

APPENDIX IX OVERVIEW OF RELEVANT LAWS AND REGULATIONS IN THE PEOPLE'S REPUBLIC OF CHINA AND COMPARISON OF CERTAIN ASPECTS OF ITS PROPERTY LAWS WITH THE LAWS OF HONG KONG

Set out below is a summary of certain aspects of PRC law and regulations which are relevant to GZI REIT's operations. These include laws relating to land, disposal of property, property management, foreign exchange control, company law and equity joint venture law in the PRC. Certain laws and regulations relating to taxation in the PRC are discussed in the section headed "Taxation" of this Offering Circular.

The Land and Property System of the PRC

The land system

PRC law distinguishes between the ownership of land and the right to use land.

According to the Constitution of the PRC, all land in the cities is owned by the State while land in the rural and suburban areas, unless otherwise specified by law, is owned by collectives. Houses sites (宅基地), privately farmed crop land (自留地) and hilly land (自留山) are also owned by collectives. The State may expropriate or take over land and pay compensation in accordance with law if such land is required for public benefit.

Under the Interim Regulations on Grant and Transfer of Urban Land Use Rights (the "Urban Land Regulations"), a system for the grant and transfer of state land in urban areas was implemented. Pursuant to this system, all local and foreign companies, enterprises and other organisations and individuals in the PRC are permitted to acquire land use rights and to develop and operate property in accordance with law.

Under the Urban Land Regulations, the grant for use of State land refers to the grant of a land use right by the State to a land user for a definite period subject to the payment of a land premium by the land user. The maximum term of the grant depends on the type of use of the land. Such term is generally as follows:

- up to 70 years for residential use;
- up to 50 years for industrial use or for public (e.g. educational, technology, cultural, hygiene or sports) use;
- up to 40 years for commercial (which includes wholesale and retail), tourism and entertainment uses; and
- up to 50 years for all other uses (which include office and warehouse).

Upon expiration of the term of grant, it is possible for a land user to renew such term subject to the execution of a new land grant contract and payment of a land grant premium. If the term of the grant is not renewed, the land use right of the land and ownership of any building thereon will revert to the State without compensation.

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Grant of land use rights

Land use rights may be granted by agreement, public auction, tender or bidding.

The Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》) provides that: “land for commercial use, tourism, entertainment and construction of luxury flats shall be sold by public auction wherever it is feasible, and may be sold by mutual agreement if sale by public auction or competitive bidding is not feasible”. On 30 April 2001, the State Council promulgated a Notice on Strengthening the Administration of State-owned Land (《關於加強國有土地資產管理的通知》) which stipulates that the supply of State-owned land shall be announced to the public unless there are concerns regarding State security or confidentiality issues. If, after a scheduled supply of land for commercial development and other use is announced, there are two or more prospective investors who intend to develop the same land parcel, the relevant land parcel shall be made available to the market by the Government at the municipal or county levels through competitive bidding or public auction. However, in the absence of clear provisions on the scope and procedures for organizing and implementing competitive bidding, public auction and public tender, it was still common for property developers to obtain State-owned land use rights for property development by agreement.

On 9 May 2002, the State Bureau of Land Resources of the People’s Republic of China promulgated the Regulations on the Grant of State-owned Land Use Rights through Competitive Bidding, Public Auction and Public Tender (《招標拍賣掛牌出讓國有土地使用權規定》). Pursuant to these regulations, land for operational use (including commercial use, tourism, entertainment and commodity housing development) will be granted by competitive bidding, public auction or public tender and, in the case of land for use other than commercial use, tourism, entertainment and commodity housing development, if there are two or more prospective purchasers after the announcement of the relevant land supply schedule, then the grant of the land shall be by competitive bidding, public auction or public tender.

On 11 June 2003, the Ministry of Land and Resource of the PRC promulgated the Regulation on Transfer of State Owned Land Use Rights by Agreement (《協議出讓國有土地使用權規定》). According to this regulation, land use rights may be granted by way of agreement if it is not required under applicable laws and regulations that the land be granted by public auction, tender or bidding.

Upon signing of the contract for the grant of land use right, the grantee is required to pay the land grant premium in accordance with the terms of the contract. Once the land grant premium is paid in full, the contract may be submitted to the relevant local bureau for the issue of a land use right certificate evidencing the grant of land use right.

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Transfer of land use rights

Subject to any restrictions imposed, the party to which the land use right is granted may transfer such land use right. The transfer may be by way of sale, exchange or gift. The term of land use right for the transferred land is the original term granted under the contract of grant of land use right less the term which has already been enjoyed by the original grantee.

A transfer of land use right must be evidenced by a written contract. Upon such transfer, all rights and obligations contained in the original contract for the grant of land use right by the State are deemed to be simultaneously transferred to the transferee, together with any buildings and other fixtures on the land. The transfer must be duly registered at the relevant local land bureau and a new certificate of land use right will be issued and the original land certificate of land use right will be suspended.

