

---

## REGULATIONS

---

The business operation of our Group is mainly carried out by its PRC affiliates, which shall, when carrying out business, comply with applicable PRC laws and regulations and other regulatory documents, the summary of which are set forth below.

### PRC LAWS AND REGULATIONS RELATED TO FOREIGN INVESTMENT

In accordance with the *Law on Sino-foreign Joint Equity Enterprises of the People's Republic of China* (中華人民共和國中外合資經營企業法) passed in the 2nd meeting of the 5th *National People's Congress* (第五屆全國人民代表大會第二次會議) on 1 July 1979, and amended on 15 March 2001, the *Implementing Regulations for the Law on Sino-foreign Joint Equity Enterprises of the People's Republic of China* (中華人民共和國中外合資經營企業法實施條例) issued by the *State Council* (國務院) in 1983 and amended on 22 July 2001, foreign companies, enterprises and other economic organizations and individuals shall be permitted to establish joint venture enterprises within the territory of the People's Republic of China with the companies, enterprises or other economic organizations of China, based on the principles of equality and mutual benefit upon the approval of the Government of the People's Republic of China.

Agreements, contracts and Articles of Association signed by parties to joint ventures shall be submitted to the State competent departments of economy, trade and foreign affairs for examination and approval. The examination and approval authorities shall decide within 3 months whether or not to approve. Upon approval, joint ventures shall register with the State competent industrial and commercial administration department, obtain business license, and commence business. According to the *Law on Sino-foreign Joint Equity Enterprises*, a Sino-foreign joint equity enterprises permitted to be established within the territory of China (hereinafter called "joint venture") is a legal person in China and shall be governed and protected by the law of China. The mode of the joint venture shall be a company with limited liability. The parties to the joint venture may invest by way of cash, physical objects, industrial property rights etc. The ratio of investment of foreign parties shall generally be not less than 25% of the registered capital of the joint venture.

In accordance with the *Law on Wholly Foreign Owned Enterprises of the People's Republic of China* (中華人民共和國外資企業法) promulgated by the *National People's Congress* (全國人民代表大會) on 12 April 1986, and amended on 31 October 2000, The application for the establishment of a Wholly Foreign Owned Enterprise shall be subject to approval of the administrative department under the *State Council* in charge of foreign trade and economic cooperation or any other agency authorized by the *State Council*. The split, merger or other major changes of a Wholly Foreign Owned Enterprise shall be subject to approval of the examination and approval authorities.

Pursuant to the *Rules for the Implementation of the Law of Foreign-invested Enterprises* (中華人民共和國外資企業法實施細則), which was amended on 12 April 2001, any increase or assignment of the registered capital of a foreign-invested enterprise shall be subject to the approval by *Ministry of foreign Trade and Economic Cooperation of PRC* (now the *Ministry of Commerce*) (原中華人民共和國對外貿易經濟合作部，現為商務部) or the people's government at provincial level.

The *Provisions on the Equity Change of Investors of Foreign-Invested Enterprises* (外商投資企業投資者股權變更的若干規定), which was promulgated on 28 May 1997, provides that equity change of investors of foreign-invested enterprises refers to the change of investors of Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures, foreign-invested enterprises within the territory of the RRC or change of their equity investments in the enterprises (including terms of cooperation).

Equity change of investors of foreign-invested enterprises shall comply with relevant PRC laws and regulations, and be subject to approval by the examination and approval authorities and change

---

## REGULATIONS

---

registration with registration authorities. Equity change without approval of the examination and approval authorities shall be invalid.

The authority that is responsible for examining and approving the equity change of investors of foreign-invested enterprises shall be the examination and approval authority that originally approved the establishment of the foreign invested enterprise. If the equity held by the investor is changed as a result of the increase of the registered capital of the foreign invested enterprise and such change leads to the amount of the total investment of the foreign invested enterprise exceeding the limit of approval of the original examination and approval authority, the equity change shall be subject to the approval of the examination and approval authority at a higher level in accordance with stipulations on the approval limits and related regulations.

