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SUMMARY OF PRINCIPAL PRC LEGAL AND REGULATORY PROVISIONS

Set out below is a summary of certain aspects of PRC legal and regulatory provisions relating to our operations and business. These include laws and regulations relating to:

- Establishment of a Real Estate Development Enterprise
- Qualification of a Real Estate Developer
- Land for Property Development
- Sale of Commodity Properties
- Transfer of Real Estate
- Mortgages of Real Estate
- Real Estate Management
- Measures on Stabilizing Property Prices
- PRC Taxation
- Foreign Currency Exchange
- Government Grants
- Labor Protection

ESTABLISHMENT OF A REAL ESTATE DEVELOPMENT ENTERPRISE

According to the *Law on Administration of Urban Real Estate of the People's Republic of China* (the "Urban Real Estate Law") (中華人民共和國城市房地產管理法) promulgated by the Standing Committee of the National People's Congress, effective on January 1, 1995, as amended on August 30, 2007 and August 2009, a real estate developer is defined as an enterprise which engages in the development and operation of real estate for the purpose of making profits. Under the *Regulation on Administration of Development of Urban Real Estate* (the "Development Regulation") (城市房地產開發經營管理條例) promulgated by the State Council on July 20, 1998, as amended on January 8, 2011, an enterprise which is to engage in development of real estate must satisfy the following requirements:

- its registered capital must be RMB1 million or more; and
- it must have four or more full-time professional real estate/construction technicians and two or more full-time accounting officers, each of whom must hold the relevant qualification certificate. The authorities at the provincial level, autonomous region level or municipalities under the direct administration of the central PRC government may impose more stringent requirements regarding the registered capital and professional qualifications of real estate enterprises.

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

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

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Under the *Catalog of Guidance on Industries for Foreign Investment* (外商投資產業指導目錄) promulgated by MOFCOM and NDRC on December 24, 2011, the development of a whole land lot, the construction and operation of high-quality hotels, premium office buildings, international conference centers and secondary market property trading and brokering falls within the category of industries in which foreign investment is subject to restrictions; the construction and operation of villa falls within the category of industries in which foreign investment is prohibited and other real estate development falls within the category of industries in which foreign investment is permitted.

Subject to approval by the relevant foreign investment regulatory authorities, a foreign investor intending to engage in the development and operation of real estate may establish an equity joint venture, a cooperative joint venture or a wholly foreign owned enterprise in accordance with the PRC laws and administrative regulations regarding foreign invested enterprise.

Under the *Notice on Adjusting the Proportion of Capital Fund for Fixed Assets Investment Projects of Certain Industries* (關於調整部分行業固定資產投資項目資本金比例的通知) issued by the State Council on April 26, 2004, the proportion of capital fund of real estate development projects (excluding affordable housing projects) has been increased from 20% or above to 35% or above.

In response to the global financial crisis and in an effort to expand domestic demand, the State Council issued the *Notice for Adjusting the Proportion of Capital Fund for Fixed Assets Investment* (關於調整固定資產投資項目資本金比例的通知) on May 25, 2009. Under the notice, the minimum capital ratio for protected housing projects and ordinary commodity housing projects is adjusted from 35% to 20%, and the minimum capital ratio for other real estate development projects is adjusted from 35% to 30%.

On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE promulgated the *Opinions on Regulating the Entry and Administration of Foreign Investment into the Real Estate Market* (關於規範房地產市場外資準入和管理的意見).

According to the Opinions, a foreign investor must comply with the following requirements in order to invest in the real estate market in China:

- A foreign entity or individual purchasing real estate in China other than for self-use shall, subject to the principle of commercial existence, apply for the establishment of a foreign-invested enterprise pursuant to the regulations relevant to foreign investment in real estate, and conduct relevant operations within the authorized business scope after obtaining approvals from the relevant government authorities and upon completion of the relevant registrations.
- If the total investment amount of a foreign-invested real estate development enterprise exceeds or equals to US\$10 million, the registered capital shall not be less than 50% of the total investment amount of the enterprise. If the total investment amount is less than US\$10 million, the current rules on registered capital shall apply.

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- A transfer of projects of or shares in a foreign-invested real estate development enterprise, and the acquisition of a domestic real estate development enterprise by foreign investors shall be approved by the commerce authorities in strict compliance with the relevant laws, regulations and policies. The investor should submit: (a) a letter of guarantee pledging to abide by the land grant contract, the construction land planning permit and the construction work planning permit; (b) the land-use rights certificate; (c) the certification of a change of registration issued by the relevant construction administration authorities; and (d) the certification of tax payment issued by the relevant tax authorities.
- Foreign investors acquiring a domestic real estate enterprise by way of equity transfer or other means, or acquiring domestic investors' equity interest in an equity joint venture, shall make proper arrangements for the real estate enterprise's employees and bank loan repayment. The foreign investors shall pay the transfer price in a lump sum and with their own capital. Foreign investors with unfavorable records are prohibited from involvement in such real estate activities in China.

On August 14, 2006, the General Office of MOFCOM issued a *Notice on the Implementation of the Opinions on Regulating the Entry and Administration of Foreign Investment into the Real Estate Market* (關於貫徹落實<關於規範房地產市場外資準入和管理的意見>有關問題的通知).

The notice requires that, the registered capital of a foreign invested real estate enterprise, or FIREE, shall not be less than 50% of its total investment if its total investment exceeds US\$3.0 million, and the registered capital of a FIREE shall not be less than 70% of its total investment if its total investment is US\$3.0 million or less.

On September 1, 2006, SAFE and the Ministry of Construction promulgated the *Notice on Regulating the Administration of Foreign Exchange in Real Estate Market* (關於規範房地產市場外匯管理有關問題的通知), which sets forth the specific regulations regarding to the procedure of purchasing real estate by foreign enterprises and individuals. The notice further requests that where a FIREE fails to pay the registered capital in full amount or fails to acquire a land-use rights certificate or to make its project development capital reach 35% of the total investments of the project, it shall not borrow any foreign debt, and the foreign exchange bureau shall not accept the registration of its foreign debt or approve the conversion of foreign debt into RMB.

When a foreign enterprise or individual merges a domestic real estate enterprise by way of equity transfer or by any other means or takes over the equity shares from the Chinese shareholder in a joint venture, if it/he fails to pay the transfer price in a lump sum with its/his own fund, the foreign exchange bureau shall not accept the registration or change registration of its/his foreign exchange.

On May 23, 2007, MOFCOM and SAFE issued the *Notice on Further Strengthening and Regulating the Approval and Administration of Foreign Direct Investments in the Real Estate Industry* (the "No. 50 Notice") (關於進一步加強、規範外商直接投資房地產業審批和監管的通知). Under the Notice, local commercial authorities should reinforce the approval and

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supervision process over foreign investment in real estate enterprises, and strictly control foreign fund from investing in high quality real estate development projects. For establishment of a foreign invested real estate enterprise, land-use rights, house or other construction ownership right should be obtained, or at least has entered into pre-contract purchase agreement with the relevant land administrative authorities, land developers, or the owners of the house or other constructions, otherwise the establishment will not be approved by the authorities. For existing foreign invested company who intends to engage in real estate development or operation business or intends to engage in the operation or development of new real estate projects, they should undertake relevant procedures to expand business scope or enlarge the operation scale with the approval authority.

No. 50 Notice strictly controls the acquisition or merger of domestic real estate enterprises by means of round trip investment (includes the same de facto controller). It also prohibits Chinese or foreign investors in foreign-invested real estate joint ventures to reach any fixed return related term, or any term to the same effect, for either party.

The local MOFCOM administrative authority should make a record to MOFCOM after a foreign-invested real estate company is approved to establish. The local SAFE administrative authority and designated foreign exchange bank will not conduct foreign exchange purchase and settlement process for capital projects of FIREEs who fail to complete the record with the MOFCOM or to pass the annual review.

SAFE issued the *Circular Regarding the Publication of the List of the First Batch of Foreign-Invested Property Development Projects that Have Filed with MOFCOM* (“Circular No. 130”) (關於下發第一批通過商務部備案的外商投資房地產項目名單的通知) on July 10, 2007, further regulating foreign investment in real estate sector in China. According to Circular No. 130, on or after June 1, 2007, real estate enterprises with foreign investment as filed with MOFCOM (including due to establishment and capital increase) will not be permitted to borrow money from overseas, including shareholder loans and foreign commercial loans, or will not be approved to settle foreign exchange of foreign debt. Further, for those which obtain foreign investment approval certificates on or after June 1, 2007 but fail to file with MOFCOM, neither foreign exchange registration nor foreign exchange alteration registration will be effected with SAFE or its branches, and as a result, foreign exchange under capital projects will not be settled or purchased.

The No. 130 Rule was abolished on May 13, 2013 by the *Notice on Distributing the Provisions on Foreign Exchange Administration over Direct Investment Made by Foreign Investors in China and its Supporting Documents* (國家外匯管理局關於印發《外國投資者境內直接投資外匯管理規定》及配套文件的通知) (“Notice No. 21”) which was promulgated by SAFE on May 10, 2013. However, the restriction measures on the foreign debt of foreign-invested real estate enterprises stipulated in the No. 130 Rule have been reflected in the *Measures for the Administration of Foreign Debt Registration* (外債登記管理辦法) (“Notice No. 19”) issued by SAFE on April 28, 2013.

On June 18, 2008, MOFCOM issued the *Circular on Better Implementation of the Filing of Foreign Investment in the Real Estate Industry* (關於做好外商投資房地產業備案工作的通知) (“Circular No. 23”). According to Circular No. 23, MOFCOM entrusts provincial

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MOFCOM departments to verify materials on records of FIREEs. Circular No. 23 requires that the establishment (including the increase of registered capital) of a FIREE shall comply with the project company principle of engaging in one approved real estate project only.

On November 22, 2010, the General Office of MOFCOM issued a *Notice on Strengthening Management to Registration of Foreign Investment in the Real Estate Sector* (關於加強外商投資房地產業審批備案管理的通知). Foreign invested real estate enterprises shall not generate revenues through purchasing and selling completed real estate properties and/or real estate properties under construction. Local commerce administration authorities shall not accept registration of investment companies involving development and management of real estate.

QUALIFICATIONS OF A REAL ESTATE DEVELOPER

Under the *Provisions on Administration of Qualifications of Real Estate Developers* (the “Provisions on Administration of Qualifications”) (房地產開發企業資質管理規定) promulgated by the Ministry of Construction on March 29, 2000, a real estate developer must apply for registration of its qualifications according to such Provisions on Administration of Qualifications. An enterprise may not engage in property development without a qualification classification certificate for real estate development. The Ministry of Construction oversees the qualifications of real estate developers with national operations, and local real estate development authorities at or above the county level oversee the qualifications of local real estate developers. In accordance with the Provisions on Administration of Qualifications, real estate developers are classified into four classes.