Under Article 38 of the Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), in relation to a transfer of land for which land use rights were acquired by way of grant, the following conditions must be met:

the land grant premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a certificate of land use right (土地使用權證書) must have been obtained;

investment in or development of such land must have been made or carried out in accordance with the terms of the land grant contract;

if the investment or development involves the construction of building on the land, more than 25.0% of the total amount of investment or development must have been made or completed; and

where the investment or development involves a large tract of land, conditions for the use of the land for industrial or other construction purposes must have been met.

Termination of land use right

A land use right will terminate upon the expiration of the term of the grant specified in the relevant land grant contract. Land use right may also terminate upon withdrawal of the land use rights by the State or by loss of the land etc.

The State generally will not withdraw a land use right prior to the expiration of its term of grant under the land grant contract. In exceptional circumstances, and if it is in the public interest, the State has the right to assume the land use right in accordance with law and offer compensation to the land user, having regard to the period for which the land user has already enjoyed in respect of the land and the actual circumstance relating to the use and development of the land.

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Upon expiry of the term of grant under the land grant contract, the land use right of the land and ownership of the buildings and fixtures erected thereon will revert to the State without compensation unless renewal application is granted. The land user will have to take steps to surrender the land use right certificate and cancel the registration of the certificate in accordance with relevant regulations.

A land user may apply for renewal of the term of the land use right and such application will be granted unless for public benefit the land needs to be taken back, if the application is granted, the land user is required to enter into a new land grant contract, pay a land grant premium and effect the necessary registration of the renewed right.

Documents of title

There are two types of title registrations in the PRC, namely land registration and building registration. Land registration is effected by the issue of land use right certificate by the relevant authority to the land owner evidencing that the land owner has obtained land use rights which can be assigned, mortgaged or leased. The building registration is the issue of a building ownership certificate (房屋所有權證) to the building owner evidencing that the building owner has obtained building ownership rights in respect of the building. According to the Land Registration Regulations (《土地登記規則》) promulgated by the State Land Administration Bureau on 18 November 1989 and amended on 18 December 1995 (the amendment became effective on 1 February 1996), and the Administration Rules on Regulations of Urban Real Estate Property (《城市房屋權屬登記管理辦法》) promulgated by the Ministry of Construction on 27 October 1997, implemented on 1 January 1998 and revised subsequently on 15 August 2001, all land use rights and building ownership rights which are duly registered are protected by law.

The two different systems are commonly maintained separately in many cities in the PRC. However, in Shenzhen, Guangzhou, Shanghai and some other major cities, the two systems have been consolidated and a single composite real estate and land use right certificate (房地產權證) will be issued to evidence the ownership of both land use rights and the buildings erected thereon. Such single composite real estate and land use right certificate is in compliance with the Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》) and the Administration Rules on Regulations of Urban Real Estate Property (《城市房屋權屬登記管理辦法》).

Mortgage

The grant of mortgages in the PRC is governed by the Security Law of the PRC (《中華人民共和國擔保法》) and by relevant laws regulating real estate. Under this law, any mortgage agreement must be in writing. For mortgages of urban real properties, buildings newly erected on a piece of land after a mortgage contract has been entered into will not be subject to the mortgage.

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The validity of a mortgage depends on the validity of the mortgage contract, possession of the real estate and land use right certificate and/or land use rights certificate by the mortgagor and registration of the mortgage with appropriate authorities. If the loan in respect of which the mortgage was given is not duly repaid, a mortgagee has the following options to enforce the mortgaged properties:

with the consent of the mortgagee, the mortgagor may sell the mortgaged property to the mortgagee at a discount to satisfy the outstanding debt, or sell the mortgaged property to a third party and the mortgagee enjoys the first priority to be repaid;

after delivering written notice to the mortgagor, the mortgagee may appoint an auction agency to auction the mortgaged property; and/or

the mortgagee may commence litigation procedures at PRC courts.

Lease

The Urban Land Regulations, the Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》) and Measures for Administration of Leasing of Urban Buildings (《城市房屋租賃管理辦法》) permit leasing of land use rights and properties constructed on land obtained by way of grant. Under Article 9 of these measures, the lease shall be in writing and shall be registered with the relevant real property administrative authority within 30 days of execution. Article 27 of these measures stipulates a tenant has the right to sub-let the property with the prior consent of the landlord.

In Guangdong province and Guangzhou city, according to the Rules for Administration of Leasing of Property in Guangdong Province (《廣東省城鎮房屋租賃管理條例》), a tenant enjoys a right of first refusal to lease the property on similar terms if the landlord offers to lease the property to a third party. The landlord could take a security deposit from the tenant, which amount shall not exceed three months’ rent pursuant to the contract. Refund of the security deposit is to be stipulated in the lease contract.