The *Interim Provisions on the Domestic Investment of Foreign-Invested Enterprises* (關於外商投資企業境內投資的暫行規定), which was promulgated on 25 July 2000, provides that domestic investment of foreign-invested enterprises refers to an act that a Sino-foreign equity joint venture, a Sino-foreign contractual joint venture or a wholly foreign-funded enterprise lawfully established in China in the form of a limited liability company or a foreign-invested joint stock limited company, in its own name, makes investment to establish an enterprise in China or purchases equities from an investor of another enterprise in China.

For investment by a foreign-invested enterprise in another enterprise (“investee enterprise”) in the Mid-western Region, if the proportion of foreign capital in the registered capital of the investee enterprise is 25% or more, the investee enterprise may enjoy the treatments for foreign-invested enterprises. In the event that the investee enterprise is to enjoy the treatments for foreign-invested enterprises, the investee enterprise shall, in accordance the provisions on procedures for the establishment of foreign-invested enterprises, submit an application to the provincial examination and approval authority of the place where the investee enterprise is located. If the provincial examination and approval authority confirms that the investment by a foreign-invested enterprise conforms to the relevant laws and regulations of the State and the proportion of foreign capital in the registered capital of the investee enterprise is 25% or more, the provincial examination and approval authority will issue to the applicant an approval letter and a Foreign-invested Enterprise Approval Certificate (外商投資企業批准證書) with a note of “Invested by Foreign-invested Enterprise”. (外商投資企業投資) The investee enterprise in the Mid-western Region may enjoy the treatments for foreign-invested enterprises as prescribed by the laws and regulations of the State upon presenting its Foreign-invested Enterprise Approval Certificate and Business License (with a note). If the amount of total investment in an investee enterprise so established in the Mid-western Region exceeds the limit of approval of the approval authority at the provincial level, the application for investment by the foreign invested enterprise shall be submitted to the *Ministry of Foreign Trade and Economic Cooperation* (now the *Ministry of Commerce*) for examination and approval.

At present, all PRC affiliates of our Company currently conducting business in China are located in Henan Province, which falls within the Mid-western Region.

### **REGULATION ON THE MERGERS AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS**

The *Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors* (the “M&A Rules”) was jointly promulgated by the *Ministry of Commerce*, *State Assets Supervision and Administration Commission of the State Council* (國務院國有資產監督管理委員會), *State Administration of Taxation* (國家稅務總局), *State Administration for Industry and Commerce*, *China Securities Regulatory Commission* (中國證券監督管理委員會) and *State Administration of Foreign*

---

## REGULATIONS

---

*Exchange* (“SAFE”) (國家外匯管理局) on 8 August 2006 and came into force on 8 September 2006, which was then revised on 22 June 2009 and came into force on the same day.

The M&A Rules requires that the acquisition of a domestic enterprise by a foreign investor means that the foreign investor purchases the equity of the shareholders of a domestic non-foreign-invested enterprise (hereinafter referred to as “domestic company”) or subscribes to the increased capital of a domestic company, and thus changes the domestic company into a foreign-invested enterprise (hereinafter referred to as “equity acquisition”); or, a foreign investor establishes a foreign-invested enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates its assets, or, a foreign investor purchases by agreement the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise and operate the assets (“asset acquisition”).

Where the shareholders of an overseas company purchase the equity of shareholders in a domestic company or the additional equity issued by the domestic company with the equity it holds in the overseas company or the additional equity issued by the overseas company as payment method for purposes of overseas listing of the special purpose vehicle, the overseas listing shall be subject to approval of the securities regulatory institution of the *State Council*.

