptance examination upon completion to the property development authority under the people's government at the county level or above and report details of the acceptance examination, upon which a "Record of Acceptance Examination upon Project Completion" will be issued.

E. Property Construction

(a) ***The Bid and Tender Law of the People's Republic of China***

Under the Bid and Tender Law of the People's Republic of China (中華人民共和國招標投標法) promulgated by the Standing Committee of the National People's Congress dated August 30, 1999 and implemented on January 1, 2000, tender is compulsory with respect to construction projects within the territory of the PRC such as large-scale infrastructure and public utilities relating to social public interests or public security, including the investigation, design, construction, construction supervision thereof as well as procurements pertaining to important equipment and materials in connection with project construction. The tender is divided into open tender and invited tender. Any entity or individual shall not nullify related projects that must be offered to tender as statutory requirement or circumvent tender through any other means. The successful tenderer, on the basis of contractual covenant or upon the tenderer's consent, may contract with others the non-principal non-critical works in the tender project. The individual accepting such contracting shall be equipped with appropriate qualifications and shall not subcontract his portion of works. The successful tenderer shall be accountable to the tenderer for the subcontracted project while the subcontractor shall bear joint liability for the same. To conduct bidding and tendering activities within the PRC territory, relevant entity or individual shall comply with the above regulation.

F. Transfer and Sale of Property**(a) *Transfer of property***

According to the Urban Real Estate Law and the “Provisions on Administration of Transfer of Urban Property” promulgated by the MOHURD on August 7, 1995 and as amended on August 15, 2001, a property owner may sell, bequeath or otherwise legally transfer property to another person or legal entity. When transferring a building, the ownership of the building and the land use rights to the site on which the building is situated are transferred simultaneously. The parties to a transfer must enter into a property transfer contract in writing and register the transfer with the property administration authority having jurisdiction over the location of the property within 90 days of the execution of the transfer contract.

Where the land use rights were originally obtained by assignment, the real property may only be transferred on the condition that: i) the assignment price has been paid in full for the assignment of the land use rights as provided by the assignment contract and a land use rights certificate has been obtained; ii) development has been carried out according to the assignment contract and in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed.

If the land use rights were originally obtained by allocation, transfer of the real property will be subject to the approval of the government vested with the necessary approval power as required by the State Council. Upon such approval, the transferee must complete the formalities for assignment of the land use rights, unless the relevant statutes require no assignment formalities, and pay the land premium according to the relevant statutes.

(b) *Sale of commodity properties*

Under the “Regulatory Measures on the Sale of Commodity Properties” promulgated by the MOHURD on 4 April 2001 and implemented on June 1, 2001, the sale of commodity properties can include both pre-completion sales (pre-sale) and post-completion sales.

i. *Permit of Pre-sale of Commodity Properties*

According to the Development Regulations and the “Administrative Measures on the Pre-sale of Urban Commercial Housing” (the “**Pre-sale Measures**”) promulgated by the MOHURD on November 15, 1994 and as amended on August 15, 2001 and July 20, 2004, respectively, the pre-sale of commodity properties will be subject to a licensing system; that is, a property developer intending to sell a commodity property before its completion must make the necessary pre-sale registration with the property development authority of the relevant city or county to obtain a permit for pre-sale of commodity properties. A commodity property may be sold before completion only if: i) the assignment price has been paid in full for the assignment of the land use rights involved and a land use rights certificate has been

obtained; ii) a construction work planning permit and a permit for commencement of construction work have been obtained; iii) the funds invested in the development of the commodity properties put to pre-sale represent more than 25% of the total investment in the project and the progress of works and the completion and delivery dates have been ascertained.

According to the "Administrative Provisional Measures on the Pre-sale of Commercial Housing in Fujian Province" (the "**Pre-sale Measures in Fujian**") promulgated by the Fujian Provincial Department of Construction in on December 14, 2005 and effective on January 1, 2006, the following conditions shall be fulfilled for the pre-sale of commodity properties in Fujian Province: (i) land premium has been paid in full and State-owned land use rights certificates have been issued; (ii) construction work planning permit and Permit for Construction Work have been obtained; and (iii) the funds invested in the development of the commodity properties put to pre-sale represent 25% or more of the total investment in the project (more than 20% of the total floors have been completed in line with the design of image progress) and the progress of work and delivery dates have been ascertained.

ii. *Supervision of pre-sale income of commodity properties*

According to the Pre-sale Measures, the income of a property developer from the pre-sale of commodity properties must be used for the construction of the relevant projects. The specific measures for the supervision of the income from the pre-sale of commodity properties must be formulated by the property administrative authorities.

iii. *Conditions of the sale of post-completion commodity properties*

Under the Regulatory Measures for Administration of Sale of Commodity Properties, commodity properties may be put to post-completion sale only when the following preconditions have been satisfied: i) the property development enterprise must have a business license and a qualification certificate of a property developer; ii) the enterprise must obtain a land use rights certificate or other approval documents of land use; iii) the enterprise must have the permit for construction project planning and the permit for construction; iv) the commodity must have been completed and been inspected and accepted as qualified; v) the relocation of the original residents must have been well settled; vi) the supplementary essential facilities for supplying water, electricity, heating, gas, communication, etc. must have been made ready for use, and other supplementary essential facilities and public facilities must have been made ready for use, or the schedule of construction and delivery date must have been specified; vii) the property management plan must have been completed.

Before the post-completion sale of a commodity property, a property developer must submit the Property Development Project Manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the property development authority for making a record.

iv. Regulations on transactions of commodity properties

According to the Development Regulations and the Pre-sale Measures, for pre-sale of commodity properties, the developer must sign a contract on the pre-sale of a commodity property with the purchaser. The developer must, within 30 days after signing the contract, apply for registration and filing of the pre-sale commodity property to the relevant property administrative authorities.