Tenancy Laws

Chapter thirteen of the Contract Law of the People’s Republic of China (《中華人民共和國合同法》) provides that the lease agreement shall be in writing if its term is over six months, and the term of any lease agreement shall not exceed twenty years; that any change of ownership to the leased property does not affect the valid leasing contract; that the tenant may sub-let the leased property if it is agreed by the landlord and the lease agreement between the landlord and the tenant is still valid and binding; and that when the landlord is to sell a dwelling unit under a lease, it shall give the tenant a reasonable advance notice before the sale, and the tenant has the right of first refusal to renew such lease if the tenant is willing to match the same lease terms (including rental rates) as a prospective new tenant, subject to the tenant giving the landlord prior notice of his intention to renew.

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The tenant must pay rent on time in accordance with the lease contract. In the event of default of rental payment without reasonable cause, the landlord may ask the tenant to pay within a reasonable period of time, or otherwise terminate the lease with a default fine.

Except as mentioned below, if the landlord wishes to terminate the lease before its expiry date, prior consent shall be obtained from the tenants who are entitled to be indemnified for any resulting loss.

The landlord has the right to terminate the lease and take back the property if the tenant commits any of the following:

- 1) sub-let the property without prior consent from the landlord;
- 2) transfer, lend or swap the property without prior consent from the landlord;
- 3) restructure or convert uses of the property without prior consent from the landlord;
- 4) default in rental payment for six consecutive months;
- 5) leave a state-owned dwelling unit vacant for more than six months without reasonable causes;
- 6) use the property for illegal operations;
- 7) damage the property deliberately; and
- 8) other situations allowing the landlord to take back the property under relevant laws regulations.

If a tenant defaults in rental payment, apart from the right to terminate the lease as stated above, the landlord may bring an action against such tenant at the People's Court in the PRC to recover any overdue and unpaid rental.

Sale and transfer of property

The PRC Government has issued a series of laws, rules and regulations in relation to property transactions, for example, the Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), Administrative Rules for Property Sale in Guangzhou City (《廣州市房地產交易管理辦法》), etc. The Ministry of Construction promulgated the Provisions on Administration of Transfer of Urban Real Estate PRC (《城市房地產轉讓管理規定》) in August 2001. Pursuant to such rules and regulations, the property owner has the right in accordance with law to dispose of a property by way of sale, gift, or other forms of transfer and to mortgage the property. The right to ownership of a building and the land use right to the land on which the building is constructed must be transferred or mortgaged at the same time.

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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 transfer.

In Guangdong province and Guangzhou city, according to the Rules for Property Transfer in Guangdong Province (《廣東省城鎮房地產轉讓條例》), the Administrative Rules for Property Sale in Guangzhou, the Measures for Administration of Leasing of Property in Guangzhou and the Rules for Administration of Leasing of Property in Guangdong Province, a joint holder of the property interest, a mortgagee, a lessee and other person enjoying priority right under law has a right of first refusal to purchase the property on the same terms.

In Guangzhou, in relation to a property designated for sale, the developer has to apply to the relevant property authority to confirm the property title of such property within 30 days after the property development is completed. A confirmation of title certificate will be issued to the developer for unsold property and a building ownership certificate will be issued to the developer on behalf of the purchaser for sold property.

Property Management Rules in the PRC

The State Council promulgated the Property Management Rules (《物業管理條例》) on 8 June 2003, which came into effect on 1 September 2003. The rules stipulate that property owners have the right to appoint and dismiss property management enterprises and implemented a qualification system to regulate property management enterprises which are involved in property management. The Department of Construction promulgated a Notice on Administrative Rules Regarding Property Owners’ Committee (《業主大會規程》) on 26 March 2003 which stipulated that the property owners’ meeting is only valid with the attendance of owners representing more than 50.0% of all the voting rights. A resolution passed by the property owners’ committee is only effective with the consents of owners representing over 50.0% of all voting rights of the owners attending such meeting. However, for important resolution, for example, amendment of a deed of mutual covenants, appointment or dismissal of property managers, a special resolution passed by owners representing at least two-thirds of all voting rights of the owners attending such meeting is required. According to the Property Management Rules (《物業管理條例》), each province has the authority to enact rules specifying how the voting rights is measured. In Guangdong province, according to Notice on Issues Relating to the Implementation of the Property Management Rules (《廣東省建設廳關於貫徹〈物業管理條例〉有關問題的通知》) prescribed by the Guangdong Construction Bureau, the voting right attached to a property is measured by reference to the construction area of such property and each square meter of construction area is entitled to one voting right. The owners’ committee has the right to sign the property management contract and make any substantial decision affecting the rights of all property owners. The owners’ committee must act in the interest of all the property owners in the building and protect the legal rights of all the property owners in the building. The owners’ committee appoints the property manager by tender or other methods and signs the property management contract on behalf of all the property owners in the building with the consent of the owners’ committee.