Based on the understanding of applicable PRC laws, regulations and rules, the PRC counsel for the Company holds the opinion that, as Hebi Tian Lun Gas Limited\* (鶴壁市天倫燃氣有限公司) was established as a Sino-foreign equity joint venture on 23 August 2004, the transfer of all equity interest officially held by the domestic and overseas shareholders to Tian Lun New Energy constitutes the transfer of equity interest in a foreign invested enterprise from the legal perspective. Therefore, the acquisition of all equity interest in Hebi Tian Lun by Tian Lun New Energy does not constitute the “acquisition of a domestic enterprise by a foreign investor” as defined in the M&A Rules, and thus no approval of the *PRC Ministry of Commerce* is required. The acquisition of all equity interest in Hebi Tian Lun by Tian Lun New Energy with cash consideration does not constitute the “the acquisition of the equity interest in a domestic company by a special purpose vehicle through equity swap” (特殊目的公司換股收購境內公司股權) as defined in the M&A Rules, and thus no approval of the CSRC is required for the Global Offering and Listing of our Company.

### PRC REGULATION OF FOREIGN EXCHANGE IN CERTAIN ONSHORE AND OFFSHORE TRANSACTIONS

On 21 October 2005, the SAFE issued the *Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies* (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知)(“Notice 75”). The Notice 75 became effective as at 1 November 2005. In order to further clarify relevant problems concerning the implementation and application of the Notice 75, the General Affairs Department under the SAFE (國家外匯管理局綜合司) issued the *Notice on Printing and Distributing the Operating Rules for the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies* (關於印發《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》操作規程的通知)(“Notice 106”) on 29 May 2007. The Notice 106 became effective as at 29 May 2007. The Notice 75 provides that:

- domestic residents who plan to establish or control an offshore special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority;

---

## REGULATIONS

---

- domestic residents who have contributed their assets or shares of a domestic enterprise into an offshore special purpose vehicle, or have raised funds offshore after such contribution, must conduct foreign exchange registration for the modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority; and
- domestic residents who are the shareholder of an offshore special purpose vehicle are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or external guarantee where no round-trip investment is involved.

Grandall Legal Group confirms that as at the date of this Prospectus, the individual shareholders of the direct Shareholders of our Company who are PRC residents have completed the registrations and fully complied with the SAFE requirements including Notice 75, Notice 106 and other relevant requirements, in connection with their Shares in our Company.

### PRC LAWS AND REGULATIONS RELATED TO COMPANY BUSINESS

#### *Concession Rights*

The *Measures on the Administration of the Franchising of Municipal Public Utilities* (市政公用事業特許經營管理辦法) (Order of the *Ministry of Construction* No. 126), or the Concession Measures, was promulgated by the *Ministry of Construction* on 19 March 2004, and came into force on 1 May 2004. The Concession Measures is promulgated for the purpose of speeding up the marketization of municipal public utilities, regulating the franchising activities of municipal public utilities, strengthening market supervision, safeguarding the social public interests and public security, and promoting the healthy development of municipal public utilities.

Franchising of municipal public utilities refers to the system that the government chooses the investors or operators for municipal public utilities through market competition mechanism in accordance with relevant laws and regulations, specifying that they may deal in certain products of municipal public utilities or provide certain services within a certain period of time and scope.

The Concession Measures is applicable to the implementation of franchising of water supply, gas supply, heating supply, public traffic, sewage disposal, garbage treatment and the relevant industries. The investors or operators for franchising shall be chosen through the public bidding process for the best qualified. The term of franchising shall be determined according to such factors as the characteristics, scale, operation method of the industry, etc., with the maximum term not to exceed 30 years.

Our subsidiaries in the PRC, namely, Hebi Tian Lun, Xuchang Tian Lun and Shangjie Tian Lun, have obtained the concession rights for the operations of the distribution and sales of pipelined natural gas or coal gas in our Operating Cities. Upon the expiry of the relevant concession rights, we must follow the public bidding process under the Concession Measures to extend our concession rights in order to operate our distribution and sales of pipelined natural gas and coal gas.