Pursuant to the “Circular of the General Office of the State Council on Forwarding the Opinions of the MOHURD and other Departments on Stabilizing Property Prices (Guo Ban Fa [2005] No. 26)” on May 9, 2005, there are several regulations when conducting commodity property transactions:

- i) A buyer of a commodity property is prohibited from conducting any transfer of a pre-sold commodity before completion of construction and obtaining the building ownership certificate. If there is discrepancy in the name of the applicant for property ownership and the name of the advance buyer in the pre-sale contract, the registration organ of the property administration will not record the application of property ownership;
- ii) A real name system is applied for each property purchase transaction and an immediate archival filing network system is in place for pre-sale contracts of commodity properties;

On 6 July 2006, the MOHURD, the NDRC, and the SAIC jointly promulgated the “Notice on Reorganizing and Regulating the Transaction Procedures of Property”, the details of which are as follows:

- iii) A developer must start to sell the commodity properties within 10 days after receiving the permit for pre-sale of commodity properties. Without this permit, the pre-sale of commodity properties is prohibited, as well as subscription (including reservation, registration and number-selecting) and acceptance of any kind of pre-sale payments;
- iv) The property administration authority at all levels must establish an immediate network system for pre-sale contracts of commodity properties and the system must issue the transaction information of a piece of property. The pre-sale or post-completion sale information like the basic information of the commodity property, the schedule of the sale and the rights status must be duly, truly and fully published on the network system and at the locale of sale. The advance buyer of a commodity property is prohibited from conducting any transfer of the advance sale of the commodity property that he has bought but which is still under construction;
- v) Without the permit for pre-sale of commodity properties, no advertisement of the pre-sale of commodity properties may be issued;
- vi) The property developers with a record of serious irregularity or commodity property projects which do not satisfy the requirements of the pre-sale of commodity properties are not allowed to take part in property trade affair; and

- vii) The property administration authority should strictly carry out the regulations of the pre-sale contractor registration and record and apply the real name system for house purchases.

(c) ***Mortgages of Property***

Under the Urban Real Estate Law, the “The Guarantee Security Law of the People’s Republic of China” promulgated by Standing Committee of the NPC on June 30, 1995 and implemented on October 1, 1995, and the “Measures on the Administration of Mortgages of Property in Urban Areas” promulgated by the MOHURD in May 1997 and as amended on August 15, 2001, when a mortgage is created on a building legally obtained, a mortgage must be simultaneously created on the land use rights of the land on which the building is situated. The land use rights of State-owned lands acquired through means of assignment, when being mortgaged, the buildings on the land must also be mortgaged at the same time. The land use rights of the town and village enterprises cannot be mortgaged separately. When buildings of the town and village enterprises are mortgaged, the land use rights occupied by the buildings shall also be mortgaged at the same time. The mortgager and the mortgagee must sign a mortgage contract in writing. Within 30 days after a property mortgage contract is signed, the parties to the mortgage must register the mortgage with the property administration authority at the location where the property is situated. A property mortgage contract will become effective on the date of registration of the mortgage. If a mortgage is created on the property in respect of which a building ownership certificate has been obtained, the registration authority shall make an entry under the “third party rights” item on the original building ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on the commodity property put to pre-sale or under construction, the registration authority will record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved must re-register the mortgage of the real property after issuance of the certificates evidencing the ownership of the property. In accordance with the Properties Rights Law, buildings newly constructed on the mortgaged construction land may not belong to the mortgaged properties. Such newly-constructed buildings can be disposed of together with the disposal of the aforesaid right to use construction land so as to realize the mortgage rights, however, the mortgagee has no right to seek preferred payments from the money generated from the disposal of these newly-constructed buildings.

(d) ***Leases of buildings***

Under the Urban Real Estate Law and the “Measures for Administration of Lease of Property in Urban Areas” promulgated by the MOHURD on May 9, 1995 and effective June 1, 1995, the parties to a lease of a building shall enter into a lease contract in writing. A system has been adopted to register the leases of buildings. When a lease contract is signed, amended or terminated, the parties must register the details with the property administration authority under the local government of the city or county in which the building is situated.

G. Property Credit

According to the “Notice of the PBOC on Regulating Home Financing Business” promulgated by the PBOC on June 19, 2001, all banks must comply with the following requirements before granting residential development loans, individual home mortgage loans and individual commercial flat loans:

- i) Housing development loans from banks should only be granted to property development enterprises with approved development qualifications and high credit ratings. Such loans should be offered to residential projects with good market potential. While the borrowing enterprise must have self-owned capital of no less than 30% of the total investment required of a project, the project itself must have been issued with a land use rights certificate, construction land planning permit, construction work planning permit and permit for commencement of construction work;
- ii) In respect of the grant of individual home mortgage loans, the ratio between the loan amount and actual value of the security (the “Mortgage Ratio”) must never exceed 80%. Where an individual applies for a home purchase loan to buy a pre-sale property, the property must have achieved the stage of “topping-out of the main structure completed” for multi-story buildings or “two-thirds of the total investment completed” for high-rise buildings; and
- iii) In respect of the grant of individual commercial flat loans, the Mortgage Ratio under the application for commercial flat loans must not exceed 60% with a maximum loan period of 10 years and the subject commercial flat must have already been completed.

The PBOC issued the “Notice of the PBOC on Further Strengthening the Management of Loans for Property Business (Yin Fa [2003] No. 121)” on June 5, 2003 to specify the requirements for banks to provide loans for the purposes of residential development, individual home mortgage and individual commodity properties as follows:

- i) The property loan by commercial banks to property enterprises may only be granted by the item of property development rather than cash flow loan item or other loan item. No type of loan can be granted for projects which do not obtain land use rights certificates, construction land planning permits, construction work planning permits and permits for commencement of construction work;
- ii) Commercial banks must not grant loans to property developers to pay off the land premium; and
- iii) Commercial banks may only provide housing loans to individual buyers when the main structural buildings have been topped out. When a borrower applies for individual home loans for his first residential unit, the first installment remains to be 20%. In respect of his loan application for additional purchase of residential unit(s), the percentage of the first installment can be increased.

Pursuant to the “Guideline for Commercial Banks on Risk Management of Real Estate Loans (Yin Jian Fa [2004] No. 57)” issued by the CBRC on September 2, 2004, any property developer applying for property development loans shall have at least 35% of capital required for the development.

According to the “Notice of the PBOC on the Adjustment of Commercial Bank Housing Credit Policies and the Interest Rate of Excess Reserve Deposits (Yin Fa [2005] No. 61)”, promulgated by the PBOC on March 16, 2005, from March 17, 2005, in the cities and areas where the price of houses grows too quickly, the first installment of individual home loans increases from 20% to 30%. The commercial banks can independently determine the specific cities or areas under such adjustment according to special situations in different cities or areas.