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

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

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Pursuant to the Provisions on the Administration of Qualifications, the qualifications of each class of real estate developments are as follows:

- **Class 1 qualification:** (1) the registered capital shall be not less than RMB50 million; (2) over five years of operating experience in real estate development is required; (3) in the past three years, the cumulative GFA completed shall be not less than 300,000 sq.m. or the required capital investment for developing corresponding GFA has been invested; (4) the passing rate of quality of construction work is 100% for five consecutive years; (5) GFA of over 150,000 sq.m. of building construction has been completed or the required capital investment for developing corresponding GFA has been invested in the previous year; (6) the professional management team shall consist of no less than 40 persons with titles and majoring in architecture, construction, finance, real estate and economics, while the number of management staff with professional titles of intermediate level or above shall be no less than 20 persons and there shall be no less than four accountants holding professional qualification certificates; (7) the person-in-charge of, among others, engineering technology, finance and statistics shall hold professional titles of the intermediate level or above; (8) there shall be a proper quality control system in place, and in respect of the sale of commodity residential property, the systems of Residential Quality Guarantee and Residential User Manual shall be implemented; and (9) there shall not be any occurrence of any major accident relating to construction quality.
- **Class 2 qualification:** (1) the registered capital shall be not less than RMB20 million; (2) over three years of operating experience in real estate development is required; (3) in the past three years, the cumulative GFA completed shall be not less than 150,000 sq.m. or the required capital investment for developing corresponding GFA has been invested; (4) the passing rate of quality of construction work is 100% for three consecutive years; (5) GFA of over 100,000 sq.m. of building construction has been completed or the required capital investment for developing corresponding GFA has been invested in the previous year; (6) the professional management team shall consist of no less than 20 persons with titles and majoring in architecture, construction, finance, real estate and economics, while the number of management staff with professional titles of intermediate level or above shall be no less than 10 persons and there shall be no less than three accountants holding professional qualification certificates; (7) the person-in-charge of, among others, engineering technology, finance and statistics shall hold professional titles of the intermediate level or above; (8) there shall be a proper quality control system in place, and in respect of the sale of commodity residential property, the systems of Residential Quality Guarantee and Residential User Manual shall be implemented; and (9) there shall not be any occurrence of any major accident relating to construction quality.
- **Class 3 qualification:** (1) the registered capital shall be not less than RMB8 million; (2) over two years of operating experience in real estate development is required; (3) the cumulative GFA completed shall be not less than 50,000 sq.m. or the required capital investment for developing corresponding GFA has been invested; (4) the

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passing rate of quality of construction work is 100% for two consecutive years; (5) the professional management team shall consist of no less than 10 persons with titles and majoring in architecture, construction, finance, real estate and economics, and the number of management staff with professional titles of intermediate level or above shall be no less than five persons and there shall be no less than two accountants holding professional qualification certificates; (6) the person-in-charge of, among others, engineering technology and finance shall hold professional titles of the intermediate level or above and the person in charge of other departments, including statistics, shall hold professional titles of the primary level or above; (7) there shall be a proper quality control system in place, and in respect of the sale of commodity residential property, the systems of Residential Quality Guarantee and Residential User Manual shall be implemented; and (8) there shall not be any occurrence of any major accident relating to construction quality.

- **Class 4 qualification:** (1) the registered capital shall be not less than RMB1 million; (2) over one year of operating experience in real estate development is required; (3) the passing rate of quality of construction work completed shall be 100%; (4) the professional management team shall consist of no less than five persons with titles and majoring in architecture, construction, finance, real estate and economics, and there shall be no less than two accountants holding professional qualification certificates; (5) the person-in-charge of engineering technology shall hold professional titles of the intermediate level or above and the person-in-charge for finance shall hold professional titles of the primary level or above, and professional statistician(s) shall be appointed; (6) in respect of the sale of commodity residential property, the systems of Residential Quality Guarantee and Residential User Manual shall be implemented; and (7) there shall not be any occurrence of any major accident relating to construction quality.

In addition, pursuant to the Provisions on Administration of Qualifications, a newly-established real estate developer shall make application with the competent authorities for an interim qualification certificate within 30 days from the date of the business license. A developer applying for an interim qualification certificate shall fulfill the requirements of class 4 qualification or above. The validity period of the certificate is one year. Regulatory authorities of real estate development may extend the validity of the interim qualification certificate depending on the operation of the developer, provided that the extension shall not exceed two years. In the event that no development project has been carried out within one year since the issuance date of the interim qualification certificate, the validity of the interim qualification certificate shall not be extended.

No entity or individual may alter, lease, lend, transfer or sell its/his qualification certificate. In case of merger, division or any change of name, legal representative or main personnel in charge of management and technologies, enterprises shall re-apply for qualification grade or apply for change formalities with the original examination and approval authorities.

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The qualification of a property developer should be subject to annual inspection. The Ministry of Construction or its entrusted institution is responsible for carrying out the annual inspection of real estate developers with Class 1 qualification. The construction authorities at the provincial level formulate annual inspection measures for real estate developers with Class 2 or lower qualifications.

DEVELOPMENT OF A REAL ESTATE PROJECT

According to the *Interim Provisions on Approving Foreign Investment Project* (外商投資項目核準暫行管理辦法) promulgated by NDRC on October 9, 2004, approval of NDRC is required for foreign investment projects with total investment (or amount of capital increase) of US\$100 million or more within the category of encouraged or permitted foreign investments and those with total investment (or amount of capital increase) of US\$50 million or more within the category of restricted foreign investments. Other foreign investments in China will require only local approval.

According to *Several Opinions on Further Utilizing Foreign Investment* (關於進一步做好利用外資工作的若干意見) promulgated by the State Council on April 6, 2010 and a *Notice on Decentralizing the Examination and Approval Authority for Foreign Investment* (關於做好外商投資項目下放核準權限工作的通知) issued by the NDRC on May 4, 2010, an encouraged or permitted project with a total investment (including capital increase) of less than US\$300 million in the Catalog of Guidance on Industries for Foreign Investment (the “Catalog”) shall be verified and approved by the relevant provincial development and reform commission unless the Catalog requires it to be verified and approved by the relevant department of the State Council. The verification and approval rights to restricted projects will not be delegated to local level temporarily.

According to the *Notice on Decentralizing the Examination and Approval Authority for Foreign Investment* (關於下放外商投資審批權限有關問題的通知), promulgated by the MOFCOM on June 10, 2010, the formation and change of foreign investment enterprises with a total investment less than US\$300 million for encouraged and permitted projects or US\$50 million for restricted projects in the Catalog shall be subject to the examination, approval and management of the provincial MOFCOM counterparts.

Under the *Interim Regulation Concerning the Grant and Assignment of the Right to Use State-owned Urban Land* (the “Interim Regulation on Grant and Assignment”) (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例) promulgated by the State Council on May 19, 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 Urban Real Estate Law and the Interim Regulation on Grant and Assignment, 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 grant contract. After payment in full of the land premium, the land user may register

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with the land administration authority and obtain a land-use rights certificate which evidences the acquisition of land-use rights. The Urban Real Estate Law and the Development Regulation 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 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 or the developer 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 Land* (建設用地審查報批管理辦法) promulgated by the Ministry of Land and Resources on March 2, 1999, as amended on November 30, 2010, and the Measures for Administration of Preliminary Examination of Construction Project Land promulgated by the Ministry of Land and Resources in July 2001, as amended in October 2004 and 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 grant contract with the land user and issue an approval for the construction land to the construction entity or the developer.

According to the Urban Real Estate Law, a land user who obtains land-use rights under the grant system must develop the land according to the land usage as indicated in the land grant contract and must commence the development within the time frame agreed to under the land grant contract.

According to the *Regulation on Idle Land Administration* (閒置土地處置辦法) promulgated by the Ministry of Land and Resources on April 28, 1999, as amended on June 1, 2012, it shall be idle land which the land user fails to commence developing after one year from the construction commencement date stipulated in the state-owned construction land grant contract or in the approval of premium-free allocation. The land may also be treated as idle land and may be subject to land idle fee or forfeiture, if the developed land area is less than one-third of the total land area under the land grant contract or the sum already expended on the development of the land is less than one-fourth of the total investment of the project, and the suspension of development of the land has lasted for one year or more.

According to the Regulation on Idle Land Administration, if the land user fails to commence developing the land after one year from the construction commencement date, then the local land administration authority, with approval by the local government, shall charge the land user a “land idle fee” of 20% of the land premium, which is not permitted to be disbursed from the cost. If the land user fails to commence development of the relevant land after two years from the deadline, with approval by the local government, the land user’s land-use rights

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shall be forfeited by local land administration authority without compensation. However, the foresaid penalties do not apply if the failure to commence development and construction is due to force majeure or caused by government actions. Where the land user reserves or speculates lands on purpose by violating laws or regulations, or breaching contractual obligations or land allotment letter, the local land administration authority shall not accept its new land-use application or registration of transfer, lease, charge and change of its idle land. Relevant local land-use administration departments shall inform finance administration departments of the information of idle land.

On January 3, 2008, the *State Council issued a Notice on Promoting Economization of Land Use* (關於促進節約集約用地的通知), which urges the full and effective use of existing construction land. The notice also emphasizes the strict enforcement of the current rules on idle land. If a piece of land has been idled for two years or more, it must be taken back free of charge in accordance with laws and regulations, and rearranged for any other uses; if the land does not meet the statutory conditions for being taken back, it must be timely dealt with and fully used through changing usage, replacement by parity value, temporary usage or incorporation into government reserves. If a piece of land has been idled for one year or more but less than two years, an idle land fee must be collected at a price of 20% of the transfer or allotment price. Financial institutions shall not grant loans to illegal land-use projects and such projects shall not be approved for public listing.

Under the *Measures for Control and Administration of Grant and Assignment of Right to Use Urban State-owned Land* (城市國有土地使用權出讓轉讓規劃管理辦法) promulgated by the Ministry of Construction on December 4, 1992, as amended on January 26, 2011, and the *Notice on Strengthening the Planning Administration of the Assignment of the Right to Use State-owned Land* (關於加強國有土地使用權出讓規劃管理工作的通知) promulgated by the Ministry of Construction on December 26, 2002, the grantee under a land grant contract, i.e. a real estate developer, 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 Standing Committee of the National People's Congress on October 28, 2007, effective from January 1, 2008, 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. According to the *Law of the People's Republic of China on Urban and Rural Planning*, a construction entity shall return the land or compensate relevant parties if it gets the approval of land-use right without a permit for construction works planning. Such land-use right approval shall be forfeited by the relevant authority. If a construction entity starts a project construction without obtaining a planning permit or violates the provisions of the planning permit, it will be punished by local planning administration authorities by way of stopping construction, imposing a fine based on construction costs or removing the completed construction.