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Under the Measures for the Administration of Qualifications of Property Management Enterprises (《物業管理企業資質管理辦法》) promulgated by the Ministry of Construction on 17 March 2004, effective from 1 May 2004, a property management enterprise shall apply for examination of its qualification by the qualification approval authority according to the said measures. A property management enterprise which has passed such examination will be issued with a Qualification Certificate evidencing the qualification classification by the relevant authority. No enterprise may engage in property management without undertaking a qualification examination conducted by the authority and obtaining a Qualification Certificate.

The Property Management Rules in Guangdong Province (《廣東省物業管理條例》) were implemented on 1 October 1998. The Administrative Rules for Property Management in Guangzhou City were promulgated on 23 March 2001 (《廣州市物業管理辦法》). Both rules contain stipulations on the property management rights of the owners, the appointment of property managers, the use and maintenance of the property, property management fees and other legal liabilities of owners in Guangdong province and Guangzhou city. According to the Property Management Rules in Guangdong Province, the property owners must hold a first owners’ general meeting and form an property owners’ committee when (a) more than 50.0% of the construction area of the building has been used or (b) more than 30.0% but less than 50.0% of the construction area of the building has been used and the building has been used for more than one year.

Property management fees comprise the property management cost, statutory tax and property managers’ remuneration. Property management fees for residential properties are regulated by the recommended price stipulated by the Government. The property management fee for other properties is subject to market price adjustment. The exact amount of property management fees payable to a property management enterprise as remuneration may be agreed by the contracting parties by reference to the two methods. According to the Rules on Property Management Service Fees (《物業服務收費管理辦法》) jointly promulgated by the National Development and Reform Commission and the Ministry of Construction on 13 November 2003, the exact amount of property management fees payable to a property management enterprise as remuneration may be agreed by the contracting parties by reference to a fixed management fee (包乾制) or a percentage basis management fee (酬金制). The property management enterprise may collect a fixed management fees from the property owners which covers all the operating cost incurred for property management, the property management enterprise itself shall account for any shortfall and retain any surplus. The property management enterprise may also charge its management fees by reference to a fixed percentage of the total management fees collected, the balance of the total management fees collected will be used for covering the operating cost incurred for property management, the property owners shall account for any shortfall and retain any surplus.

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Foreign Exchange Controls

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not at the current time freely convertible into foreign currency. The SAFE, under the authority of People’s Bank of China (“PBOC”), is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People’s Bank of China Concerning Further Reform of Foreign Currency Control System (《中國人民銀行關於進一步改革外匯管理體制的公告》), effective from 1 January, 1994. This notice announced the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centres.

On 29 January 1996, the State Council promulgated new Regulations of the POBC for the Control of Foreign Exchange (《中華人民共和國外匯管理條例》) which became effective from 1 April 1996. These regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items still are. These regulations were subsequently amended on 14 January 1997. The latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the “Settlement Regulation”) which became effective on 1 July 1996. The Settlement Regulations superseded the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理暫行規定》) and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprise (《中國人民銀行關於對外商投資企業實行銀行結售匯的公告》). This announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialised accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business (《關於停辦外匯調劑業務的通知》) pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On 1 January 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a managed floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi/US dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi/US dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC. The PBOC recently announced that with approval from the State Council, and beginning from 21 July 2005, China will implement a regulated, managed floating exchange rate system based on market supply and demand and in reference to a package of currencies.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in the PRC (except for some foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange income to designated foreign exchange banks. Foreign exchange income from loans issued by organisations outside the territory or from the issuance of bonds and shares is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

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

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE and the relevant branch must be sought.

Rules and regulations relating to owners' general meeting and owners' committee

Pursuant to the Administrative Rules for Property Management in Guangzhou City (《廣州市物業管理辦法》) promulgated on 23 March 2001, an owner's general meeting is required to be held to elect an owners' committee when:

- 50% of the total construction area of the property has been handed over for use; or

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- 30%-50% of the construction area of the property has been handed over for use and the property has been in use for more than one year; or
- in the case of development by phases of a large residential housing estate, upon application by the owners representing a majority of the voting rights of the property which has been handed over for use and approval of the local property authority, a temporary owners' general meeting may be held to set up a temporary owner's committee during the period of development by phases.

Pursuant to the Property Management Rules (《物業管理條例》) promulgated by the State Council on 8 June 2003 (which came into effect on 1 September 2003) and the Property Management Rules in Guangdong Province (《廣東省物業管理條例》) implemented on 1 October 1998, if there is only one owner, or if there are very few owners, all owners can together agree not to set up an owners' committee and exercise all relevant powers of the owners' general meeting and owners' committee by themselves.