On May 24, 2006, the State Council issued the “Circular of the General Office of the State Council on Forwarding the Opinions of the MOHURD and other Departments on Adjusting the Housing Supply Structures and Stabilizing Property Prices (Guo Ban Fa [2006] No. 37)”. These regulations on property credit are as follows:

- i) Strictly impose credit conditions on property development. In order to suppress property development enterprises from storing up land and housing resources by use of bank loans, commercial banks must not provide loans to those property enterprises that fail to meet loan conditions, for example, having a project capital less than 35%. For property development enterprises that have a large amount of idle land and vacant commodity properties, the commercial banks must, in light of the principle of prudential operations, be stricter in controlling the renewal of loans or any form of revolving credit. The commercial banks shall not accept any commodity property that has been idle for more than three years as collateral for loans; and
- ii) Commencing from June 1, 2006, the proportion of initial payment of individual housing mortgage loans must not be lower than 30%. However, considering the demands for housing by the medium and low-income population, the purchase of self-used housing with gross floor area no more than 90 square meters is still subject to the provision of the initial payment of housing at 20%.

According to the “the Opinions of the MOHURD, MOFCOM, the NDRC, the PBOC, the SAIC and SAFE on Regulating the Access and Management of Foreign Capital in the Real Estate Market (Jian Zhu Fang [2006] No. 171)”, effective July 11, 2006, foreign-invested property enterprises which have not paid up their registered capital, or failed to obtain a land use rights certificate, or with less than 35% of the capital for the project, will be prohibited from obtaining a loan in or outside China, and SAFE must not approve the exchange settlements of foreign loans for such enterprises.

On July 10, 2007, SAFE issued Notice 130 indicating that it will no longer process foreign debt registration or approval of exchange settlement of foreign debt for real estate enterprises with foreign investment that obtained authorization certificate from and registered with MOFCOM on or after June 1, 2007. Please refer to the section headed “B. Foreign-invested Property Enterprises” above.

In accordance with the “Notice of the PBOC and the CBRC on Strengthening the Administration of Commercial Real Estate Credit Loans (Yin Fa [2007] No. 359)” jointly issued by the PBOC and the CBRC on September 27, 2007, when a borrower applies for individual home loans for his first self-used residential unit with gross floor area more than 90 square meters, the first installment shall not be less than 30%; in respect to his loan application for additional purchase of residential unit(s), the first installment should not be less than 40%, the loan interest should not be lower than 1.1 times of the benchmark lending rate published by the PBOC in the same period and at the same level and the amount of the first installment and interest of the loan should be increased largely based on the number of the purchased apartments. The detailed level of increase should be decided by commercial banks according to the loan risk management principals. The first installment of the commercial flat loans should not be less than 50% with a maximum loan period of 10 years, and the loan interest should be no less than 1.1 times of the benchmark lending rate published by the PBOC at the same period and level. The detailed level of first installment, period of loan and interest level should be decided by commercial banks according to the loan risk management principals. To the loan application for commercial-resident apartment, the first installment should be no less than 45% and the loan period and interest should be decided according to the commercial flat loan management rules.

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)”, which clarifies that the number of times a purchaser has obtained property mortgage loans must be calculated on a family basis, including the borrowers and their spouse and minor children.

H. Insurance of a Property Project

There are no mandatory provisions in PRC laws, regulations and government rules which require a property developer to take out insurance policies for its property projects.

In light of the “Construction Law of the People’s Republic of China” enacted by the Standing Committee of the National People’s Congress on November 1, 1997 and enforced on March 1, 1998, construction enterprises must take out accident and casualty insurance for workers engaged in dangerous operations and pay insurance premium. In the “Opinions of the Ministry of Construction on Strengthening the Insurance of Accidental Injury in the Construction Work” by the Ministry of Construction on May 23, 2003, the Ministry of Construction further emphasizes the importance of the insurance of accidental injury in the construction work and put forward the detailed opinions of guidance.

I. Major Taxes Applicable to Property Developers

(a) Income tax

According to the “Income Tax Law of The People’s Republic of China for Foreign-invested Enterprises and Foreign Enterprises” which was promulgated by the NPC on April 9, 1991 and implemented on July 1, 1991 and its detailed rules promulgated by State Council on June 30, 1991, the income tax on enterprises with foreign investment will be computed on the taxable income at the rate of 30%, and local income tax will be computed on the taxable income at the rate of 3%.

Pursuant to the “Provisional Regulations of the People’s Republic of China on Enterprise Income Tax” issued by the State Council on December 13, 1993 and enforced on January 1, 1994 and the “Detailed Implementation Rules on the Provisional Regulations of The People’s Republic of China on Enterprise Income Tax” issued by the PRC Ministry of Finance (the “**MOF**”) on February 4, 1994, the income tax rate applicable to Chinese enterprises other than foreign-invested enterprises and foreign enterprises is 33%.

According to the “PRC Corporate Income Tax Law” (the “**CIT Law**”), enacted by the NPC on March 16, 2007 and effective on January 1, 2008, which has superseded the Income Tax Law of the “People’s Republic of China for Foreign-invested Enterprises and Foreign Enterprises” and the “Provisional Regulations of the People’s Republic of China on Enterprise Income Tax”, a uniform income tax rate of 25% will be applied towards foreign investment and foreign enterprises which have set up institutions or facilities in the PRC as well as PRC enterprises.

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 CIT 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. However, pursuant to the “Implementation Rules of the People’s Republic of China on the Enterprise Income Tax” promulgated by the State Council on December 6, 2007 and effective January 1, 2008, a reduced income tax rate of 10% will be applicable to any dividends payable to non-PRC enterprise investors from foreign invested enterprises.

According to the “Notice of the State Administration of Taxation on the Prepayment of Enterprise Income Tax of the Real Estate Development Enterprises” issued by the State Administration of Taxation on April 11, 2008 and effective on January 1, 2008, 1), where a real estate development enterprise prepays the corporate income tax by quarter (or month) according to the current actual profit, for the incomes generated from the advance sale prior to the completion of such development products as the dwelling houses, commercial houses and other buildings, fixtures, supporting establishments etc., which are developed and built by the real estate development enterprise, the tax prepayment thereof shall be paid by calculating the estimated profit, which is calculated by quarter (or month) according to the preset estimated profit rate and incorporated into the total profit, and it shall be readjusted according to the actual profit after the development products are completed and the tax costs are settled.

On March 6, 2009, the State Administration of Taxation issued the “Notice on the Measure Dealing with Income Tax of Enterprise Engaged in Real Estate Development” effective on January 1, 2008, which specifically stipulate the rules regarding tax dealing cost of income, tax dealing of cost deduction, verification of calculated tax cost and tax dealing on certain item with respect to the real estate development enterprise according to the CIT Law and its Implementation Rules.

(b) **Business Tax**

Pursuant to the “Interim Regulations of the People’s Republic of China on Business Tax (2008)” promulgated by the State Council on November 10, 2008 and implemented on January 1, 2009 and the “Detailed Rules for the Implementation of the Interim Regulation of the People’s Republic of China on Business Tax (2008)” issued by the MOF and effective on January 1, 2009, the Business tax rate for real estate industry is 3%.