According to the *Regulation on the Expropriation of Buildings on State-owned Land and Compensation* (國有土地上房屋徵收與補償條例), promulgated by the State Council on January 21, 2011, local government shall decide expropriation of buildings based on public interests. Construction entities shall be prohibited from participating in relocation activities.

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When the site has been properly prepared and is ready for the commencement of construction works, the developer must apply for a permit for commencement of works from the construction authorities at or above the county level according to the *Measures for Administration of Granting Permission for Commencement of Construction Works* (建築工程施工許可管理辦法) promulgated by the Ministry of Construction on October 15, 1999, as amended on July 4, 2001.

The development of a real estate project must comply with various laws and legal requirements on construction quality, safety standards and technical guidance on architecture, design and construction work, as well as provisions of the relevant contracts. On January 30, 2000, the State Council promulgated and implemented the *Regulation on the Quality Management of Construction Projects* (建設工程質量管理條例), which sets out the respective quality responsibilities and liabilities for developers, construction companies, exploration companies, design companies and construction supervision companies. After completion of construction works for a project, the real estate developer must organize an acceptance examination by relevant government authorities and experts according to the *Development Regulation and the Interim Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure* (房屋建築工程和市政基礎設施工程竣工驗收暫行規定) promulgated by the Ministry of Construction on June 30, 2000. The developer must also report details of the acceptance examination according to the *Measures for Reporting Details Regarding Acceptance Examination upon Completion of Buildings and Municipal Infrastructure* (房屋建築和市政基礎設施工程竣工驗收備案管理辦法) promulgated by the Ministry of Construction on April 4, 2000, as amended on October 19, 2009. A real estate development project may not be delivered until and unless it has satisfactorily passed the necessary acceptance examination. Where a property project is developed in phases, an acceptance examination may be carried out for each completed phase.

There are several laws and regulations regulating environment protection in the real estate industry in the PRC, including *Environmental Protection Law of the People's Republic of China* (中華人民共和國環境保護法), *Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise* (中華人民共和國環境噪聲污染防治法), *Law of the People's Republic of China on Appraising of Environment Impacts* (中華人民共和國環境影響評價法), *Regulation of Environment Protection in Construction Projects* (建設項目環境保護管理條例), *Law on the Prevention and Control of Environmental Pollution by Solid Wastes of the People's Republic of China* (中華人民共和國固體廢物污染環境防治法) and *Decision of the State Council on Several Issues Concerning Environmental Protection* (國務院關於環境保護若干問題的決定). According to such laws and regulations, a real estate developer shall submit a report of environmental impacts before receiving approval from relevant authority to start the construction. A construction enterprise shall, upon completion of a construction project, file an application with the competent department of environmental protection administration for acceptance checks on completion of matching construction of environmental protection facilities required for the construction project.

There are several laws and regulations in the PRC regarding to the civil air defense project construction, including *Law of the People's Republic of China on National Defense* (中華人民共和國國防法), *Civil Air Defense Law of the People's Republic of China* (中華人民共

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和國人民防空法), *Property Law of the People's Republic of China* (中華人民共和國物權法) and *Measures of the Development and Utilization of Civil Air Defense Construction during the peacetime* (人民防空工程平時開發利用管理辦法). According to such laws and regulations, basements that will be used for air defense in time of war shall be constructed in new buildings of cities for civil use. If any construction project cannot have basements due to any geological reason, fees for substitute site construction shall be paid. Investors of air defense construction shall be entitled to any benefits generated from its usage and shall manage such construction in the peacetime. Civil use of air defense construction shall be registered in relevant air defense authority.

Several laws and regulations specific fire protection in real estate development, including *Fire Protection Law of the People's Republic of China* (中華人民共和國消防法), *Provisions of Supervision and Management of Fire Protection Construction* (建設工程消防監督管理規定) and *Interim Measures of Inspection and Evaluation to Fire Protection Construction* (建築工程消防驗收評定暫行辦法). According to such laws and regulations, a real estate project shall get approval from or filing with relevant public security and fire protection authorities for fire protection design before the construction is started and subject to a fire protection as-built acceptance inspection.

LAND FOR PROPERTY DEVELOPMENT

In April 1988, the *National People's Congress amended the Constitution of the People's Republic of China* (中華人民共和國憲法) to permit the transfer of land-use rights for value. And in December 1988, the Standing Committee of the National People's Congress amended the *Land Administration Law* (中華人民共和國土地管理法) to permit the transfer of land-use rights for value.

On May 19, 1990, the State Council issued the *Interim Regulation on Grant and Assignment of Right to the Use of State-owned land in Urban Areas* (城鎮國有土地使用權出讓和轉讓暫行條例), which prescribes different maximum terms of granted land-use rights for different uses of land as follows: (i) land for commerce, tourism and entertainment: 40 years; (ii) land for residence: 70 years; (iii) land for industry: 50 years; (iv) land for education, science, technology, culture, public health and sports: 50 years; and (v) land for comprehensive utilization or other purposes: 50 years. The State may not resume possession of lawfully granted land-use rights prior to expiration of the term of grant. If the public interest requires the resumption of possession by the State under special circumstances during the term of grant, compensation must be paid by the State. Subject to compliance with the terms of the land grant contract, a holder of land-use rights may exercise substantially the same rights as a land owner during the grant term, including holding, leasing, transferring, mortgaging and developing the land for sale or lease. Upon paying in full the land grant fee pursuant to the terms of the contract, the grantee may apply to the relevant land bureau for issuance of the land-use rights certificate. Upon expiration of the term of grant, renewal is possible subject to the execution of a new contract for the grant of land-use rights and payment of a new land grant fee. If the term of the grant is not renewed, the land-use rights and ownership of any buildings on the land will revert to the State without compensation.

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Individuals and entities may acquire land-use rights in different ways, two of which are most important, i.e. land transfers from land users who have already obtained land-use rights and land grants from local land authorities.

Real estate development companies may acquire land-use rights from land users that have already obtained the land-use rights by entering into a land assignment contract or by way of capital contribution. Under the Land Administration Law, any change to be lawfully made in land-use rights shall be registered.

As to the land grants, on May 9, 2002, the Ministry of Land and Resources promulgated the *Rules Regarding the Grant of State-Owned Construction Land-Use Rights By Way of Tender, Auction and Listing-For-Sale* (the “Rules”) (招標拍賣掛牌出讓國有建設用地使用權規定), which was implemented on July 1, 2002 and was amended on September 28, 2007. Pursuant to the Rules, all land for commercial use, tourism, entertainment and commodity residential housing must be granted by way of tender, auction or listing for sale.

On September 24, 2003, the Ministry of Land and Resources promulgated the *Notice on Strengthening the Land Supply Management and Facilitating the Continuous and Healthy Development of Property Market* (關於加強土地供應管理促進房地產市場持續健康發展的通知), as amended on December 3, 2010, which provides that land supply for luxury commodity housing shall be strictly controlled.

According to the *Opinions on Certain Issues Relating to Voluntary Examination and Rectifying of Land Market* (關於進一步治理整頓土地市場秩序中自查自糾若干問題的處理意見) promulgated by Ministry of Land and Resources on October 13, 2003, land must be restored to its original use if the development of such land fails to comply with the overall land-use requirements, unless such land has been developed for construction and restoration is impossible to achieve, in which case the overall land-use requirements shall be modified so the respective amount of basic farmland, cultivated land and land for building will remain unchanged. Similarly, restoration of land to farmland or to its original use is required when a land development project lacks construction feasibility or is short of project funding, even though a proper approval is in place. Idle land that has been supplied for construction purposes shall be disposed of according to relevant stipulation governing idle land. However, exceptions are allowed when pre-approval has been granted by local authorities, or if a project development contract has been executed and between local authorities and developers prior to July 1, 2002. On March 18, 2004, the Ministry of Land and Resources together with the Ministry of Supervision promulgated the *Notice 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 expressly required that after August 31, 2004, no transfer of land-use rights will be allowed in the form of agreement.

On May 30, 2006, the Ministry of Land and Resources promulgated an *Urgent Notice on Currently Further Strengthening Land Management* (關於當前進一步從嚴土地管理的緊急通知), which provides that land grant for real estate development must be conducted by way of tender, auction or listing for sale, and land supply for low to medium-priced and/or small to

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medium-sized ordinary commercial residential housing (including affordable housing) and for low-rental residential housing must be granted in priority, and land supply for low-density and/or large-sized residential housing shall be strictly restricted. In addition, the notice provides that land supply for new villa project shall be suspended.

On November 18, 2009, the Ministry of Finance, Ministry of Land and Resources, PBOC, the Ministry of Supervision of the PRC and the National Audit Office of the PRC jointly issued a *Notice on Further Strengthen the Management of Revenue and Expenditure from Land Granting* (關於進一步加強土地出讓收支管理的通知), 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, 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.

On March 8, 2010, the Ministry of Land and Resource of the PRC issued the *Notice on Several Issues concerning the Reinforcement on Provision and Supervision over the Land-Use for Property Development* (關於加強房地產用地供應和監管有關問題的通知), which shortens the time for payment of the land price by successful bidder of land. On April 17, 2010, the State Council issued the *Notice on Resolutely Curbing the Rise of Housing Prices in Certain Cities* (關於堅決遏制部分城市房價過快上漲的通知), according to which, when real estate development enterprises participate in the auction, development and construction of land, their shareholders shall not provide loans, lending, guarantee or other relevant financing activities to them in violation of regulations.

On September 21, 2010, the Ministry of Land and Resources and the Ministry of Construction issued the *Notice on Further Strengthening the Control of Land Transfer* (關於進一步加強房地產用地和建設管理調控的通知) regarding land authorities to prohibit real estate developers and their controlling shareholders who have engaged in illegal activities (such as obtaining land-use rights through fraudulent means, transferring land-use rights improperly, holding land which has been idled for more than one year due to the fault of the developer or the controlling shareholders) from participating in land bidding process until the illegal activities have been rectified.

On January 26, 2011, the State Council issued the *Notice on Issues Relating to Further Regulating the Control of Property Market* (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) which specifies that if a real estate developer fails to obtain the construction permits or fails to commence the construction within two years from the designation of land for real estate development, the granted land-use rights will be forfeited and an idle land penalty will be imposed. A real estate developer is further restricted from transferring land and real estate development projects if the amount of real estate development investment (excluding the land grant fee) incurred is less than 25% of the total investment amount in respect of the subject project. The Ministry of Land and Resources issued the *Notice*

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of Diligently Carrying Out Real Estate Land-Use Management and Regulation (關於做好2012年房地產用地管理和調控重點工作的通知) on February 15, 2012, requiring land users to submit written reports to land and resources departments at the time of or prior to project commencement and completion.