#### *The Administrative Measures on Urban Fuel Gas Utilization* (城市燃氣管理辦法)

The *Administrative Measures on Urban Fuel Gas Utilization* (the “Fuel Gas Measures”) was promulgated by the *Ministry of Construction* (建設部) on 23 December 1997 and came into force on

---

## REGULATIONS

---

1 January 1998. The Fuel Gas Measures is promulgated for the purposes of strengthening the administration of urban gas, protecting the legitimate rights and interests of gas supply enterprises and users, regulating the gas market, safeguarding the social public security, improving the environment quality, promoting the development of gas industry. The Fuel Gas Measures aims to regulate the fuel gas (such as natural gas, coal gas, CNG and LNG) market, to enhance public safety and the environmental issues, and are generally applicable to the planning, construction and operation of the fuel gas supply, the production and sale of fuel gas appliances as well as the utilization and safety management of fuel gas in the PRC. The regulation mainly includes the following provisions:

### **The planning and construction**

The gas development planning shall be prepared by the urban planning administrative department and the urban construction administrative department jointly with other relevant departments according to the overall urban planning, which shall be organized by the people's government at the county level or above. Projects to be newly built or rebuilt or expanded and the layout of business networks shall be in accordance with the gas development planning and shall be implemented after approval by the construction administrative department of local government.

Within the prescriptive scope of safety protection of the fuel gas facilities above or under them, activities jeopardizing fuel gas facilities shall be strictly forbidden, such as constructing buildings and structures, stacking items and making holes for earth-fetching. If it is necessary to modify the fuel facilities, such modification shall be submitted to the urban planning administrative department and the urban construction administrative department of the people's government at the county level or above for approval by the construction unit.

### **Gas business operation**

The development of new urban area and the reconstruction of old city shall be accompanied with the supporting construction of gas facilities or areas for the construction of gas facilities shall be reserved according to the requirement of the relevant planning. The high-rise resident buildings shall be installed with pipelined gas facilities.

The pipelined gas shall be subject to regional uniform operation. The gas supply enterprise shall pass the qualification examination and register with the local administration of industry and commerce before carrying out its business operation.

The setting and adjustment of the gas price shall be proposed by the construction administration department and reviewed and authorized by the price administration department. Such setting and adjustment shall not be carried out before approval.

### **Gas appliances**

The gas appliances maintenance and installing unit shall not deal with the business of maintenance and installing of gas appliances before passing the prescribed qualification examination.

### **Gas use**

Pipelined gas enterprises shall compile files for gas users, and they shall enter into a gas supply contact with gas users to specify the rights and obligations of the parties.

---

## REGULATIONS

---

No gas user is permitted to connect to the pipeline to use gas or alter the use nature or alter the user's name and address without prior authorization of the gas enterprise.

Gas users shall pay gas fees on time and in full. In case of failure to pay in time, from the date of late payment, late payment penalties will be imposed at the rate of 3‰ to 1% of the payment due each day for gas users. If the circumstances are serious, the gas enterprises may suspend gas supply.

### **Gas safety**

Gas enterprises shall establish such measures as safety checking, fixing and maintenance, first-aid repairing, etc. And it shall report and deal with the malfunction and accidents of the gas facilities in time to ensure normal gas supply.

As advised by Grandall Legal Group, the gas development planning, gas project construction and gas operation of our Group have been in compliance with the Fuel Gas Measures. If our Group violates the provisions of the relevant regulations in the future, our Group may be given a warning, be ordered to rectify the non-compliance within a given period of time, or be ordered to stop the non-compliance activities or be imposed a fine.

### ***Circular on Raising Domestically-produced Onshore Natural Gas Benchmark Price***

*(關於提高國產陸上天然氣出廠基準價格的通知)*

The circular was promulgated by the National Development and Reform Commission (NDRC) on 31 May 2010. The pricing policy about the ex-factory benchmark prices has come into force since 1 June 2010. It mainly includes the following provisions:

To increase natural gas benchmark prices by RMB230 per thousand cubic meters or almost 25 percent for the purpose of further reforming its natural gas pricing mechanism and better allocating resources.