According to the Property Management Rules (《物業管理條例》) and the Notice on Issues Relating to the Implementation of the Property Management Rules (《廣東省建設廳關於貫徹〈物業管理條例〉有關問題的通知》), for properties located in Guangdong, the voting right attached to a property is measured by reference to the construction area of such property and each square meter of construction area is entitled to one voting right.

The Property Management Rules (《物業管理條例》) requires that the quorum for an owners' general meeting is owners representing more than 1/2 of all voting rights in respect of the property.

The following matters shall be passed by owners holding over 2/3 of all voting rights in respect of the property:

- amending the deed of mutual covenant or rules of proceedings of the owners' general meeting; or
- appointment or dismissal of the property management company; or
- proposals to use and continuously raise special repair fund.

Other resolutions may be passed by owners representing more than 1/2 of all voting rights in respect of the property.

Both the Administrative Rules for Property Management in Guangzhou City (《廣州市物業管理辦法》) and the Property Management Rules in Guangdong Province (《廣東省物業管理條例》) stipulate that the quorum for a meeting of the owners' committee is a majority of the members of the owners' committee. All resolutions shall be passed by a majority of the members of the owners' committee.

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Comparison of Certain Aspects of PRC and Hong Kong Property Law

The following is a general comparison of the legal protection of proprietary rights over real estate conferred by the legal systems of PRC and Hong Kong:

| PRC | Hong Kong |
|--|--|
| <i>General</i> <p>Under Article 5 of the Law of the administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), the legitimate rights and interests of the owners over real estate shall be protected by the law of PRC, on which no person may unlawfully infringe.</p> <p>In general, the legitimate rights and interests of the owners over real estate in PRC are protected under PRC law.</p> | <i>General</i> <p>The legal system of Hong Kong upholds the principle of the rule of law and the independence of the judiciary. Under the concept of “one country, two systems”, Hong Kong enjoys a high degree of autonomy and its legal system is fundamentally separate from that of the People’s Republic of China.</p> <p>Under Article 6 of the Basic Law of the Hong Kong Special Administrative Region, which is Hong Kong’s constitution, the Hong Kong Special Administrative Region shall protect the right of private ownership of property in accordance with law.</p> <p>In general, proprietary rights of land owners over real estate in Hong Kong are protected under Hong Kong law which consists of both the Hong Kong legislations and common law decisions.</p> |

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| PRC | Hong Kong |
|---|---|
| <i>Land System in the PRC</i> | <i>System of Land Holding in Hong Kong</i> |
| <p>PRC law distinguishes between the ownership of land and the right to use land. According to the Constitution of the PRC, unless specified by law, all land in the cities is owned by the State while land in the rural and suburban areas, unless otherwise specified by law, is owned by collectives. Houses sites (宅基地), privately farmed crop land (自留地) and hilly land (自留山) are also owned by collectives. The State may expropriate or take over land and pay compensation in accordance with law if such land is required for public benefit.</p> <p>Under the Interim Regulations on Grant and Transfer of Urban Land Use Rights (the “Urban Land Regulations”), a system for the grant and transfer of state land in urban areas was implemented. Pursuant to this system, all local and foreign companies, enterprises and other organisations and individuals in the PRC are permitted to acquire land use rights and to develop and operate property in accordance with law.</p> | <p>All land title in Hong Kong is leasehold held under land grants from the government save and except the St. John’s Catheral which is theonly freehold property in Hong Kong.</p> <p>The terms of the government grant vary from short term leases or licences to leases of up to 999 years. Old leases will continue until they expire and may be renewed. Most new leases tend to be granted for terms of 50 years although occasionally they are longer. Leases in various parts of Hong Kong which were due to expire prior to 1997 have been automatically extended through to 30 June 2047 without the requirement for any additional premium paid to the government. In the past, rent payable under government grant has ordinarily been nominal but for leases granted after 1 July 1997 the government rent is calculated at a rate of 3% of the ratable value of the property concerned.</p> |

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| <p>Under the Urban Land Regulations, the grant for use of State land refers to the grant of a land use right by the State to a land user for a definite period subject to the payment of a land premium by the land user. The maximum term of the grant depends on the type of use of the land. Such term is generally as follows:</p> <ul style="list-style-type: none">• up to 70 years for residential use;• up to 50 years for industrial use or for public use (e.g. educational, cultural or recreational) use;• up to 40 years for commercial, tourism and entertainment uses; and• up to 50 years for all other uses. <p>Upon expiration of the term of grant, it is possible for a land user to renew such term subject to the execution of a new land grant contract and payment of a land grant premium. If the term of the grant is not renewed, the land use right of the land and ownership of any building thereon will revert to the State without compensation.</p> | <p>Older government grant tended to contain fewer restrictions whereas newer grants usually incorporate extensive development requirements, restrictions and obligations. If a grantee pays the required premium, government rent and complies with the land grant conditions, he is entitled to peaceful enjoyment of the land and the government will not exercise its right of re-entry without a valid cause. Although certain government leases may contain government's right of land resumption for public interest, it is only in very exceptional circumstances that privately owned property will be compulsorily acquired by the government (such as for the Mass Transit Railway development). In all such cases, compensation will be paid to the affected owners.</p> <p>There are no restrictions in Hong Kong over ownership of land. Property in Hong Kong can be owned by any legal entity, whether an individual or a local or overseas corporation. Property transactions in Hong Kong are, however, subject to local tax and stamp duty payment.</p> |