SALE OF COMMODITY PROPERTIES

Under the *Measures for Administration of Sale of Commodity Properties* (商品房銷售管理辦法) promulgated by the Ministry of Construction on April 4, 2001, sale of commodity properties can include both sales before the completion of the properties (the “pre-sale”) and sales after the completion of the properties (the “post-completion sale”). Commodity buildings may be put to post-completion sale after they have passed the clearance examination and satisfied the various preconditions for such sale. Before the post-completion sale of a commodity building, the developer must, among other things, submit the real estate development project manual and other documents evidencing the satisfaction of preconditions for post-completion sale to the real estate development authority for its record.

Any pre-sale of commodity buildings must be conducted in accordance with the *Measures for Administration of Pre-sale of Urban Commodity Buildings* (the “Pre-sale Measures”) (城市商品房預售管理辦法) promulgated by the Ministry of Construction in November 1994, as amended in August 2001 and in July 2004, and the Development Regulation. The Pre-sale Measures provide that any pre-sale of commodity buildings is subject to specified procedures. According to the Development Regulation and the Pre-sale Measures, a pre-sale permit must be in place before a commodity building may be put to pre-sale. Specifically, a developer intending to sell a commodity building before its completion must apply to the real estate development authority for a permit for pre-sale. A commodity building may be sold before completion only if:

- the purchase price has been paid in full for the grant of the land-use rights involved and a land-use rights certificate has been properly obtained;
- a permit for construction works planning and a permit for commencement of works have been properly obtained;
- the funds invested in the development of the commodity buildings put to pre-sale represent 25% or more of the total investment in the project and the progress of works and the completion and delivery dates have been properly ascertained;
- a permit for pre-sale of commodity buildings has been obtained through pre-sale registration; and
- the proceeds of pre-sale of commodity buildings must be used to the relevant project construction.

According to the *Measures for Administration of Sale of Commodity Properties* (商品房銷售管理辦法), the real estate developer shall not sell commodity properties by means of rebated sale or any such means in disguised forms. The real estate developer may not sell uncompleted commodity properties by the after-sale lease guarantee or by any such means in disguised forms.

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According to the *Notice on Promoting the Stable and Sound Development of the Real Estate Market* (關於促進房地產市場平穩健康發展的通知) promulgated by the General Office of the State Council on January 7, 2010, local governments shall decide the minimum scale of pre-sales rationally based on local practice and may not issue separate pre-sale permits by floor or unit.

On April 13, 2010, the MOHURD issued the *Notice on Further Regulating the Real Estate Market and Improving the Commodity Housing Pre-sale System* (關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知), which set forth certain measures to enhance the regulation of pre-sales of commodity housing. Real estate developers are strictly prohibited from pre-selling commodity housing without obtaining pre-sale permits. Within 10 days after obtaining the relevant pre-sale permits, real estate developers are required to make a public announcement on all information relating to the units available for pre-sale and the price of each unit.

As to the post-completion sale, commodity properties may be put up for post-completion sale only when the preconditions for such sale have been satisfied. Under the *Measures for Administration of Sale of Commodity Properties* (商品房銷售管理辦法), the sale of commodity properties after the completion shall meet the following conditions:

- the real estate developer has a business license and a qualification certificate for real estate development;
- the land-use right certificates or approval documents of land using have been obtained;
- the construction planning permit and the construction commencement permit have been obtained;
- the commodity properties have been completed, inspected and accepted;
- the relocation of the residents has been completed;
- the supplementary essential facilities such as the supply of water, electricity, heating and gas, and communications are ready for use, and other public facilities are ready for use or the schedule of construction and delivery date of such facilities have been specified; and
- the property management plan has been confirmed.

The Provision on Sales of Commodity Properties at Clearly Marked Price (商品房銷售明碼標價規定) was promulgated by the NDRC on March 16, 2011. According to the provision, any real estate developer or real estate agency (“real estate operators”) is required to mark the selling price explicitly and clearly for both newly-build and second-hand commodity properties. The provision requires real estate operators to clearly indicate the prices and relevant fees of commodity properties, as well as other factors affecting the prices of commodity properties to the public. With respect to the real estate operators that have received property pre-sale permit or have completed the filing procedures for the sales of completed properties, real estate operators shall announce all the commodity properties available for sale in a lump within the specified time limit. Furthermore, with regard to a property that has been sold out, real estate operators are obliged to disclose such information and to disclose the actual transaction price. Real estate operators cannot sell commodity properties with price higher than the explicit marked price or charge any other fees which has not been explicitly marked. Moreover, real estate operators may neither mislead purchasers with false or irregular price marking, nor engage in price fraud by using false or misleading price marking methods.

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TRANSFER OF REAL ESTATE

According to the Urban Real Estate Law and the *Provisions on Administration of Transfer of Urban Real Estate* (城市房地產轉讓管理規定) promulgated by the Ministry of Construction on August 7, 1995, as amended on August 15, 2001, a real estate owner may sell, bequeath or otherwise legally transfer real estate 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 together. The parties to a transfer must enter into a real estate transfer contract in writing and register the transfer with the real estate administration authority having jurisdiction over the location of the real estate within 90 days of the execution of the transfer contract.

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

- the land premium has been paid in full for the grant of the land-use rights as provided by the land grant contract and a land-use right certificate has been properly obtained; and
- in the case of a project in which buildings are being developed, development representing more than 25% of the total investment has been completed; or
- in case of a whole land lot development project, construction works have been carried out as planned, water supply, sewerage, electricity supply, heat supply, access roads, telecommunications and other infrastructure or utilities have been made available, and the site has been leveled and made ready for industrial or other construction purposes.
- in case of where the real property has been completed in construction, the property ownership certificate shall have been obtained.

If the land-use rights were originally obtained by grant, the term of the land-use rights after transfer of the real estate will be the remaining portion of the original term provided in the land grant contract after deducting the time that has been used by the former land users. In the event that the assignee intends to change the use of the land provided in the original grant contract, consent must first be obtained from the original land-use rights grantor and the planning administration authority at the relevant city or county and an agreement to amend the land grant contract or a new land grant contract must be signed in order to, inter alia, change the use of the land and adjust the land premium accordingly.

If the land-use rights were originally obtained by allocation, such allocation may be changed to land-use rights grant if approved by the government vested with the necessary approval power as required by the State Council. After the government authorities vested with the necessary approval power approve such change, the grantee must complete the formalities for the grant of the land-use rights and pay the land premium according to the relevant statutes.

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LEASES OF BUILDINGS

The National People's Congress promulgated the Contract Law of the People's Republic of China (中華人民共和國合同法) (the "Contract Law") on March 15, 1999, which takes effect from October 1, 1999. The Contract Law defines a leasing contract as a contract whereby the lesser delivers to the lessee the lease item for it to use or accrue benefit from, and the lessee pays the rent.

The lease term may not exceed 20 years. If the lease term exceeds 20 years, the portion of the lease term beyond the initial twenty year period is invalid. At the end of the lease term, the parties may renew the lease, provided that the renewed term may not exceed 20 years commencing on the date of renewal. Where the lease term is six months or longer, the lease shall be in writing. If the parties fail to adopt a writing form, the lease is deemed an indefinite lease.

Under the *Urban Real Estate Law and the Measures for Administration of Leases of Commodity Buildings (商品房屋租賃管理辦法)* promulgated by the MOHURD on December 1, 2010, being effective from February 1, 2011, parties to a lease of a building must enter into a lease contract. China has adopted a system to register the leases of real properties. When a lease contract is signed, amended or terminated, the parties must register the details with the real estate administration authority at the city or county in which the building is situated.

MORTGAGES OF REAL ESTATE

Under the *Property Law of the People's Republic of China (中華人民共和國物權法)*, the *Urban Real Estate Law*, the *Security Law of the People's Republic of China (中華人民共和國擔保法)* promulgated by the Standing Committee of the National People's Congress on June 30, 1995, and the *Measures for Administration of Mortgages of Urban Real Estate (城市房地產抵押管理辦法)* promulgated by the Ministry of Construction on May 9, 1997, as amended on August 15, 2001, when a mortgage is created on the ownership of a building legally obtained, a mortgage must be simultaneously created on the land-use rights of the land on which the building is situated. When a mortgage is created on land obtained by way of grant, a mortgage must be simultaneously created on the ownership of the building which is on the land. The mortgagor and the mortgagee must sign a mortgage contract in writing. China has adopted a system to register mortgages of real estate. Within 30 days after a real estate mortgage contract has been signed, the parties to the mortgage must register the mortgage with the real estate administration authority at the location where the real estate is situated. If a mortgage is created on the real estate in respect of which a property ownership certificate has been obtained legally, the registration authority will, when registering the mortgage, make an entry under "third party rights" on the original property ownership certificate and then issue a certificate of third party rights to the mortgagee. If a mortgage is created on the commodity building put to pre-sale or on works in progress, the registration authority will, when registering the mortgage, record the details on the mortgage contract. If construction of a real property is completed during the term of a mortgage, the parties involved will re-register the mortgage of the real property after issuance of the certificates evidencing the rights and ownership to the real estate.

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PBOC issued a Circular on *Further Strengthening the Management of Loans for Property Business* (關於進一步加強房地產信貸業務管理的通知) on June 5, 2003 to tighten the requirements for banks to provide loans for the real property business as follows:

- Property development loans may be granted to property developers who are qualified for property development, rank high in credibility and have no overdue payment for construction. Such loans shall be given in full support of residential housing projects which conform to the purchasing capacity of families with medium-to-low income, and shall be property restricted where projects involve building properties of large size and/or cover large area, such as luxury commodity houses and villas. For property developers with commodity properties of high vacancy rate and debt ratio, strict approval procedures must be applied for their new property development loans and their activities must also be subject to close monitoring.
- Commercial banks may not grant loans to property developers without a “land-use rights certificate,” “construction land planning permit,” “construction work planning permit” and “construction work commencement permit.”
- While property developers apply for bank loans, their own capital, i.e. owner’s equity, shall not be less than 30% of the total investment required for the project. Commercial banks are prohibited from lending to property developers solely for the payment of land premiums. A loan for real estate development made by a commercial bank may only be used for a local real estate development project, and shall not be used in a cross-region way.
- 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 down-payment by the borrower remains to be 20%. In respect of his loan application for additional purchase of residential unit(s), the percentage of the down-payment by the borrower should be approximately increased.
- When a borrower applies for a mortgage loan for an individual commercial use building, the mortgage ratio may not be more than 60%. In addition, the term of loan may not be more than 10 years and the commodity building must be duly completed and accepted after the relevant governmental inspection.
- The down-payment requirement was subsequently increased to 30% of the property price for residential units with a unit floor area (套型建築面積) of 90 sq.m. or more, effective on June 1, 2006. See “– Measures on Stabilizing Property Prices” below.