The “dual-track” natural gas pricing mechanism has been cancelled and price-float range has been expanded to allow producers and buyers to fix specific natural gas prices based on the ex-factory benchmark prices, raising the benchmark prices by the maximum of 10%, meanwhile lowering the ones without limits.

As domestic natural gas prices were much lower than that of alternative energy, CNG shall be priced at or above three quarters of the highest retailing price of the number 90 gasoline with equal energy value. Some areas are allowed to make afore-said adjustment in CNG prices within two years, where the CNG prices are too low to obey the circular right now. CNG may be priced at least at 60% of the price of the gasoline in such areas during the transition period of two years.

After raising the domestic natural gas benchmark prices, the purchase cost of natural gas of our Group will increase accordingly. Nevertheless, our natural gas selling price in China can be raised accordingly in conformity to this circular. As a result, the increase of the ex-factory benchmark prices will not substantially affect our business and operations.

---

## REGULATIONS

---

### *Regulations on the Administration of Gas within Territory of Henan Province* (河南省有關燃氣管理的規定)

Relevant regulations on the administration of gas within territory of Henan Province deal with:

#### **Gas development planning**

The gas development planning shall be prepared by the public utilities administrative departments and urban planning administrative departments at the city, county or district level jointly with other relevant departments according to the overall urban planning, and shall be implemented after approval by the people's government at the same level.

The new construction, reconstruction and expansion of gas construction projects shall be in compliance with the overall urban planning, the gas development planning and the fire protection safety requirements, and shall be reported to the relevant departments for approval according to the construction project approval procedures after approval by the public utilities administrative departments.

In case of the new construction, reconstruction and expansion of roads within the gas development planning areas, the location of gas pipeline facilities shall be planned. If gas facilities are constructed simultaneously with the road projects, the gas facilities shall be designed, constructed, and inspected for acceptance together with the road projects.

The high-rise resident buildings within the pipeline water supply areas shall install and use pipelined gas, and the gas project shall be designed, constructed and put into use together with the principal part of the project.

#### **Gas projects construction**

The construction of gas facilities shall adhere to the principle of equally emphasizing new construction and renovation and reconstruction. Gas facilities that fail to meet the safety use standards or that have safety threats shall be renovated and reconstructed in time.

The development of new urban area and the reconstruction of old city shall be accompanied with the supporting construction of gas facilities or areas for the construction of gas facilities shall be reserved according to the requirement of the relevant planning. No entity or individual may occupy the reserved areas.

If gas pipelines laid according to the planning need to run through courtyards or need to use existing outdoor gas facilities connection for new user connections according to the planning, the relevant entity or individual shall provide support and no entity or individual may interfere with the normal construction works conducted by the staff of gas enterprises.

#### **Gas operation and management**

Any enterprise engaged in business of gas, shall make application with the construction administration department or public utility administration department for obtaining Gas Enterprise Qualification Certificate. Gas enterprises shall make application with the administration of industry and commerce for business license under the condition that Gas Enterprise Qualification Certificate has been obtained in advance.

---

## REGULATIONS

---

Gas enterprise qualification certificates shall be annually reviewed. Gas enterprise shall be subject to annual inspection and may not continue to engage in gas operation activities without taking part in the annual inspection or without passing the annual inspection.

The pipelined gas shall be subject to regional uniform operation. No new construction or expansion of pipeline liquefied gas is permitted within the pipeline natural gas and pipeline artificial coal gas built-up areas.