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| <p>Land use rights may be granted by agreement, public auction, tender or bidding. The Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》) provides that: “land for commercial use, tourism, entertainment and construction of luxury flats shall be sold by public auction wherever it is feasible, and may be sold by mutual agreement if sale by public auction or competitive bidding is not feasible”. On 30 April 2001, the State Council promulgated a Notice on Strengthening the Administration of State-owned Land (《關於加強國有土地資產管理的通知》) which stipulates that the supply of State-owned land shall be announced to the public unless there are concerns regarding State security or confidentiality issues. If, after a scheduled supply of land for commercial development and other use is announced, there are two or more prospective investors who intend to develop the same land parcel, the relevant land parcel shall be made available to the market by the government at the municipal or county levels through competitive bidding or public auction. However, in the absence of clear provisions on the scope and procedures for organizing and implementing competitive bidding, public auction and public tender, it was still common for property developers to obtain State-owned land use rights for property development by agreement.</p> <p>On 9 May 2002, the State Bureau of Land Resources of the People’s Republic of China promulgated the Regulations on the Grant of State-owned Land Use Rights through Competitive Bidding, Public Auction and Public Tender (《招標拍賣掛牌出讓國有土地使用權規定》). Pursuant to these regulations, land for operational use (including commercial use, tourism, entertainment and commodity housing</p> | |

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development) will be granted by competitive bidding, public auction or public tender and, in the case of land for use other than commercial use, tourism, entertainment and commodity housing development, if there are two or more prospective purchasers after the announcement of the relevant land supply schedule, then the grant of the land shall be by competitive bidding, public auction or public tender.

On 11 June 2003, the Ministry of Land and Resource of the PRC promulgated the Regulation on Transfer of State Owned Land Use Rights by Agreement (《協議出讓國有土地使用權規定》). According to this regulation, land use rights may be granted by way of agreement if it is not required under applicable laws and regulations that the land be granted by public auction, tender or bidding.

Upon signing of the contract for the grant of land use right, the grantee is required to pay the land grant premium in accordance with the terms of the contract. Once the land grant premium is paid in full, the contract may be submitted to the relevant local bureau for the issue of a land use right certificate evidencing the grant of land use right.

Subject to any restrictions imposed, the party to which the land use right is granted may transfer such land use right. The transfer may be by way of sale, exchange or gift. The term of land use right for the transferred land is the original term granted under the contract of grant of land use right less the term which has already been enjoyed by the original grantee.

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A transfer of land use right must be evidenced by a written contract. Upon such transfer, all rights and obligations contained in the original contract for the grant of land use right by the State are deemed to be simultaneously transferred to the transferee, together with any buildings and other fixtures on the land. The transfer must be duly registered at the relevant local land bureau and a new certificate of land use right will be issued and the original land certificate of land use right will be suspended.

Under Article 38 of the Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), in relation to a transfer of land for which land use rights were acquired by way of grant, the following conditions must be met:

- the land grant premium for the grant of land use rights must have been paid in full in accordance with the land grant contract and a certificate of land use right (土地使用權證書) must have been obtained;
- investment in or development of such land must have been made or carried out in accordance with the terms of the land grant contract;
- if the investment or development involves the construction of building on the land, more than 25.0% of the total amount of investment or development must have been made or completed; and
- where the investment or development involves a large tract of land, conditions for the use of the land for industrial or other construction purposes must have been met.