(c) **Land Appreciation Tax**

According to the requirements of the “Provisional Regulations of The People’s Republic of China on Land Appreciation Tax” (the “**Land Appreciation Tax Provisional Regulations**”) which was promulgated on December 13, 1993 and effected on January 1, 1994, and the “Detailed Implementation Rules on the Provisional Regulations of the People’s Republic of China on Land Appreciation Tax” (the “**Land Appreciation Tax Detailed Implementation Rules**”) which was promulgated and effective January 27, 1995, any appreciation gain from a transfer of property shall be subject to Land Appreciation Tax (“**LAT**”). LAT shall be charged at four levels of progressive rates: 30% for the appreciation amount not more than 50% of the sum of deductible items; 40% for the appreciation amount more than 50% but not more than 100% of the sum of deductible items; 50% for the appreciation amount more than 100% but not more than 200% of the sum of deductible items; and 60% for the appreciation amount more than 200% of the sum of deductible items. The related deductible items aforesaid include the following:

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

According to the requirements of the Land Appreciation Tax Provisional Regulations, the Land Appreciation Tax Detailed Implementation Rules and the “Notice on the Levy and Exemption of Land Appreciation Tax for Development and Transfer Contracts signed before 1 January 1994” issued by the MOF and the State Administration of Taxation on January 27, 1995, LAT will 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. Luxury apartments, villas, 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 1 January 1994, regardless of when the properties are transferred;
- 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, the LAT may be exempted if the properties are transferred within 5 years after January 1, 1994 for the first time. The date of signing the contract must be the date of signing the Sale and Purchase Agreement. Particular properties 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 MOF and the State Administration of Taxation.

On December 24, 1999, the MOF and the State Administration of Taxation issued the "Notice in Respect of the Extension of the Period for the Land Appreciation Tax Exemption Policy" which extended the period for the LAT exemption policy as mentioned the paragraph above to the end of 2000.

After the issuance of the Land Appreciation Tax Provisional Regulations and the Land Appreciation Tax Detailed Implementation Rules, due to the longer period for property development and transfer, many districts, while they were implementing the regulations and rules, did not force the property development enterprises to declare and pay the LAT. Therefore, the MOF, State Administration of Taxation, MOHURD and the MLR had separately and jointly issued several notices to restate that, after the assignments are signed, the taxpayers should declare the tax to the local tax authorities where the property is 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 will not process the relevant title change procedures, and will not issue the property title certificate.

The State Administration of Taxation also issued the "Notice on Serious Handling of Administration of the Collection of Land Appreciation Tax" (the "Notice on LAT Collection") 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 for the pre-sale of properties. The Notice on LAT Collection 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, the privilege policy for LAT exemption for the properties that are transferred for the first time is expired, and such tax will be levied again. This requirement is restated

in the “Notice on Strengthening of Administration of the Collection of Land Appreciation Tax” and “Notice of State on Further Strengthening of Administration Work in relation to the Collection of Land Appreciation Tax and Land Use Tax in Cities and Towns” issued separately on August 2, 2004 and August 5, 2004 by State Administration of Taxation. These two notices also 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 MOF and State Administration of Taxation issued the “Notice on Several Points on Land Appreciation Tax” 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 as built by taxpayers as well as in the transfer of ordinary residential houses by individual residents*

The notice sets out the standards for ordinary standard residential houses. Where any developers build ordinary residential houses as well as other commercial houses, the appreciation amount of land shall be verified, respectively. Before the day when this notice is publicized, no adjustment will be retroactively made for 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 given the treatment of exemption from LAT upon examination according to the 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.

- ii. *As to the advance collection and settlement of LAT*

- i) All regions must decide the advance collection rate in a scientific and reasonable manner, and adjust it at a proper time according to the value addition level of the property as well as the market development level within the region and on the basis of the specific housing categories, namely, ordinary standard residential houses, non-ordinary standard residential houses and commercial houses. After a project is completed, the relevant settlement must be handled in a timely manner, with any overpayment refunded or any underpayment being made up;
- ii) As to any tax that fails to be collected in advance within the advance collection term, the overdue fines must be collected as of 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;
- iii) 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 more than 85% of the saleable floor area, the tax authority may require the relevant taxpayer to conduct the settlement of LAT on the transferred property according to the matching principles regarding

the proportion between the income as generated from the transfer of property and the amount under the item of deduction. The specific method of settlement must 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

- iv) 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 itself builds, it must not be governed by the regulation of the interim exemption of LAT when the property (land) is transferred to the enterprise by means of investment or association.

On December 28, 2006, the State Administration of Taxation issued the “Notice of the State Administration of Taxation on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (Guo Shui Fa [2006] No. 187)” which came into effect on February 1, 2007. Pursuant to the Notice, a property developer must settle and clear the LAT payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable LAT tax rates. The LAT must be settled for projects approved by the competent authorities; and for projects developed in different stages, the LAT must 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 either of the following criteria is met: (i) for completed property development projects, the transferred GFA represents more than 85% of total saleable GFA, or the proportion represented is less than 85%, but the remaining saleable GFA has been leased out or used by the developer; (ii) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (iii) the developer applies for cancellation of the tax registration without having settled the relevant LAT; or (iv) other situations stipulated by the local provincial tax authorities.

The notice also indicated that if a property developer satisfies any of the following circumstances, the tax authorities will levy and collect LAT 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 not well prepared or the cost information, 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 taxable income as submitted is unusually low without a justifiable reason. Local provincial tax authorities can formulate their own implementation rules according to the notice and local situation.

According to the “Notice on further strengthening Administration of LAT of Real Estate Development Enterprise in Our Province” (Min Di Shui Fa (2008) No 64) issued by the Fujian Provincial Local Tax Bureau, which provides that: (i) LAT liabilities are based on a fixed rate, which ranged from 1% to 5% of the proceeds from pre-sales of the properties, depending on the different types of real estate development project. Regarding the real estate development which has obviously higher LAT rate, LAT liability will be independently calculated and shall not be less than the average rate. (ii) The settlement project shall be separately levied as ordinary houses, non-ordinary houses and non-living houses. In addition the tax payer who violates the rules will be punished accordingly and the settlement projects which shall be settled under the “Notice of the State Administration of Taxation on the Administration of the Settlement of Land Appreciation Tax of Property Development Enterprises (Guo Shui Fa [2006] No. 187) shall be settled in required period. (iii) Considering the project which has been completed and sold out but has not been settled with LAT before January 1, 2006, the tax authority shall verify according to the pre-levied rate in the tax belonging period. Considering the project which has been completed and sold out but has not been settled with LAT during January 1, 2006 and June 30, 2008, the LAT shall be levied on 3% of sale amount. From July 1, 2008, the LAT shall be levied on 5% of sale amount or on the independent pre-levied rate verified by the local tax authority.