In a *Circular on Facilitating the Continuous and Healthy Development of Property Market* (關於促進房地產市場持續健康發展的通知) issued by the State Council on August 12, 2003, a series of measures were adopted by the government to control the property market. They included, among others, strengthening the construction and management of low-cost affordable houses, increasing the supply of ordinary commodity residential houses and controlling the construction of high quality commodity houses. Besides, the government also staged a series of measures on the lending for residential development.

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They included, among others, strengthen efforts in housing provident fund collection and the granting of loans, improving the guarantee mechanism of individual home loans and strengthening the monitoring over property loans. It is expected that the circular will have a positive effect on the development of the PRC property market in the long run by facilitating a continuously healthy growth of the property market in China.

Pursuant to the *Guidance on Risk Management of Property Loans Granted by Commercial Banks* (商業銀行房地產貸款風險管理指引) issued by CBRC on August 30, 2004, commercial banks may not provide any loan in any form for a project without the land-use rights certificate, construction land-use planning permit, construction work planning permit and construction work commencement permit. Any property developer applying for property development loans must have invested at least 35% of capital required for the development and a commercial bank should maintain a strict project approval mechanism for processing applications for property development loans.

Under the *Notice of the PBOC on Adjusting the Housing Credit Policies of Commercial Banks and Deposit Interest Rate of the Excess Part of the Reserve* (中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知) issued by PBOC on March 16, 2005 and effective from March 17, 2005, the minimum amount of down payment for an individual residence shall be increased from 20% to 30% of the purchase price for properties in cities where the property market is considered to be overheating.

On May 24, 2006, the General Office of the State Council issued an opinion developed by the Ministry of Construction (and relevant departments) on *Adjustment of Housing Supply Structure and Stabilization of Property Prices* (關於調整住房供應結構穩定住房價格的意見). According to the opinion, in order to curtail the rapid rise in property prices, from June 1, 2006, the minimum amount of down payment for individual housing shall not be less than 30%. However, considering the housing needs of low-and middle-income earners, the minimum down payment for self-occupied housing with a GFA of less than 90 sq.m. per unit remains unchanged, and shall not be less than 20%.

On September 27, 2007, PBOC and CBRC jointly issued the *Notice on Strengthening the Administration of Commercial Real Estate Credit Loans* (關於加強商業性房地產信貸管理的通知) to further regulate the management of credit loans for commercial real estate. These measures include:

- prohibiting commercial banks from lending to projects with an internal capital ratio (owners' equity) of less than 35%, or without a land-use rights certificate, construction land-use planning permit, construction planning permit and a construction permit;
- prohibiting commercial banks from lending to property developers solely for the payment of land premiums;
- for commodity properties that has been vacant for three years, a commercial bank shall not accept them as collateral for a loan. In principle, a loan for real estate development made by a commercial bank may only be used for a local real estate

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development project, and shall not be used in a project of different location. For a loan, the use of which is really needed in a non-local real estate development project and for which the relevant risk control measures have been implemented, a commercial bank shall report on it to the regulatory authority for archival purposes before the loan is made;

- requiring banks to support funding needs of borrower purchasing their first small and medium self-occupied flat, and to grant loans only to individuals who have purchased flats the main structure of which have been topped out;
- the minimum down payment for a first unit of self-occupied flat with a GFA of less than 90 sq.m. per unit shall not be less than 20%. The minimum amount of down payment for a first unit of self-occupied flat with a GFA of over 90 sq.m. per unit shall not be less than 30%. The minimum down payment for the second unit or more payable by an individual who has obtained a mortgage to purchase the first flat shall not be less than 40%, the loan interest rate shall not be less than 1.1 times the prevailing basis rate issued by PBOC, and the minimum amount of down payment and interest rate shall significantly increase with the number of flats purchased;
- commercial properties purchase by loans shall have been completed and passed completion acceptance inspection; and for commercial properties, the minimum down payment shall not be less than 50%, the loan term shall not exceed 10 years and the loan interest rate shall not be less than 1.1 times the prevailing basis rate issued by PBOC. For combined commercial and residential properties, the minimum down payment shall not be less than 45% and the term and interest rate shall be determined according to the administrative regulations of commercial property loans.

According to the *Supplementary Notice of the PBOC and CBRC on Strengthening the Administration of Commercial Real Estate Credit Loans* (關於加強商業性房地產信貸管理的通知) issued on December 5, 2007, the number of loans granted to a borrower shall be determined on the basis of loans granted to the borrower's family (including the borrower, his/her spouse and his/her underage children).

According to the requirement under a notice issued by PBOC and CBRC on *Promoting Economical and Intensive Utilization of Land Through Financing* (關於金融促進節約集約用地的通知) on July 29, 2008, when the land and resource authority confirms that a developer has only developed less than 1/3 of the whole area or has only invested less than 1/4 of the total investment after the lapse of one full year from the date of commencing the construction of a real estate project as stipulated in the land transfer contract, a financial institution shall be prudent in granting loans to it and rigidly control extended loans or rolling credits to it. When the land and resource authority confirms that the construction use land for a real estate project has been idled for two years or longer, it is prohibited to grant any loan a real estate development for the given project or other loans with the construction use land of such project as collateral (including the asset protection business).

On October 22, 2008, PBOC promulgated the *Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Commercial Individual Housing Loans* (關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知), which provides that, effective

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from October 27, 2008, the float-down range for interest rate for individual residential mortgage loans is expanded and the ratio of down payments is adjusted. As a result, the minimum interest rate for individual residential mortgage loans is 70% of the benchmark loan interest rate and the minimum down payment ratio is adjusted to 20%.

On December 20, 2008, the General Office of the State Council issued the *Opinion on Promoting the Healthy Development of Real Estate Market* (國務院辦公廳關於促進房地產市場健康發展的若干意見). The opinion provides that in order to expand domestic demand and encourage purchase of ordinary residential housing, residents who purchase ordinary self occupied housing for the first-time by borrowing a mortgage loan shall enjoy preferential policies in relation to loan interest rates and down payment. For residents who have already borrowed a mortgage loan and purchased self-occupied housing for the first-time, if the GFA per person of that first housing is lower than the local average, such residents may still enjoy the preferential policies in relation to loan interest rates and down payment when they purchase a second self occupied house. For any other application on mortgage loans for purchasing a second or subsequent housing unit, the interest rate shall be determined by the commercial banks based on the benchmark interest rate and the banks' risk assessments.

According to the *Notice for Adjusting the Proportion of Capital Fund for Fixed Assets Investment* (關於調整固定資產投資項目資本金比例的通知) issued by the State Council on May 25, 2009, the minimum capital ratio for protected housing projects and ordinary commodity housing projects is adjusted from 35% to 20%, and the minimum capital ratio for other real estate projects is adjusted from 35% to 30%.

On January 7, 2010, the General Office of the State Council issued the *Notice on Promoting the Steady and Healthy Development of the Real Estate Market* (關於促進房地產市場平穩健康發展得通知), provides that the families (including the debtors, their spouses and their juvenile children) who have bought a residential house by the loans and are applying for loans to buy a second residential house or more residential houses, the down payments of the loans should not be lower than 40%.

On April 17, 2010, the State Council issued the *Notice on Resolutely Curbing the Rise of Housing Prices in Certain Cities* (關於堅決遏制部分城市房價過快上漲的通知), which increases (i) the amount of down payment to 30% of the property price for the purchase of the first property over 90 sq.m.; (ii) 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 China; and (iii) the amount of down payment and the mortgage interest rate for additional properties significantly as determined by the banks in accordance with their risk management policies.

According to the *Notice on Issues concerning the Improvement of Differential Housing Credit Policies* (關於完善差別化住房信貸政策有關問題的通知) jointly issued by of the PBOC and CBRC on September 29, 2010, all commercial banks shall suspend granting housing loans to families for purchasing the third or more housing units; commercial banks shall also suspend the granting of housing loans to non-local residents who cannot provide local tax payment proof or proof of social insurance payment for one year or longer.

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For the purchase of commodity housing with loans, the down payment shall be adjusted to more than 30% of the total price. For the real estate developers which leave any land idle, change the usage and nature of land, delay the time of initiating project and completion of construction, hold back housing units for future sale, or have other records of violations of laws or regulations, all commercial banks shall suspend granting loans to them for new projects development and suspend the extension of loans.

On January 26, 2011, the General Office of the State Council issued the *Notice on Issues Relating to Further Regulating the Control of Property Market* (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知), according to which, the minimum down payment in respect of mortgage loans on purchases of second residential properties by families is increased to 60% of the purchases price and the applicable mortgage rate must be at least 1.1 times of the relevant benchmark lending rate published by the PBOC.

REAL ESTATE MANAGEMENT

According to the *Regulation on Property Management* (物業管理條例) promulgated by the State Council on June 8, 2003 and amended on August 26, 2007, an enterprise engaging in property management activities shall have the independent corporation capacity. The State applies the system of qualification administration to the enterprises engaging in property management activities.

Under the *Measures for the Administration of Qualifications of Property Management Enterprises* (物業服務企業資質管理辦法) promulgated by the Ministry of Construction on March 17, 2004 and amended on November 26, 2007, a property service enterprise must apply for assessment of its qualification by the relevant qualification approval authority. An enterprise which passes such a qualification assessment will be issued a qualification certificate. No enterprise may engage in property management without undertaking a qualification assessment conducted by the relevant authority and obtaining a qualification certificate. The qualifications of a property service enterprise shall be classified as the first, second and third grades.

The qualification grade of a newly established property service enterprise shall be checked and ratified according to the minimum grade, with an interim effective period of one year. The property service enterprises with the first grade qualification may undertake various property management projects. The property service enterprises with the second grade qualification may undertake the property management business of residential projects of less than 300,000 sq.m. and the non-residential projects of less than 80,000 sq.m. The property service enterprises with the third grade qualifications may undertake the property management business of residential projects less than 200,000 sq.m. and non-residential projects less than 50,000 sq.m.

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INSURANCE

There is no mandatory provision in PRC laws, regulations and government rules which require a property developer to take out insurance policies for its real estate developments.

According to the common practice of the property industry in China, construction companies are usually required to submit insurance proposals in the course of tendering and bidding for construction projects. Construction companies must pay for the insurance premium at their own costs and take out insurance to cover their liabilities, such as third party's liability risk, employer's liability risk, risk of non-performance of contract in the course of construction and other kinds of risks associated with the construction and installation works throughout the construction period. The insurance coverage for all these risks will cease immediately after the completion and acceptance upon inspection of construction.