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| <p><i>Property Owners’ Committee</i></p> <p>Pursuant to the Administrative Rules for Property Management in Guangzhou City were promulgated on 23 March 2001 (《廣州市物業管理辦法》), an owner’s general meeting is required to be held to elect an owners’ committee when:</p> <ul style="list-style-type: none"> 50% of the total construction area of the property has been handed over for use; or 30%-50% of the construction area of the property has been handed over for use and the property has been in use for more than one year; or in the case of development by phases of a large residential housing estate, upon application by the owners representing a majority of the voting rights of the property which has been handed over for use and approval of the local property authority, a temporary owners’ general meeting may be held to set up a temporary owner’s committee during the period of development by phases. <p>Pursuant to the State Council promulgated the Property Management Rules (《物業管理條例》) on 8 June 2003, which came into effect on 1 September 2003, and the Property Management Rules in Guangdong Province (《廣東省物業管理條例》) were implemented on 1 October 1998.</p> <ul style="list-style-type: none"> If there is only one owner, or if there are very few owners, all owners can together agree not to set up an owners’ committee and exercise all relevant powers through the owners’ general meeting. | <p><i>Strata Title Ownership</i></p> <p>Apart from single leasehold ownership of land granted by the government, it is more common to find strata-title ownership in Hong Kong’s multi-storeys buildings. Such strata-title ownership is structured by way of each owner of a unit holding a certain number of notional undivided shares out of a total number of undivided shares attributable to the whole development together with the exclusive right to own and use a particular specified unit (residential flat or other type of unit) in the development. These undivided shares are frequently allocated by the relevant architect of the project and ownership is regulated by the terms of what is called a Deed of Mutual Covenant (“DMC”). This is the master document which governs the rights and obligations of co-owners of units in a particular development and is registered against each unit in the development at the Land Registry. The DMC also provides for other co-ownership matters such as the rights of way through the common parts, the delineation of the common areas, the management of the building by the relevant management company, the payment of management fees, meetings of the owners etc. The DMC is usually drawn up according to the guidelines laid down by the government and rules laid down by The Law Society of Hong Kong. In recent years, the Building Management Ordinance (Cap.344) was enacted to deal with unfair terms in the DMC and it also regulates arrangements between co-owners and managers regarding the management of multi-storey buildings in Hong Kong.</p> |

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| <ul style="list-style-type: none">The basis of determination of voting rights of the owners at an owners’ general meeting varies depending on the type of property. For industrial or commercial property, voting rights are measured by the construction areas respectively held by the owners of such property.The quorum for an owners’ general meeting is owners representing more than 1/2 of all voting rights in respect of the property. | |

The Department of Construction promulgated a Notice on Administrative Rules Regarding Property Owners’ Committee (《業主大會規程》) on 26 March 2003 which stipulated that the following matters shall be passed by owners holding over 2/3 of all voting rights in respect of the property:

- amending the deed of mutual convent or rules of proceedings of the owners’ general meeting; or
- appointment or dismissal of the property management company; or
- proposals to use and continuously raise special repair fund.

Other resolutions may be passed by owners representing more than 1/2 of all voting rights in respect of the property.

Both the Administrative Rules for Property Management in Guangzhou City (《廣州市物業管理辦法》) and the Property Management Rules in Guangdong Province (《廣東省物業管理條例》) stipulated that the quorum for a meeting of the owners’ committee is a majority of the members of the owners’ committee. All resolutions shall be passed by a majority of the members of the owners’ committee.

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| <div>Documents of Title</div> <p>There are two types of title registrations in the PRC, namely land registration and building registration. Land registration is effected by the issue of land use right certificate by the relevant authority to the land owner evidencing that the land owner has obtained land use rights which can be assigned, mortgaged or leased. The building registration is the issue of a building ownership certificate (房屋所有權證) to the building owner evidencing that the building owner has obtained building ownership rights in respect of the building. According to the Land Registration Regulations (《土地登記規則》) promulgated by the State Land Administration Bureau on 18 November 1989 and amended on 18 December 1995 (the amendment became effective on 1 February 1996), and the Administration Rules on Regulations of Urban Real Estate Property (《城市房屋權屬登記管理辦法》) promulgated by the Ministry of Construction on 27 October 1997, implemented on 1 January 1998 and revised subsequently on 15 August 2001, all land use rights and building ownership rights which are duly registered are protected by law.</p> <p>The two different systems are commonly maintained separately in many cities in the PRC. However, in Shenzhen, Guangzhou, Shanghai and some other major cities, the two system have been consolidated and a single composite real estate and land use right certificate (房地產權證) will be issued to evidence the ownership of both land use rights and the buildings erected thereon. Such single composite real estate and land use right certificate is in compliance with the Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》) and the Administration Rules on Regulations of Urban Real Estate Property (《城市房屋權屬登記管理辦法》).</p> | <div>Land Registration</div> <p>The ownership of property in Hong Kong is registered at the Land Registry. Such registration is not a title registration system but the Land Registration Ordinance (Cap.128) provides that all documents affecting or creating interests in land duly registered will rank in priority of interest against each other. Each piece of land or property or a unit or a flat in a development will have its own register opened against it at the Land Registry. A record of all transactions affecting the property concerned starting from the original government grant under which the lease of the property is held to subsequent dealings of the property, such as agreements for sale and purchase, assignments, mortgages, releases, government orders, the DMC or other encumbrances affecting the property etc are registered at the Land Registry. As such, any land owner’s proprietary right over Hong Kong property can be ascertained by a search at the Hong Kong Land Registry.</p> <p>In July 2004, the Land Title Ordinance was passed by the Hong Kong government which will allow title to property to be established by reference to a title register. This will give greater security to property interest and will also simplify conveyancing procedures in Hong Kong.</p> |