(d) ***Deed tax***

Pursuant to the “Interim Regulations of the People’s Republic of China on Deed Tax” promulgated by the State Council on July 7, 1997 and implemented on October 1, 1997, the transferee, whether an individual or otherwise, of the title to a land site or a building in the PRC will be the obliged taxpayer for deed tax. The rate of deed tax ranges from 3% to 5%. The governments of provinces, autonomous regions and municipalities directly under the central government may determine and report their effective tax rates, within the aforesaid range, to the MOF and the State Administration of Taxation for the record. Pursuant to the “Implementation Measures on ‘Interim Regulations of the People’s Republic of China on Deed Tax’ in Fujian Province” promulgated by the People’s Government of Fujian on November 8, 1997, effective on October 1, 1997 and amended on November 7, 2003, the rate of deed tax in Fujian is 3%..

(e) ***Urban land use tax***

Pursuant to the “Provisional Regulations of the People’s Republic of China Governing Land Use Tax in Urban Areas” 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 will 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” promulgated by the MOF on November 2, 1988 and the “Approval on Land Use Tax Exemption of Foreign-Invested Enterprises” issued by State Administration of Taxation on March 27, 1997, land use fees should be collected instead of land use tax in a foreign-invested enterprise. However, the

Provisional Regulations of the People's Republic of China Governing Land Use Tax in Urban Areas were revised by the State Council on December 31, 2006. As of January 1, 2007, land use tax must be collected from foreign-invested enterprises. The annual tax on every square meter of urban land must be between RMB0.6 and RMB30.0.

(f) ***Buildings tax***

Under the "Interim Regulations of the People's Republic of China on Building Tax" promulgated by the State Council on September 15, 1986 and implemented on October 1, 1986, building tax will 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.

(g) ***Stamp duty***

Under the "Interim Regulations of the People's Republic of China on Stamp Duty" promulgated by the State Council on August 6, 1988 and implemented on October 1, 1988, for property transfer instruments, including those in respect of property ownership transfer, the stamp duty rate will be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property title certificates and land use rights certificates, stamp duty will be levied on an item basis of RMB5 per item.

(h) ***Municipal maintenance tax***

Under the "Interim Regulations of the People's Republic of China on Municipal Maintenance Tax" 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 will be required to pay municipal maintenance tax. The tax rate will 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", and the "Approval on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises" issued by State Administration of Taxation on February 25, 1994 and on September 14, 2005, respectively, the municipal maintenance tax will not be applicable to foreign-invested enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

(i) ***Education surcharge***

Under the "Interim Provisions on Imposition of Education Surcharge" promulgated by the State Council on April 28, 1986 and as amended on June 7, 1990 and August 20, 2005, respectively, a taxpayer, whether an individual or otherwise, of product tax, value-added tax or business tax must pay an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the "Notice of the State Council on Raising Funds for Schools in Rural Areas". Under the "Supplementary Notice Concerning Imposition of Education Surcharge" issued by the State

Council on October 12, 1994, the Circular Concerning Temporary Exemption from Municipal Maintenance Tax and Education Surcharge for Foreign-invested Enterprises and Foreign Enterprises and the Reply on Exemption of Municipal Maintenance Tax and Education Surcharge in Foreign-Invested Freightage Enterprises issued by the State Administration of Taxation on February 25, 1994 and on September 14, 2005, respectively, the education surcharge will not be applicable to enterprises with foreign investment for the time being, until further explicit stipulations are issued by the State Council.

J. Measures on Stabilizing Housing Price

The General Office of the State Council promulgated the “Circular on Stabilizing Housing Price” on March 26, 2005, requiring measures to be taken to restrain the housing price from overheating and to promote the healthy development 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 Departments on Stabilizing Property Prices (Guo Ban Fa [2005] No.26)”, which provides that:

(a) ***Intensifying the planning and control and improving the housing supply structure***

Where the housing price is in excessive growth, the supply of ordinary commodity houses at medium or low prices and economical houses are insufficient; the housing construction should mainly involve projects of ordinary commodity houses with medium or low prices and economical houses. The construction of low-density, high-class houses must be strictly controlled. With respect to construction projects of medium-or-low-price ordinary commodity houses, before any supply of land, the municipal planning authority will, according to controlling detailed planning, set forth such conditions for planning and designing as height of buildings, plot ratio and green space. The property authority will, in collaboration of other relevant authorities, set forth such controlling requirements as sales price, type and area. Such conditions and requirements will be set up as preconditions of land assignment to ensure an effective supply of small or medium-sized houses at moderate and low prices. The local government must intensify the supervision of construction work planning permit for property development projects. Housing projects that have not been commenced within two years must be examined again, and those that turn out to be non-compliant with the construction work planning permits will be revoked.

(b) ***Intensifying the control over the supply of land and rigorously enforcing the administration of land***

Where the price of land for residential use and residential house 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 property at medium or low price range and economical housing should be emphatically increased. Land supply for villa construction will be continuously suspended, and land supply for high-class housing property construction will be restricted.

(c) ***Adjusting the policies of business tax in the link of house transfer and strictly regulating the collection and administration of tax***

Commencing from June 1, 2005, business tax upon transferring a residential house by an individual within two years from the date of purchase will be levied on the full amount of the sale proceeds. For an individual having transferred an ordinary residence after two years from date of purchase, business tax will be exempted. For an individual having transferred a property other than ordinary residential house for two years or more from date of purchase, the business tax will be levied on the basis of the balance between the income from selling the residence and the purchase price.

(d) ***Practically rectifying and regulating the market order and seriously investigating into and punishing any irregular and rule-breaking sales***

The buyer of a pre-sale commodity property is prohibited from conducting any transfer of such building if it is still under construction. A real name system for house purchase should be applied, and an immediate archival filing network system for pre-sale contracts of commodity properties should be carried out.

On July 13, 2006, the General Office of the State Council issued the "Notice about Relevant Matters on Establishing State Land Supervision System". In accordance with this notice, M L R will establish State Land Supervision General Office and send its local counterparts State Land Supervision Bureau in order to strengthen supervision and management on land and practice the strictest possible land management system.