The gas enterprise shall apply to the public utilities administrative departments at the city, county and district level for the installment of gas supply station or point, and the gas supply license shall be granted to enterprises meeting the following conditions:

- with up-to-standards fixed facilities;
- with up-to-standard gas fire protection and safety protection facilities which are examined as qualified by the relevant public security and fire protection departments;
- with safety management systems and measures to prevent leakage, fire and explosion;
- with a business system in compliance with relevant regulations; and
- with a certain number of qualified professional management and technical personnel.

In addition to the requirements specified in the preceding paragraph, the establishment of gas supply stations for gas powered motor vehicles shall have up-to-standard equipment to store, fill and measure the gas.

Gas supply station shall be subject to annual inspection and may not continue to engage in gas operation activities without taking the annual inspection or without passing the annual inspection.

The quality and pressure of the gas supplied by gas enterprises shall be in conformity with national standards, and gas enterprise shall ensure the normal and safe supply of gas. Gas enterprises may not supply gas to operators without the gas supply license.

Please refer to the paragraph headed “Business — Compliance with Laws, Rules and Regulations in the PRC — Licenses, permits and certificates for the operation of our business” for details of our compliance.

### **Use of gas**

Any unit or resident who need to use gas shall apply for opening an account and undergo relevant approval procedures.

Gas users shall pay gas fees on time and in full. The calculation of the amount of gas consumption shall be in accordance with the record of gas measuring device which has been admitted by a legally qualified measuring inspection agency.

In case of failure to pay in time, from the date of late payment, late payment penalties will be imposed at the rate of 1% of the payment due each day for production and operation users, and 2% of the payment due each day for other users by pipelined gas enterprises. If any user fails to pay gas fees for three times consecutively or in two months and still fails to pay upon request, the gas



---

## REGULATIONS

---

enterprises may suspend gas supply. The gas user shall pay in full the gas fee due and the late fee when it applies for resumption of gas use.

The quality and pressure of the gas supplied by gas enterprises shall be in conformity with national standards, and gas enterprise shall ensure the normal and safe supply of gas. Gas enterprises shall make notification of such matters as cutting-off of gas supply or depressurization operation due to construction or overhaul of the facilities 24 hours in advance to gas users, which would affect normal use of gas users.

Gas users shall cooperate in the meter reading, fee collection and safety inspection conducted by gas enterprises according to the relevant contract.

If any pipelined gas user moves, converts, reconstructs, damages or removes gas measuring devices, or connects the pipeline and uses gas before the gas measuring devices for the purposes of measuring no gas used or measuring less gas than actually used, it shall be deemed as stealing of gas. The gas enterprises may stop the supply of gas if anyone is found to be engaged in the stealing of gas and the supply of gas may not be resumed until relevant actions have been taken. The one who steals gas shall be responsible for the expenses incurred for the repair of damaged gas measuring devices or facilities.

### **The administration on gas safety**

Gas enterprises shall put emphasis on the maintenance and managements of the gas facilities and arrange regular overhaul for gas facilities to ensure the safety operation of them.

No gas user is permitted to reconstruct or install pipelined gas facilities without authorization. Except for gas enterprises, no entity or individual may supplement or alter pipelined gas facilities which are not providing gas.

The gas pipelines may not be used as the weight-bearing stand or earthing conductor for electrical equipment and lightning protection facilities. It is not permitted to connect other electrical wires to the urban public distribution circuits and facilities for gas use specially.

The gas enterprises will be responsible for any gas safety accident related to the pipelined gas facilities uniformly installed by the gas enterprises which happens under the normal use of the users. The installation or maintenance entities will be responsible for any gas safety accident arising out of the installation or maintenance problems of the gas facilities installation and maintenance entities. The gas users will be responsible for act gas safety accident due to their unauthorized reconstruction or installation of gas facilities or the improper use of gas facilities and appliance.

### **The administration on gas facilities**

The outdoor part of urban gas pipelines are public facilities, which will be managed and arranged for use by gas enterprises regardless of the investor or owner. No entity or individual may interfere with the maintenance and repair work or new user connection.