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| | <p><i>Proving Title to Property</i></p> <p>As the proposed land title registration system will only come into effect after a 12 years “incubation period”, title to property in Hong Kong still needs to be proved by investigation of the physical title deeds to ensure that the title is validly held by an owner through proper devolution of title and that it is unencumbered.</p> <p>The main law governing real estate and property transaction in Hong Kong is the Conveyancing and Property Ordinance (Cap.219) (“CPO”). The CPO is adopted from English statutes and it is also assisted by common law. It simplifies and codifies most areas of Hong Kong land laws and conveyancing matters. Real estate transactions in Hong Kong are made more certain and efficient by the operation of the CPO.</p> |
| <p><i>Leases/Tenancies in PRC</i></p> <p>The Urban Land Regulations, the Law of the Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》) and Measures for Administration of Leasing of Urban Buildings (城市房屋租賃管理辦法) permit leasing of land use rights and properties constructed on land obtained by way of grant. Under Article 9 of these measures, the lease must be in writing and must be registered with the relevant real property administrative authority within 30 days of execution. Article 27 of these measures stipulates a tenant has the right to sub-let the property with the prior consent of the landlord.</p> <p>In Guangdong province and Guangzhou city, according to the Rules for Administration of Leasing of Property in Guangdong Province (《廣東省城鎮房屋租賃管理條例》), a tenant enjoys a right of first refusal to renew a lease of the property if the tenant is willing to match the same lease terms (including rental rates) as a prospective new tenant, subject to the tenant giving the landlord prior notice of his intention to renew.</p> | <p><i>Leases/Tenancies in Hong Kong</i></p> <p>Land owner is usually free to let out property (whether it is a piece of land or a unit) to a tenant by means of a lease (for a term of over three years) or a tenancy agreement (for a term of less than three years) although occasionally there may be restrictions in the relevant government grant, mortgages or DMC on letting. Lease and tenancy are subject to stamp duty and for leases over a term of three years, they should be registered at the Land Registry in order to obtain priority against third party interest.</p> <p>The main area of law governing lease or tenancy matter in Hong Kong is the Landlord and Tenant (Consolidation) Ordinance (Cap.7) (“Ordinance”). Prior to July 2004, tenants in Hong Kong were generally protected under the Ordinance.</p> |

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| <p>Chapter 13 of the Contract Law of the People’s Republic of China (《中華人民共和國合同法》) provides that the lease agreement shall be in writing if its term is over six months, and the term of any lease agreement shall not exceed twenty years; that any change of ownership to the leased property does not affect the valid leasing contract; that the tenant may sub-let the leased property if it is agreed by the landlord and the lease agreement between the landlord and the tenant is still valid and binding; and that when the landlord is to sell a dwelling unit under a lease, it shall give tenant reasonable advance notice before the sale, and the tenant has the right of first refusal to renew such lease if the tenant is willing to match the same lease terms (including rental rates) as a prospective new tenant, subject to the tenant giving the landlord prior notice of his intention to renew.</p> | <p>With the commencement of the Landlord and Tenant (Consolidation) (Amendment) Ordinance 2004 on 9 July 2004, the security of tenure enjoyed by domestic tenant under Part IV of the Ordinance was removed while the fixed term non-domestic tenancy will now end upon expiry of its term and the landlord is no longer required to give the 6 months statutory notice to quit under Part V of the Ordinance in order to end the tenancy. This change in law allows for free operation of the private rental market and reduces government intervention in private tenancy matters.</p> <p>Under Hong Kong law, land owners are free to negotiate the terms of the tenancy agreement with its tenant so long as it does not breach the terms and conditions of the government grant, the DMC and other governing ordinances or regulations. It is very common in Hong Kong for landlord to impose extensive obligations upon the tenant whilst the landlord retains most of the rights. Typically, the landlord’s obligations are limited to the giving of “quiet enjoyment” (which is a legal concept involving the non-interference with the tenant’s legal rights under the lease), payment of government rent and a qualified repairing obligation. The tenant’s obligations, on the other hand, usually include covenants to pay rent, management charges, rates and other outgoings, to keep the interior of the property in repair, to observe the terms of the DMC and the government grant, not to contravene any ordinances or government regulations, not to assign or underlet and only to use the property for approved purposes etc.</p> <p>If disputes arise (such as non-payment of rent or breach of major terms of the lease or tenancy), they may be settled through legal proceedings in either the Lands Tribunal or at different levels of the courts in Hong Kong according to their judicial powers.</p> |