On August 31, 2006, the State Council issued the "Notice about Relevant Matters on Strengthening Control on Land" in order to hold back the problems of over-fast increase of aggregate amount of construction land, excessive expansion of low cost industrial land, illegal use of land and abusive occupation of cultivated land. The following major measures are put forth in the notice: (i) adjusting land approval measures for urban construction in accordance with the principle of sharing both rights and responsibilities; (ii) only after guaranteeing the social security fee for the land expropriated farmers can the approval of land expropriation be granted; (iii) the total amount of money from the sale of state-owned land use right shall be fully included into local budget and collected into local government treasury, and the 'line of income and expenditure' shall be administrated separately; (iv) raising the standard for land use right fee of newly added construction land. Land use right fee of newly added construction land shall depend on the area actually added. Raise urban land use tax and rural cultivated land use tax; (v) the State formulating and promulgating the unified minimum standard for granting industrial land across the country, and industrial land being granted by tender, auction or putting up for bidding and the price for assignment of the Land Use Rights shall never be lower than each and every local minimum standard for granting industrial land; and (vi) prohibiting conversion of agricultural land into construction land "in the name of leasing while actually expropriating" or other illegal ways.

On November 7, 2006, Ministry of Finance, MLR and PBOC issued a Notice about Relevant Matters on Policy Adjusting Concerning Land Use Fee for Newly Created Construction Land. The notice requests to double the land use fee on newly created construction land from January 1, 2007.

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 Departments on Adjusting the Housing Supply Structures and Stabilizing Property Prices (Guo Ban Fa [2006] No. 37)”. As to the adjustment of housing supply and stabilization of housing prices, the opinion provides that:

- i. *Practically adjusting the housing supply structure*
 - i) The construction of medium and small-sized ordinary commodity houses at medium or low price should be especially developed to satisfy the self-living demands of local residents; and
 - ii) Commencing from June 1, 2006, for each and every commodity property newly examined and approved for starting construction, the proportion of the area of housing (including economically affordable housing) with a unit floor area less than 90 square meters must reach 70% of the total development and construction area. In case of adjustment of the above-mentioned proportion, if required in special cases, the municipalities directly under the central government, separately planned cities and provincial capital cities must submit the special request for adjusting proportion to the MOHURD for approval. The projects that have been examined and approved but without obtaining the permits for commencement of construction work must adjust the set style of housing according to the above-mentioned requirements if they do not meet such requirements.
- ii. *Further promoting the adjusting role of tax, credit and land policies*
 - i) Commencing from June 1, 2006, business tax upon transferring a residential property by an individual within five years from the date of purchase will be levied on the basis of the full amount of the sale proceeds. For an individual transferring an ordinary residential property five years or more from the date of purchase, business tax will be exempted. For an individual transferring a house other than an ordinary residential house for five years or more from purchasing, the business tax will be levied on the basis of the balance between the income from selling the house and the purchase price;
 - ii) The conditions on the credit of the property development will be strictly enforced. In order to restrain property developers from purchasing land and buildings with bank credits, any developer applying for loans shall have at least 35% of capital required for the project development. To the developers with a large amount idle

land and vacant commodity properties, 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 a guarantee by the commercial banks;

- iii) Commencing from June 1, 2006, the first installment of individual home loans should be no less than 30%. When a borrower applies for individual home loans for his own use and the floor area of the unit is less than 90 square meters, the first installment remains at 20%;
 - iv) At least 70% of the land supply for residential property development must be used for developing low-to-medium-cost and small to medium-size units and low-cost rental properties. On the basis of the restriction of price and housing set style, the land supply shall adopt the method of public tender of land price and housing price to determine the property developer. Land supply for villas will be continuously suspended, and land supply for low-density and large-scale housing property constructions will be strictly restricted; and
 - v) The disposition of the idle land was reinforced. When the construction has not yet started after one year since the duration of construction agreed in the contract has elapsed, charge for idle land should be collected at a higher level; when the construction has not yet started after two years have elapsed, the right to use land can be taken back without consideration. The land will be regarded as idle land if the development and construction of the land has started on time, but the developed area 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 investment, and the development and construction has been continuously suspended for no less than one year without approval.
- iii. *Further rectifying and regulating the order of property market*
- i) The project with the construction work planning permit which has not started construction should be re-censored. If the project is not in accordance with the controlling requirements of the plan, especially the requirements of the set style structure, the construction work planning permit, the permit for commencement of construction work and the permit for pre-sale of commodity properties should not be issued. The housing of the designing of which has been changed, the projects of which have been altered or the construction of which has exceeded the provisions will be disposed of or confiscated according to law; and
 - ii) The property administration authority and the administration of industry and commerce should investigate any illegal trade conduct such as contract fraud. The illegal conduct of commodity properties pre-sale without the necessary conditions should be ordered to stop and punished. With respect to the property enterprises that store up housing source from sale, maliciously manipulate and raise housing

prices, the competent authorities will reinforce the strength in rectification and prosecution, and for those in severe situations and serious nature, monetary punishment will be given according to laws and regulations, until the suspension of business licenses, and the responsible persons concerned will be investigated and prosecuted.

On July 6, 2006, the MOHURD promulgated the “Opinion of the MOHURD on Implementing Ratio Requirements for the Structural Compositions of Newly-Constructed Residential Buildings (Jian Zhu Fang [2006] No. 165)”. The opinion provides the following:

- i) As of June 1, 2006, of the newly approved and newly commenced construction projects in different cities including town and counties 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). The relevant authorities in different localities must strictly follow the prescribed ratio requirement in their respective locality;
- ii) The relevant authorities must ensure the conditions of newly built commodity apartments including the planning and the design, and must ensure that the property size ratio is adhered to. If a property developer has not followed the ratio requirement without sound reasons, the urban planning authorities shall not issue a construction work planning permit. If the property developer has not followed the requirements of the construction work planning permit, the relevant authority reviewing the planning documents shall not issue a certification, the construction authority shall not issue a permit for commencement of construction work, and the property authority shall not issue a permit for pre-sale of the commodity apartments.

In the case of residential property projects that were granted approvals before June 1, 2006 but without a construction work permit by that date, the relevant local governments should ensure that the prescribed residential property size ratio requirement is complied with.

On September 27, 2007, the PBOC and the CBRC further tightened mortgage lending by PRC commercial banks, by increasing the amount of down payment a property purchase must make before seeking mortgage financing. Please refer to the section headed “G. Property Credit” above.