---

## REGULATIONS

---

### ***Circular on Facilitating Stable and Sound Development of the Real Estate Market*** (國務院辦公廳關於促進房地產市場平穩健康發展的通知)

The *Circular on Facilitating Stable and Sound Development of the Real Estate Market* (國務院辦公廳關於促進房地產市場平穩健康發展的通知) was promulgated by the General Office of the *State Council* on 10 January 2010. It mainly includes the following provisions:

- 11 specific measures which should be taken in five aspects — (i) increase the supply of economic housing for low-income families and common residential houses, (ii) encourage reasonable house buying while to restrain purchases for speculation and investment, (iii) strengthen the risk management for real estate project loans and market supervision, (iv) speed up the construction of housing projects for low-income households, and (v) specify the responsibilities of the local governments;
- efforts should be made to increase the construction of smaller-sized low and medium-priced apartments while increasing land supply for residential housing projects;
- governments at all levels should act to urge the property developers to expedite the project development and sales of finished projects;
- cities in China, especially those with high and excessively rising housing prices, should increase efforts to build more affordable or low-rent housing for low and medium income families; and
- local governments should increase efforts on the renovation of “shanty towns” and increase low-rent houses and affordable houses to low-income families.

The purpose of issuing the circular is to restrain the speculative activities in the property market and cooling down the property market with soaring prices in China. As the relevant measures may lead to a decrease of higher priced residential houses and an increase of smaller-sized low and medium-priced houses and low-rent houses, it is expected that the new measures to stabilize house prices will not have any material adverse effect on the operation and development of our Group.

### ***Notice on Resolutely Curbing the Soaring of Housing Prices in Some Cities*** (《關於堅決遏制部分城市房價過快上漲的通知》)

The *Notice on Resolutely Curbing the Soaring of Housing Prices in Some Cities* (《關於堅決遏制部分城市房價過快上漲的通知》) was promulgated by the *State Council* on 17 April 2010, which provides for:

- the measures aim to restrict speculative property purchase and cool down the property market;
- first-home buyers have to pay more than 30 percent of property prices if the floor area of the house is above 90 square meters;
- increase in the amount of down-payment to 50% of the property price for the purchase of the second property and the mortgage interest rate to be no less than 1.1 times the benchmark rate in the PRC;
- the amount of down-payment and the mortgage interest rate for additional properties to be increased significantly as determined by the banks in accordance with their risk management policies; and

---

## REGULATIONS

---

- provincial and municipal governments in areas with soaring prices can turn down or even suspend third-home loans.

### ***Notice on Regulating the Identification Criteria on the Second House Related to Individual Housing Loan from Commercial Banks*** (《關於規範商業性個人住房貸款中第二套住房認定標準的通知》)

The *Notice on Regulating the Identification Criteria on the Second House related to Individual Housing Loan from Commercial Banks* (關於規範商業性個人住房貸款中第二套住房認定標準的通知) was promulgated by the Ministry of Housing and Urban-Rural Development, the People's Bank of China and the China Banking Regulatory Commission on 26 May 2010, which provides for:

- the quantities of the houses owned by the home-buyer's family which contemplates to buy new house shall be calculated and identified according to the quantities of the houses actually owned by the family members respectively, including the borrower, his or her spouse, and children of minor age in the family;
- the relevant administration shall inquiry about the record of the property right registration related to the borrower's family through the housing registration system and issue the results thereof;
- the commercial bank shall implement more tougher loan policies on the second house and more than two houses for the following borrowers:
  - (i) the borrower who for the first time apply to loan on buying house with a record of owning one or more than one house in the local housing registration system.
  - (ii) the borrower who has bought one house or more than one house through commercial loan and apply for housing mortgage loan again.
  - (iii) the lender has gone through due diligence investigations in the form of credit registries inquiry, interviewing, etc. and assures itself that the borrower's family has owned one house or more than one house.
- for those non-residents who apply for housing loan and are able to provide with local tax payment certificates or social security payments certificates, the borrower shall implement differential housing credit policy according to the third point above.