MEASURES ON STABILIZING PROPERTY PRICES

The General Office of the State Council promulgated a *Circular on Stabilizing Housing Prices* (關於切實穩定住房價格的通知) on March 26, 2005, introducing measures to be taken to restrain the housing price from increasing too fast and to promote a stable development of the real estate market. On April 30, 2005, the Ministry of Construction, NDRC, the Ministry of Finance, the Ministry of Land and resources, PBOC, the State Taxation Bureau and CBRC jointly issued the *Opinions on Stabilizing Housing Prices* (關於做好穩定住房價格工作的意見) with the following guidance:

- Where the housing price is growing too fast, while the supply of ordinary commodity houses at medium or low prices and low-cost affordable houses is insufficient, the housing construction should mainly involve projects of ordinary commodity houses at medium or low prices and low cost affordable houses. The construction of low-density, high quality houses should be strictly controlled. The relevant local government authorities are authorized to impose conditions on planning and design such as building height, plot ratio and green space and to impose such requirements as sale price, type and GFA as preconditions on land assignment. The local governments are also required to strengthen their supervision of real estate developments in their jurisdictions.
- Where the price of land for residential use and the price for residential housing are growing too fast, the proportion of land supply for residential use to the total land supply should be appropriately raised, and the land supply for the construction of ordinary commodity houses at medium or low prices and low-cost affordable houses should be especially increased. Land supply for villa construction should continue to be suspended, and land supply for high quality housing property construction should be strictly restricted.
- Commencing from June 1, 2005, a business tax upon transfer of a residential house by an individual within two years from his/her purchase will be levied on the gain from such sale. For an individual to transfer an ordinary residential house after two years from his/her purchase, the business tax will be exempted. For an individual to transfer a property other than an ordinary residential house after two years from his/her purchase, the business tax will be levied on the difference between the price of such sale and the original purchase price.

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- Ordinary residential houses with medium or small GFAs and at medium or low prices may be granted preferential treatment such as planning permits, land supply, credit and taxation. Houses enjoying these preferential policies must satisfy the following conditions in principle: the plot ratio is above 1.0, the GFA of one single unit is less than 120 sq.m., and the actual transfer price is lower than 120% of the average transfer price of comparable houses at comparable locations. The local governments at the provincial level may, based on their actual local circumstances, formulate specific standards for ordinary residential houses that may enjoy the preferential policies.
- Transfer of uncompleted commodity properties by any pre-sale purchaser is forbidden.

In addition, purchasers are required to buy properties in their real names. Any commodity property pre-sale contract must also be filed with the relevant government agencies electronically immediately after its execution.

On May 24, 2006, the Ministry of Construction, NDRC, the Ministry of Supervision, the Ministry of Finance, the Ministry of Land and Resources, PBOC, the National Bureau of Statistics, the State Taxation Bureau and CBRC jointly issued the *Opinions on Adjusting Housing Supply Structure and Stabilization of Housing Prices* (關於調整住房供應結構穩定住房價格意見的通知). The Opinions reiterated the existing measures and introduced new measures to further curb fast increase in property prices in large cities and to promote healthy development of the PRC property market. These measures, among the others, include:

- requiring that at least 70% of the land supply approved by a local government for residential property development for any given year must be used for developing low to medium-cost and small to medium-size units and low-cost rental properties;
- requiring that at least 70% of GFA of residential projects approved or constructed on or after June 1, 2006 must consist of units with a unit floor area less than 90 sq.m. per unit (including affordable housing) and that projects which have received project development approvals prior to that date but have not obtained construction permits must adjust their planning in order to be in conformity with this new requirement, with the exception that municipalities under direct administration of the PRC central government and provincial capitals and certain cities may deviate from such ratio under special circumstances upon approval from the Ministry of Construction;
- prohibiting commercial banks from lending funds to real estate developers with an internal capital ratio, calculated by dividing the internal funds by the total project capital required for the relevant projects, of less than 35%, restricting the extension of loans and the grant of revolving credit facilities to property developers holding a large amount of idle land and vacant commodity properties, and prohibiting commercial banks from taking commodity properties which have been vacant for more than three years as security for their loans; and
- imposing a business tax levy on the entire sales proceeds from re-sale of properties if the holding period is shorter than five years, effective from June 1, 2006, as opposed to two years as such levy was initially implemented from June 2005; where an individual transfers a property other than an ordinary residential property after five years from his/her purchase, the business tax will be levied on the difference between the price for such re-sale and the original purchase price.

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On December 20, 2008, the General Office of the State Council issued the rules on the *Opinion on Promoting the Healthy Development of Real Estate Market* (關於促進房地產市場健康發展的若干意見), which provides that in order to expand domestic demand and encourage consumption in ordinary residential housing, a business tax relief policy for real property transfers will be implemented for one year in relation to residential property conveyance. Business tax is exempted for any transfer of ordinary housing purchased and held by individuals for at least two years, as opposed to five years previously; any transfer of ordinary housing purchased by individuals for less than two years is subject to business tax based on the difference between the sale price from such transfer and the original purchase price, as opposed to the full sale price. Any transfer of non-ordinary housing purchased by individuals for at least two years, as opposed to five years previously, is subject to business tax based on the difference between the gain from such transfer and the original purchase price. Any transfer of non-ordinary housing purchased by individuals for less than two years remains subject to business tax based solely on the sale price from such transfer. The above-mentioned policy is tentatively scheduled to be enforced until December 31, 2009.

On October 22, 2008, PBOC promulgated the *Notice on Several Issues Regarding the Expansion of Downward Floating Interest Rate for Commercial Individual Housing Loans* (關於擴大商業性個人住房貸款利率下浮幅度等有關問題的通知) which provides that, as of October 27, 2008, the float-down range for interest rate for commercial individual housing loans will be expanded and the ratio of down payments will be modified. The minimum interest rate for commercial individual housing loans will be 70% of the benchmark loan interest rate and the minimum down payment ratio will be adjusted to 20%. Related matters are as follows:

- Loan interest rate and down payment ratio granted by the financial institutions to their clients shall be determined based on the following factors: whether or not it is the first time for the borrower to buy the house, whether or not the house is used for self occupancy, whether or not the house type and GFA conform to an ordinary residential house, and other risk factors such as the borrower's credit record and repayment capacity.
- Financial institutions may provide preferential treatments on loan interest rate and down payment ratio to residents for their first purchase of ordinary self-occupied houses and improved ordinary self-occupied houses. For non-self-occupied houses and non-ordinary residential houses, financial institutions may properly raise the loan conditions.
- As to commercial individual housing loans granted, financial institutions shall determine the interest rate for the outstanding portion thereof, in accordance with Section 1 of this notice, on the basis of reasonable assessment of loan risks and according to the original loan contracts. The down payment ratio under the original loan contracts shall remain effective.
- The policy that the borrower's monthly expenditure on repayment of housing loans shall not exceed 50% of his/her monthly income remains unchanged.

Pursuant to the Circular of the General Office of the State Council on *Notice on Issues Relating to Further Regulating the Control of Property Market* (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) dated January 26, 2011, generally, municipalities,

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provincial capitals and cities with high housing prices will implement purchase restrictions for a specified period. In principle, (i) a local residential family that already holds one house or a non-local residential family that is able to provide evidence of local tax or social insurance payment for a required period is limited to purchasing one additional house (including the new commodity residential house or a second hand one); and (ii) a local residential family that holds two or more houses, a non-local residential family that holds one or more houses or a non-local residential family that cannot provide the local payment of tax and/or social insurance for a required period shall be suspended from purchasing any other commodity residential houses.

On February 26, 2013, The State Council General Office of the PRC promulgated the *Notice on Further Regulation and Control of Real Estate Market* (關於繼續做好房地產市場調控工作的通知), introducing five policy measures to control the real estate market, including: a) improving the accountability system for stabilization of house prices; b) strictly controlling over house purchase for speculation; c) increasing the supply of ordinary residential houses and the land supply of residential houses; d) accelerating the planning and construction of subsidized housing projects; e) tightening the market regulations and forecast management; and f) accelerating the establishment and optimization of the long-term mechanism for the healthy development of the real estate market.

The highlights of the measure for “control over house purchase for speculation” under the notice are as follows:

- Continuous enforcement of stringent restrictions on commodity housing purchases;
- For cities with soaring house prices, the local branches of the PBOC may further increase the proportion of down payments and interest rates for second-home buyers according to the price control targets and policy requirements for newly-constructed commodity housing of the local governments;
- The taxation department and the housing and urban-rural development department shall work closely together to impose personal income tax on the sales of self-owned houses. A tax rate of 20% on the proceeds from the transfer shall be strictly levied upon verification of the value of the houses based on tax collection and housing registration data.

The notice also stipulated that if the number of small-and medium-sized units of a general commodity housing project accounted for more than 70% of the total units to be constructed, the banking financial institutions shall give priority to the financing need of the development of the project subject to credit conditions. In addition, the local authorities shall strengthen the pre-sale fund management and improve their regulatory systems. For overpriced pre-sale commodity housing projects in breach of the guidance of the housing and urban-rural development department or the regulations on pre-sale fund, the approval and issuance of the pre-sale permits may be suspended.

We do not expect that such austerity measures to stabilize the property prices in China will have any material and adverse effect on our business operations and working capital sufficiency as such measures mainly target the residential property market, particularly the secondary residential property market in China.

PRC TAXATION

PRC Deed Tax

Under the *Provisional Regulation on the Deed Tax of the People's Republic of China* (中華人民共和國契稅暫行條例) which took effect on October 1, 1997, deed tax applies to entities and individuals that accept the transfer of land-use rights and the ownership of houses within the territory of the PRC.

The transfer of land-use rights and the ownership of houses refer to the following acts:

- Assignment of the right to use state-owned land;
- Transfer of land-use rights, including the transfer by means of sale, gift and exchange, excluding the transfer of the right contract for the management of rural collective land;
- Purchase and sale of houses;
- Gift of houses; and
- Exchange of houses.

The transfer of land-use rights and the ownership of houses by the means of the following methods are also deemed to be governed by the above regulation, as stipulated by the *Implementation Rule of Provisional Regulation on the Deed Tax* (中華人民共和國契稅暫行條例細則):

- Using land-use rights and ownership of a house as investment;
- Setting off debt with land-use rights and the ownership of house;
- Obtaining land-use rights and the ownership of a house as a prize; and
- Obtaining land-use rights and the ownership of a house by the way of purchasing in advance.

The rate of deed tax will, within the range of 3-5%, be determined by the PRC government agencies of provincial, autonomous region and municipal level in light of the actual conditions of the underlying properties respective areas and shall be reported to the Ministry of Finance and the State Administration of Taxation.