On December 20, 2008, the General Office of the State Council issued the “Notice Several Opinions on Facilitating Healthy Development of Real Estate Market”(Guo Ban Fa (2008) No. 132). These Opinions include:

- (i) While first-time borrowers of mortgage loans for the purchase of common dwellings for their own use can enjoy preferential policies in terms of mortgage rates and down payment ratios, individuals who have already borrowed a

mortgage loan for their first dwelling but have a per-capita housing area lower than the local average level may enjoy the same preferential policies as those applicable to first-time borrowers of mortgage loans for the purchase of common dwellings for their own use when they apply for a mortgage loan for the purchase of their second common dwelling for the purpose of improving their living conditions. In other cases where individuals borrow mortgage loans for the purchase of their second or subsequent common dwellings, the mortgage rates and other terms shall be reasonably determined by the commercial banks based on the benchmark interest rate having regard to the risks involved.

- (ii) Preliminary exemption or reduction of business tax on dwelling transfers for one year. Transfers by individuals of common dwellings which have been purchased for two years or more (instead of the current requirement of five years or more) will be exempted from business tax; in the case of transfers by individuals of common dwellings which have been purchased for less than two years, business tax will be levied on the difference between the transfer price and the original purchase price, instead of on the full amount of the transfer price under the current requirement.
- (iii) in the case of transfers by individuals of uncommon dwellings which have been purchased for two years or more (instead of the current requirement of five years or more), business tax will be levied on the difference between the transfer price and the original purchase price; transfers by individuals of uncommon dwellings which have been purchased for less than two years will still be subject to a business tax on the full amount of the transfer price.
- (iv) The above policies will preliminarily be implemented until December 31, 2009. According to the decisions made by the State Council on December 9, 2009, except for policies (ii) and (iii), the other above policies will be continually implemented after December 31, 2009.
- (v) Abolishment of the urban real estate tax. To further ensure the fair allocation of tax liabilities and improve the real estate taxation regime, the urban real estate tax is abolished in accordance with legal procedures and the Provisional Regulations of the People's Republic of China on Real Estate Tax shall be applicable to domestic and foreign-invested enterprises as well as individuals.

On February 14, 2009, the General Office of the Fujian Province Government issued the "Several Opinions on Facilitating Healthy Development of Real Estate Market (Min Zheng Ban [2009] No. 25)" (閩政辦 [2009] 25 號), These Opinions include: (i) Revising the standard of ordinary commercial house; (ii) Regarding the mortgages lent by residences who purchase the ordinary house for themselves living in first time, the lower limit of lending rates can be 70% of benchmark lending rates and the minimum down payment of the total purchase price can be 20%. (iii) The stamp duty will be temporarily exempted for the selling and purchasing real estate by individual and the land appreciation tax will be temporarily exempted for the selling real estate by individual. The city and county government may revise and loosen the

policy facilitating that the outlanders who purchase the commercial houses and second hand houses apply the local urban residence certificate. (iv) The payment period of land transfer fee regarding commercial land use right newly granted through tender, auction or putting up for bidding can be extended to 12 months, With respect to some high price and large scale land the payment period may be extended to maximum 18 months. In case regarding the land granted after January 1, 2007 the transferee cannot commence the construction in time, the period of commencement and completion of construction for project can be extended to extra one year according to the scale of land. (v) The tax relating to development project can be levied by stages or suspended to be levied.

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.

K. Document of Title

In the PRC, there are two registers for property interests. Land registration is achieved by the issuance of a land use rights certificate by the relevant authority to the land user. This serves as evidence that the land user has obtained land use rights which can be transferred, mortgaged or leased according to relevant laws and regulations. The housing registration is the issue of a building ownership certificate or a real estate ownership certificate to the owner. This serves as evidence that the owner has obtained housing ownership rights in respect of the building erected on a piece of land. According to the “State Land Administration Bureau Land Registration Regulations” promulgated by the State Land Administration Bureau, the precedent of the MLR, on December 18, 1995 and effective February 1, 1996, the “Administrative Rules on Registration of Urban Property Rights” promulgated and amended by the MOHURD, respectively, on October 27, 1997 and August 11, 2001, and the “Land Registration Rules” promulgated by the MLR on December 30, 2007 and effective February 1, 2008, all land use rights and housing ownership rights which are duly registered are protected by the law.

In connection with these registration systems, real estate and land registries have been established in the PRC. In most cities in the PRC, the above systems are separate systems. However, in some other major cities, the two systems have been consolidated and a single composite real estate ownership certificate will be issued evidencing the ownership of both land use rights and the housing erected thereon.

II. LEGAL SUPERVISION RELATING TO PROPERTY MANAGEMENT SECTOR IN THE PRC**A. Foreign-invested property service enterprises**

According to the “Foreign Investment Industrial Guidance Catalogue”, property management falls within the Category of Permitted Foreign Investment Industries. According to the “Foreign Investment Industrial Guidance Catalogue” and the relevant requirements set out under the laws and the administrative regulations on foreign investment enterprises, a foreign invested property service enterprise can be set up in the form of sino-foreign equity joint venture, sino-foreign cooperative joint venture or wholly foreign owned enterprise. Before the administration of Industry and Commerce registers a foreign investment enterprise as a foreign-invested property service enterprise, the foreign-invested property service enterprise should obtain an approval from the relevant department of commerce and receive a “foreign investment enterprise approval certificate”.

B. Qualifications of a property service enterprise

According to the “Regulation on Property Management” enacted by the State Council on June 8, 2003, enforced on September 1, 2003 and revised on August 26, 2007, the state implements a qualification scheme system in monitoring the property service enterprises. According to the “Measures for Administration of Qualifications of Property Service Enterprises” enacted by the Ministry of Construction on March 17, 2004, enforced on May 1, 2004 and revised on November 26, 2007, a newly established property service enterprise shall, within 30 days from the date of receiving its business license, apply to the relevant local bureau in charge of the property management under the local government or to the municipalities directly under the Central Government for a grading assessment. The departments of qualification examination and approval will check and issue a “property management qualification certificate” corresponding to their grading assessment results.

According to the “Measures for the Administration on Qualifications of Property Service Enterprises”, and revised on November 26, 2007 the qualifications of a property service enterprise shall be classified as class one, class two and class three. The competent construction department of the State Council shall be responsible for issuance and administration of the qualification certificate of the class one property service enterprises. The competent construction departments of the people’s governments of provinces and autonomous regions shall be responsible for issuance and administration of the qualification certificate of the class two property service enterprises, and the competent realty departments of the people’s governments of municipalities directly under the Central Government shall be responsible for issuance and administration of the qualification certificate of the classes two and three property service enterprises. The competent realty departments of the people’s governments of the cities divided into districts shall be responsible for the issuance and administration of the qualification certificate of the class three property service enterprises.