For those non-residents who apply for housing loan and fail or unable to provide with local tax payment certificates or social security payments certificates, the borrower shall implement differential housing credit about the second house and more than two houses. In those areas with soaring prices commercial banks can stop lending money to third or multiple-home buyers

## **PRC LAWS AND REGULATIONS RELATED TO ENVIRONMENTAL PROTECTION**

The *Environmental Protection Law* (環境保護法) promulgated on 26 December 1989 by the *Standing Committee of the National People's Congress* which became effective on 26 December 1989, establishes the legal framework for environmental protection in the PRC. The environmental protection department of the *State Council* supervises environmental protection work in the PRC, and establishes national standards for the discharge of pollutants. Each of the local environmental protection bureaus is in turn responsible for the environmental protection work within their respective jurisdictions.

---

## REGULATIONS

---

### PRC LAWS AND REGULATIONS RELATED TO LAND ADMINISTRATION

Under the *Interim Regulations of the People's Republic of China on Grant and Assignment of the Use Right of State-owned Urban Land* (城市國有土地使用權出讓和轉讓暫行條例) promulgated by the *State Council* in May 1990, China adopted a system to grant and assign the right to use state-owned land. A land user must pay a land premium to the State as consideration for the grant of the right to use a land site within a specified period of time, and the land user may assign, lease out, mortgage or otherwise commercially exploit the land use rights within the term of use. Under the relevant PRC laws and regulations, the land administration authority at the city or county level may enter into a land grant contract with the land user to provide for the grant of land use rights. The land user must pay the land premium as provided by the land use rights grant contract. After payment in full of the land premium, the land user may register with the land administration authority and obtain a land use rights certificate which evidences the acquisition of land use rights. The relevant PRC laws and regulations provide that land use rights for a site intended for real estate development must be obtained through grant except for land use rights which may be obtained through premium-free allocation by the PRC Government pursuant to the PRC laws or the stipulations of the *State Council*. Government-allocated land (政府劃撥土地) is not allowed to be transferred unless the transfer is approved by the relevant PRC Government authorities and the land premium as determined by the relevant PRC Government authorities has been paid.

When carrying out the feasibility study for a construction project, the construction entity must make a preliminary application for construction on the relevant site to the relevant land administration authority in accordance with the *Measures for Administration of Examination and Approval for Construction Sites* (建設用地審查報批管理辦法) promulgated by the *Ministry of Land and Resources* (國土資源部) in March 1999 and the *Measures for Administration of Preliminary Examination of Construction Project Sites* (建設項目用地預審管理辦法) promulgated by the *Ministry of Land and Resources* in July 2001, as amended in October 2004 and in November 2008. After receiving the preliminary application, the land administration authority will carry out preliminary examinations of various aspects of the construction project in compliance with the overall zoning plans and land supply policy of the government, and will issue a preliminary approval in respect of the project site if its examination proves satisfactory. The land administration authority at the relevant city or county will sign a land use rights grant contract with the land user and issue an approval for the construction site to the construction entity.

Under the *Measures for Control and Administration of Grant and Assignment of Right to Use Urban State-owned Land* (城鎮國有土地使用權出讓轉讓規劃管理辦法) promulgated by the *Ministry of Construction* in December 1992, the grantee under a land grant contract must further apply for a permit for construction site planning from the relevant municipal planning authority. After obtaining such permit, a real estate developer will organize the necessary planning and design work. Planning and design proposals in respect of a real estate development project are again subject to relevant reporting and approval procedures required under the *Law of the People's Republic of China on Urban and Rural Planning* (中華人民共和國城鄉規劃法) promulgated by the *National People's Congress* in October 2007 and local statutes on municipal planning. Upon approval by the authorities, a permit for construction works planning will be issued by the relevant municipal planning authority.