The deed tax will be reduced or exempted under the following circumstances:

- For the acceptance of land and houses by state agencies, institutions, social organizations and military units for office, teaching, medical service, scientific research and military facilities, the deed tax will be exempted;
- For the initial purchase of state-owned residential houses by urban and township workers and staff members according to the provisions of relevant laws and regulations, the deed tax will be exempted;
- For the purchase of residential houses in replacement of houses damaged or destroyed due to force majeure, the tax will, upon approval, be reduced or exempted according to the circumstances; and

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- Any other types of reduction or exemption provided by the Ministry of Finance.

Reduction or exemption of deed tax will not be applicable if the relevant land or house and the change of use is no longer within the above mentioned scope, and an amount of tax equivalent to the tax reduction or exemption should be repaid.

On September 29, 2010, the Ministry of Finance, the Ministry of Construction and the State Administration of Taxation promulgated the *Notice on the Adjustment of the Deed Tax and Personal Income Tax Preferential Policies in Real Estate Transactions* (關於調整房地產交易環節契稅個人所得稅優惠政策的通知), which provides that deed tax rate is reduced to 1% for first-time individual buyer who purchases an ordinary residential property with a GFA of less than 90 sq.m. as the family's sole property.

Income Tax

According to the EIT Law enacted by the National People's Congress on March 16, 2007 and relevant implementation rules enacted by the State Council on December 6, 2007, both in effect from January 1, 2008 onwards, a uniform income tax rate of 25% will be applied towards PRC enterprises, foreign investment enterprises and foreign enterprises which have set up production and operation facilities in the PRC. The PRC EIT Law also permits enterprises to continue to enjoy their existing tax incentives, adjusted by certain transitional phase-out rules, under which enterprises that were subject to an EIT rate of 15% prior to January 1, 2008 may continue to enjoy the lower rate and gradually transition to the new EIT rate within five years after the effective date of the PRC EIT Law, that is 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and the new statutory EIT rate of 25% from 2012 onwards. In addition, under the phase-out rules, enterprises established before the promulgation date of the PRC EIT Law and which were granted tax holidays (such as a two-year exemption and three years of reduction by 50% and a five-year exemptions and five years of reduction by 50%) under the then effective tax laws or regulations may continue to enjoy their tax holidays until their expiration.

Under the implementation rules of EIT Law, in effect from January 1, 2008, a withholding tax of 10% will be applicable to dividends paid by foreign-invested enterprises to foreign investors, unless otherwise stipulated in tax treaties concluded between Chinese government and other jurisdictions. However, due to *Arrangement between the PRC and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) on August 21, 2006, a company incorporated in Hong Kong will be subject to a withholding tax at a rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% interest or more in the PRC company. In addition, the PRC State Administration of Taxation promulgated a tax notice on October 27, 2009, or Circular 601, which provides that tax treaty benefits will be denied to "conduit" or shell companies without business substance, and a beneficial ownership analysis will be used based on a "substance-over-the-form" principle to determine whether or not to grant tax treaty benefits.

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According to the implementation rules of the EIT Law, if an enterprise incorporated outside the PRC has its “de facto management body” located within the PRC, such an enterprise may be recognized as a PRC tax resident enterprise and subject to EIT at the rate of 25%. According to the PRC EIT Law, dividends received by a qualified PRC tax resident enterprise from another qualified PRC tax resident enterprises are exempted from EIT.

On March 6, 2009, the State Administration of Taxation promulgated the *Measures for the Treatment of Enterprise Income Tax on Real Estate Development and Operation Businesses* (房地產開發經營業務企業所得稅處理辦法), which regulates the revenue, cost of sales, fees deduction, accounting of costs and tax treatment of specific matters of enterprises engaging in the real estate business in the PRC in relation to the imposition of corporate income tax.

Business Tax

Pursuant to the *Provisional Regulation of the People’s Republic of China on Business Tax* (中華人民共和國營業稅暫行條例) enacted by the State Council on December 13, 1993 and revised on November 10, 2008, and its *Detailed Implementation Rules on the Provisional Regulation of the People’s Republic of China on Business Tax* (中華人民共和國營業稅暫行條例實施細則) issued by the Ministry of Finance on December 15, 2008 and revised on October 28, 2011, the tax rate on transfers of immovable properties, their superstructures and attachments is 5%.

On January 27, 2011, the Ministry of Finance and the State Administration of Taxation issued the *Notice on Adjusting the Business Tax Policy on Transfers of Residential Properties by Individuals* (關於調整個人住房轉讓營業稅政策的通知) to discourage speculative activities in the secondary property market and control soaring housing prices. For example, effective from January 28, 2011:

- transfers of residential properties by individuals who have held them for less than five years are subject to a business tax calculated on a gross basis;
- transfers of non-ordinary residential properties by individuals who have held them for five years or more are subject to a business tax calculated on a net basis; and
- transfers of ordinary residential properties by individuals who have held them for five years or more are exempted from the business tax.

Land Appreciation Tax

Under the LAT Regulation promulgated by the State Council on December 13, 1993 and revised on January 8, 2011, and its implementation rules, LAT applies to both domestic and foreign investors, irrespective of whether they are corporate entities or individuals. LAT is payable on the appreciation in value representing the balance of the proceeds received on sales, after deducting various prescribed items. LAT is charged at progressive rates ranging from 30% to 60%. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land-use rights and the costs of land development and the construction of new buildings or related facilities. An

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exemption from payment of LAT may be available if the taxpayer constructs ordinary residential apartments and the appreciation amount does not exceed 20% of the sum of deductions allowed under PRC law. If, however, the appreciation amount exceeds 20% of the sum of allowable deductions, such an exemption is not available and the taxpayer will be liable to LAT on the full appreciation amount, after taking account of the allowable deductions. The allowable deductions include the following items:

- Payment made to acquire land-use rights;
- Costs and expenses related to land development and the construction of the properties;
- Construction costs and charges in the case of newly constructed buildings and facilities or assessed value in the case of old buildings and structures;
- Taxes in connection with the transfer of real estate; and
- Other items stipulated by the Ministry of Finance (including 20% deduction of the first two items mentioned above in relation to property development).

LAT is charged at progressive rates ranging from 30% to 60% of the appreciation value (i.e., the balance as described above).

| Appreciation value | LAT rates (%) |
|--|---------------|
| For the portion | |
| Not exceeding 50% of allowable deductions | 30 |
| Over 50% but not more than 100% of allowable deductions | 40 |
| Over 100% but not more than 200% of allowable deductions | 50 |
| Over 200% of allowable deductions | 60 |

An exemption from payment of LAT may be available if the taxpayer constructs ordinary standard residential apartments and the appreciation amount does not exceed 20% of the sum of deductions allowed under PRC law.

According to the implementation rules of LAT Regulation, a provision of LAT may be made before the completions of construction of the tax payer transfers the proceeds of pre-sale. The provision rate may be determined by Local government subject to the minimum requirement set forth by the State Administrative of Taxation.

Urban Land-use Tax

Pursuant to the *Provisional Regulation Governing Land-Use Tax in Cities and Towns of the People's Republic of China* (中華人民共和國城鎮土地使用稅暫行條例) enacted by the State Council on September 27, 1988 and revised on December 31, 2006 and on January 8, 2011, land-use taxes in respect of urban land is to be levied according to the area of relevant land. The annual tax shall be between RMB0.2 and RMB10 per sq.m. of urban land. According to the *Approval on Land-Use Tax Exemption of Foreign Investment Enterprises* (關於外商投資企業徵免土地使用稅問題的批覆) issued by the State Administration of Taxation on March 27, 1997, land-use fees instead of land-use taxes were to be collected from foreign-invested

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enterprises. However, the *Provisional Regulation Governing Land-Use Tax in Cities and Towns of the People's Republic of China* (中華人民共和國城鎮土地使用稅暫行條例) was revised by the State Council on December 31, 2006. As of January 1, 2007, land-use taxes are to be collected from foreign-invested enterprise. The annual tax is between RMB0.6 and RMB30.0 per sq.m. of urban land. On June 1, 2007, the State Administration of Taxation promulgated the *Approval on Levy of Urban Land-Use Tax of Foreign Investment Enterprises and Foreign Enterprise* (關於外商投資企業和外國企業徵收城鎮土地使用稅問題的批覆) and restated the above points.

Real Estate Tax

Before January 1, 2009, there are two parallel tax systems in China for enterprises engaged in real estate development and investment in China. Such tax applicable for domestic enterprises, organizations and individuals is real estate tax which is calculated on the remaining original book value of the real estate after 10% to 30% deduction of the original book value depending on where the real estate is located, at a rate of 1.2%, or on the rental income derived by the real estate at a rate of 12% according to the *Provisional Rules on Real Estate Tax of the People's Republic of China* (中華人民共和國房產稅暫行條例) promulgated by the State Council on September 15, 1986. While foreign invested enterprises, foreign enterprises and foreign individuals are required to pay urban real estate tax on land and buildings owned by them in the urban areas of China. According to the *Provisional Rules on Urban Real Estate Tax of the People's Republic of China* (中華人民共和國城市房地產稅暫行條例) promulgated by the State Council on August 8, 1951, the urban real estate tax is charged at a rate of 1.5% annually based on standard prices for property or 15% annually based on rental income.

By issuance of *PRC State Council Order 546* (中華人民共和國國務院令2008第546號) on December 31, 2008, the State Council unifies the two parallel real estate tax systems by abolishing the urban real estate tax. Starting from January 1, 2009, all enterprises, organizations and individuals that own or use real estate in China shall subject to real estate tax by using the calculation method as mentioned in the *Provisional Rules on Real Estate Tax of the People's Republic of China* (中華人民共和國房產稅暫行條例) promulgated by the State Council on September 15, 1986.

Stamp duty

Under the *Provisional Regulation on Stamp Duty of the People's Republic of China* (中華人民共和國印花稅暫行條例) promulgated by the State Council on August 6, 1988, effective on October 1, 1988 and revised on January 8, 2011, for property rights transfer instruments, including those in respect of property ownership transfer, the rate of stamp duty shall be 0.05% of the amount stated therein; for permits and certificates relating to rights, including property ownership certificates and land-use rights certificates, stamp duty shall be levied on an item basis of RMB5 per item.

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Urban maintenance and construction tax and education surcharge

Under the *Provisional Regulation on Urban Maintenance and Construction Tax of the People's Republic of China* (中華人民共和國城市維護建設稅暫行條例) promulgated by the State Council on February 8, 1985, any taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall be required to pay urban maintenance and construction tax. The tax rate shall be 7% for a taxpayer whose domicile is in an urban area, 5% for a taxpayer whose domicile is in a county and a town, and 1% for a taxpayer whose domicile is not in any urban area or county or town.