The property service enterprises with the class one qualification may undertake various property management projects. The property service enterprises with the class two qualification may undertake the property management business of residential management projects of less than 300,000 sq.m. and the non-residential management projects of less than 80,000 sq.m. The property service enterprises with the class three qualification may undertake the property management business of residence projects of less than 200,000 sq.m. and non-residence projects under 50,000 sq.m.

C. Employment of a property service enterprise

According to the “Regulation on Property Management”, the general meeting of owners can select and dismiss the property service enterprises if the consent of both the owners holding 1/2 or more of the private building area out of the total building area and 1/2 or more of the relevant property owners has been obtained. If, before the formal employment of a property management by the owners or the general meeting, the construction unit is to employ a property service enterprise, it shall enter into a preparation stage property services contract in writing with the property service enterprise.

III. FOREIGN EXCHANGE CONTROLS OF THE PRC

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE, under the authority of the PBOC, 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 centers. The exchange rates used by swap centers 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 center had to obtain the prior approval of SAFE.

On December 28, 1993, the PBOC, under the authority of the State Council, promulgated the “Notice of the PBOC Concerning Further Reform of the Foreign Currency Control System” effective 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 centers.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, determined by demand and supply of Renminbi. Pursuant to such system, 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.

On January 29, 1996, the State Council promulgated the “Regulations for the Control of Foreign Exchange” (the “**Control of Foreign Exchange Regulations**”) which became effective April 1, 1996. The Control of Foreign Exchange Regulations classifies all international payments and transfers into

current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations was subsequently amended on January 14, 1997. Such amendment affirms that the State will not restrict international current account payments and transfers. The Control of Foreign Exchange Regulations was further amended on August 1, 2008.

On June 20, 1996, the PBOC promulgated the “Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange”(the “**Settlement Regulations**”) 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 the basis of the Settlement Regulations, the PBOC published the “Announcement on the Implementation of Foreign Exchange Settlement and Sale Banks by Foreign-invested Enterprises”. The announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange, and specialized accounts for capital account receipts and payments at designated foreign exchange banks. On April 13, 2006, the PBOC promulgated the “Announcement [2006] No.5”. The announcement provides that the system for opening, amending and closing current account-related foreign exchange accounts by enterprises shall be changed from one requiring advance examination and approval to one in which matters shall be handled directly by banks in line with foreign exchange control requirements and commercial practice and reported to the foreign exchange bureau for the record. The balance on current account-related foreign exchange accounts of enterprises shall be increased. On the same day, SAFE issued a “Notice on Adjusting the Policies Concerning the Administration of Current Foreign Exchange Accounts”. The notice abolished the advance examination for opening of current account-related foreign exchange accounts and improved the balance on current account-related foreign exchange accounts.

On October 25, 1998, the PBOC and SAFE jointly promulgated the “Notice Concerning the Discontinuance of Foreign Exchange Swapping Business” pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprises will be regulated under the system for the settlement and sale of foreign exchange by commercial banks.

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 solely 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.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in the PRC must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares is not required to be sold to designated banks, but may be deposited in foreign exchange accounts with designated banks.

Enterprises in the PRC (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 domestic enterprises which, in accordance with relevant 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.

Pursuant to the “State Administration of Foreign Exchange’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles” (“**Circular No. 75**”), issued on October 21, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, must register with the local branch of SAFE before it establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into a special purpose vehicle, or engages in overseas financing after contributing assets or equity interests into a special purpose vehicle, such PRC resident must register his or her interest in the special purpose vehicle and the change thereof with the local branch of SAFE; and (iii) when the special purpose vehicle undergoes a material event outside of China, such as change in share capital or merger and acquisition, the PRC resident must, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. Under Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary’s foreign exchange activities and its ability to distribute dividends to the special purpose vehicle.

On September 1, 2006, SAFE and the MOHURD jointly issued a “Notice on Regulating Issues Relevant to Administration of Foreign Exchange in Real Estate Market”. The notice provides: (i) where a foreign-invested property 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 handle 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 handle the registration of foreign exchange income from transfer of equities; (iii) the domestic and foreign investors of a foreign-invested property enterprise must not reach an agreement including any clause which promises a fixed return or fixed return in any disguised form to any party, otherwise the foreign exchange bureau will not handle 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 must 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 houses within the PRC.

On December 25, 2006, the PBOC promulgated the “Measures for the Administration of Individual Foreign Exchange” (the “**Measures for the Administration of Foreign Exchange**”). The Measures for the Administration of Foreign Exchange use category administration to classify the individual foreign exchange operations as domestic and overseas by participants of transaction, and current accounts and capital accounts by nature of transaction. The Measures for the Administration of Foreign Exchange stipulate that administration of total annual amount shall apply to individual settlement of foreign exchange and domestic individual purchase of foreign exchange, and provide different procedures for individuals who settle foreign exchange over the annual total amount and domestic individuals who purchase foreign exchange over the annual total amount according to current accounts items and capital accounts items.

On January 5, 2007, SAFE promulgated the “Detailed Rules for the Implementation of the Measures for the Administration of Individual Foreign Exchange” (the “Detailed Rules”) effective February 1, 2007. The Detailed Rules provide, amongst others, that (i) the annual total amount of foreign exchange for settlement of individuals and for purchase of domestic individuals is US\$50,000; (ii) domestic individuals who engage in external direct investment shall satisfy the relevant rules of the state and for the required foreign exchange, he/she may purchase foreign exchange or remit the self-owned foreign exchange abroad upon the approval of the local foreign exchange department and shall complete the overseas investment foreign exchange registration; (iii) domestic individuals can engage in financial investment such as overseas fixed-revenue right-interest, etc through qualified domestic institutional investors such as banks and fund management companies; and (iv) in case domestic individuals engage in such foreign exchange operations as a employee stock ownership plan of an overseas listed company or subscription option program, they can only deal with such options after completing the registration with the foreign exchange bureau through their company or domestic agency institutions.

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)” (“**Notice 130**”). This new regulation restricts the ability of foreign invested real estate enterprises to raise funds offshore and then inject funds into the companies either through capital increase or by way of shareholder loans. The notice stipulates, among other things:

- i) that SAFE and local branches of SAFE will no longer process foreign debt registration or application for purchase of foreign exchange for real estate enterprises with foreign investment that obtained authorization certificate from and registered with MOFCOM on or after June 1, 2007; and
- ii) that SAFE and local branches of SAFE will no longer process foreign exchange registration (or change of such registration) or application for sale and purchase of foreign exchange in respect of capital account 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 MOFCOM.