Under the *Provisional Provisions on Imposition of Education Surcharge* (徵收教育費附加的暫行規定) promulgated by the State Council on April 28, 1986 and revised on June 7, 1990 and August 20, 2005, a taxpayer, whether an entity or individual, of product tax, value-added tax or business tax shall pay an education surcharge at a rate of 3% on the total amount of consumption tax, value-added tax and business tax paid by such entity, unless such obliged taxpayer is instead required to pay a rural area education surcharge as stipulated under the *Notice of the State Council on Raising Funds for Schools in Rural Areas* (關於籌措農村學校辦學經費的通知).

FOREIGN CURRENCY EXCHANGE

Prior to December 31, 1993, a quota system was used for the management of foreign currency. Any enterprise that used foreign currency in the normal course of its operations 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 set up 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 an advanced approval from 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* (中國人民銀行關於進一步改革外匯管理體制的公告), effective on January 1, 1994 and revoked on August 28, 2009. 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 settlement and payment system 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 June 20, 1996, the PBOC promulgated the *Regulation on the Administration of the Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定), which set out detailed provisions regulating the trading of foreign exchange by enterprises, economic organizations and social organizations in the PRC.

The principal regulation governing foreign currency exchange in the PRC is the *Regulation on the Control of Foreign Exchange* (the “Foreign Exchange Regulation”) (中華人民共和國外匯管理條例), promulgated by the State Council in January 1996, as amended in

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January 1997 and August 2008. Under the regulation, Renminbi are freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but are not freely convertible for capital expenditure such as direct investment, loans or investments in securities outside the PRC unless the approval of SAFE is obtained in advance.

Under the Foreign Exchange Regulation, foreign-invested enterprises in the PRC may purchase foreign currency for trade and service-related foreign exchange transactions without the approval of the SAFE by providing commercial documents evidencing these transactions. They may also remit foreign currency (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign-invested enterprises to purchase and remit foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loans and investments in securities outside the PRC are subject to limitations and require approvals from SAFE.

Pursuant to the *Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicles and Investing Back in China by Domestic Residents* (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) (“SAFE Circular No. 75”), issued by the SAFE on October 21, 2005, (i) a PRC resident is required to register with the local branch of SAFE before he or she establishes or controls an overseas special purpose vehicle, or overseas SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident transfers assets of or equity interests in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interests into an overseas SPV, such a PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material capital change event outside of China, such as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. Subsequently, SAFE issued guidance to its local branches with respect to the procedures for SAFE registration, which strengthens the supervision on registration pursuant to SAFE Circular No. 75 and imposes obligations on onshore subsidiaries of the overseas SPVs to coordinate with and supervise the relevant PRC residents to complete the registration.

Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary’s foreign exchange activities and impact its ability to distribute dividends to the overseas SPV. The failure may also result in such penalties as being ordered to remit the foreign exchange illegally paid out of China back into China, as well as the imposition of fines up to more than 30% but not more than such amount of foreign exchange illegally paid out.

On July 11, 2006, the Ministry of Construction, MOFCOM, NDRC, PBOC, SAIC and SAFE jointly issued the *Opinions on Regulating the Entry and Administration of Foreign Investment into the Real Estate Market* (關於規範房地產市場外資準入和管理的意見) (the

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“171 document”). Under the 171 document, no offshore or Chinese domestic loan is allowed and the foreign exchange administration shall not approve the conversion of foreign loans into RMB if the foreign-invested real estate corporations have not paid their registered capital in full, or have not obtained the land-use rights certificate, or their internal fund for a development project is less than 35% of the total investment.

In accordance with the 171 document, MOFCOM and SAFE jointly issued No. 50 Notice on May 23, 2007. Under the No. 50 Notice, the local SAFE administrative authority and designated foreign exchange bank will not conduct foreign exchange purchase and settlement process for foreign-invested real estate company who fails to satisfy the MOFCOM for filing requirement or to pass the joint annual examination of foreign-invested enterprises.

On July 10, 2007, the General Department of SAFE issued Circular No. 130. According to Circular No. 130, registration regarding the establishment of foreign-invested real estate enterprises shall be made with MOFCOM. However, such real estate enterprises with foreign investment as filed with MOFCOM will not be permitted to borrow money from overseas, including through shareholder loans and foreign commercial loans. Further, for those which fail to file with MOFCOM after June 1, 2007, neither foreign exchange registration, foreign exchange alteration registration nor sale and purchase of foreign exchange under capital account will be effected with SAFE or its branches.

The No. 130 Rule was abolished on May 13, 2013 by Notice No. 21 which was promulgated by SAFE on May 10, 2013. However, the restriction measures on the foreign debt of foreign-invested real estate enterprises stipulated in the No. 130 Rule have been reflected in Notice No. 19 issued by SAFE on April 28, 2013.

On August 29, 2008, SAFE issued the *Notice of the General Department of the SAFE on Improving on Relevant Business Operations Issues Concerning the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises* (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) (the “Notice 142”) which regulates the conversion by a foreign-invested enterprise of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The Notice 142 requires that the Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise may only be used for purposes within the business scope of the relevant foreign invested companies approved by the applicable governmental authority and cannot be used for equity investments or acquisitions within the PRC unless specifically provided for otherwise. In addition, SAFE strengthened its supervision over the flow and use of Renminbi funds converted from the foreign currency capital of a foreign-invested enterprise. An offshore holding company that uses foreign exchange to invest in real estate businesses in the PRC is typically required to conduct the real estate operations through PRC subsidiaries that were established as foreign-invested real estate companies and invest in such foreign-invested PRC subsidiaries through equity contribution. In addition, it is required to complete the requisite filing procedures with MOFCOM before it can remit any funds from offshore. The use of such Renminbi capital may not be changed without SAFE’s approval, and may not, in any case, be used to repay or prepay Renminbi loans if such loans have not been used. Violations of Notice 142 will result in severe penalties, such as heavy fines set out in the relevant foreign exchange control regulations.

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On February 15, 2012, SAFE issued the *Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company* (關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) the (“Stock Incentive Plan Rules”), which terminated the *Application Procedures of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Ownership Plan or Stock Option Plan of Overseas Publicly-Listed Company* (境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程) issued by SAFE in March 2007. Under these rules, PRC citizens who participate in a stock incentive plan in an overseas publicly-listed company are required to register with SAFE and complete certain other procedures. Participants in a stock incentive plan who are PRC citizens must retain a qualified PRC domestic agent, which could be a PRC subsidiary of such overseas publicly-listed company that participates in the stock incentive plan or other qualified PRC domestic institution designated by such PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the stock incentive plan on behalf of these participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options and their purchase and sale of stocks.

According to the *Notice on Further Improving and Adjusting Management Policies on Foreign Exchange of Direct Investment* (關於進一步改進和調整直接投資外匯管理政策的通知) (the “Notice 59”), promulgated by the SAFE on November 19, 2012 and effective from December 17, 2012, foreign investors are no longer required to obtain approval from the SAFE to re-invest in China by using legal income generated in China. No approval from the SAFE is required for opening the bank account, payment into account, settlement of the foreign exchange and for the purchase and external payment of foreign exchange in relation to direct foreign investments in China. Also, domestic transfer of foreign exchange under direct investment account is no longer subject to approval by the SAFE. In addition, the foreign invested entities are permitted to remit funds to their offshore parent companies.

GOVERNMENT GRANTS

According to the *Budget Law of the People’s Republic of China* (中華人民共和國預算法), promulgated by the National People’s Congress on March 22, 1994 and effective from January 1, 1995, the budgets of the local governments at various levels shall be examined and approved by the people’s congresses at the corresponding levels. The governmental budgetary expenditures include: (1) expenditures for economic construction; (2) expenditures for the development of undertakings in education, science, culture, public health, recreation and etc.; (3) the administrative expenditures of the state; (4) expenditures for national defense; (5) expenditures for various subsidies; and (6) other expenditures. The implementation of the budgets of governments at various levels shall be organized by the governments at the corresponding levels, and the financial departments of the governments at the corresponding levels shall be in charge of actual implementation.

A local people’s congress at or above the county level has power to annul inappropriate resolutions made by the standing committee of the people’s congress at the corresponding level on budget or final accounts and has power to annul inappropriate decisions and orders made by the government at the corresponding level on budget or final accounts. The standing

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committee of a local people's congress at or above the county level has power to annul inappropriate decisions, orders and resolutions made by the government at the corresponding level or by the people's congress at the next lower level and its standing committee on budget or final accounts. The people's congress of a township, nationality township or town which has established budget has power to annul inappropriate decisions and orders made by the government at the corresponding level on budget or final accounts.

The State Council has power to annul inappropriate decisions and orders made by the local governments on budgets or final accounts. A local government at or above the county level has power to annul inappropriate decisions and orders made by the departments at the corresponding levels and the government at the next lower level on budget or final accounts.

LABOR PROTECTION

The Labor Contract Law of the People's Republic of China (中華人民共和國勞動合同法) promulgated on June 29, 2007, and the *Implementation Rules of the Labor Contract Law of the People's Republic of China* (中華人民共和國勞動合同法實施條例) promulgated on September 18, 2008, set out specific provisions in relation to the execution, the terms and the termination of an employment contract and the rights and obligations of the employees and the employers. At the time of hiring, the employer shall truthfully inform the employee as to the scope of work, working conditions, working place, occupational hazards, work safety, salary and other matters which the employee requests to be informed about.

Employers in the PRC are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, for unemployment insurance, for basic medical insurance, for work-related injury insurance, for maternity insurance and for housing accumulation fund. These payments are made to local administrative authorities and an employer who fails to contribute may be fined and be ordered to make up for the missed contributions. The various laws and regulations that govern the employers' obligation to contribute to the social security funds include the *Social Insurance Law of the People's Republic of China* (中華人民共和國社會保險法) promulgated by the Standing Committee of the National People's Congress on October 28, 2010 and effective on July 1, 2011; the *Interim Regulation on the Collection and Payment of Social Security Funds* (社會保險費徵繳暫行條例), which was promulgated by the State Council on January 22, 1999 and became effective on the same date; the *Interim Measures concerning the Maternity Insurance* (企業職工生育保險試行辦法) which was promulgated by the Ministry of Labor on December 14, 1994 and became effective on January 1, 1995; the *Regulation on Occupational Injury Insurance* (工傷保險條例), which was promulgated by the State Council on April 27, 2003 and amended on December 20, 2010; and the *Regulation on Management of the Housing Accumulation Fund* (住房公積金管理條例), which was promulgated and became effective on April 3, 1999 and was then amended on March 24, 2002.