

## **OUR COMPANY**

Our Company was incorporated on October 17, 2007 as an exempted company under the laws of the Cayman Islands. As a result of our corporate reorganization effected in anticipation of the listing of our Shares on the Stock Exchange, our Company became the ultimate holding company of our Group. Further details of our corporate structure and reorganization are set out in the section entitled “The Reorganization” in “Appendix VIII — Statutory and General Information” to this prospectus.

### **Group’s Structure After the Corporate Reorganization**

The following diagram illustrates our Group’s structure (including our associated company) after the corporate reorganization and immediately prior to the Global Offering and the Capitalization Issue and does not take into account of any Shares which may be issued or sold upon exercise of the Over-allotment Option or any option to be granted under the Share Option Scheme:

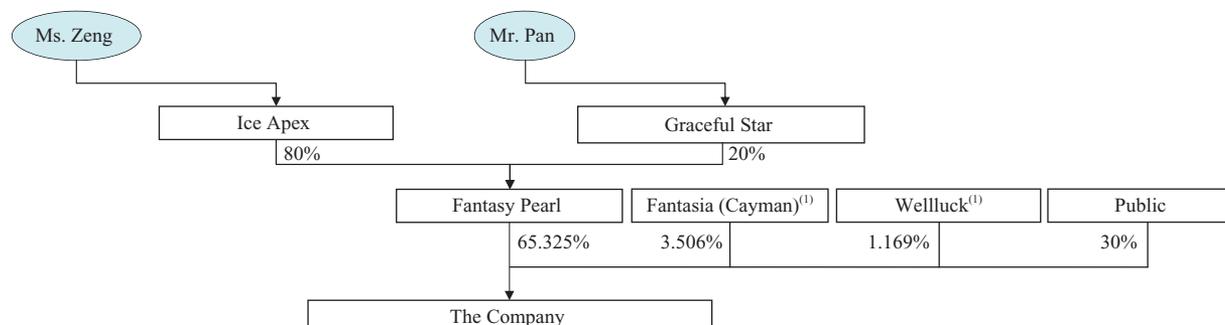


Note: Our non-wholly owned subsidiaries are:

- a. Xingyan Property Consultancy and Shenzhen Xingyanhang where the remaining 15% equity interest is owned by Lu Ying (路瑩), who joined us in 2002. She is the general manager and a director of Xingyan Property Consultancy and also a director of our other subsidiaries, Huizhou Xingyan Property, Dongguan Xingyan Property and Shenzhen Xingyanhang. As of the Latest Practicable Date and save for the relationships disclosed herein, Lu Ying (路瑩) has no other relationship with the Group and its connected persons.
- b. Shenzhen Fantasia Colour where the remaining 30% equity interest is owned by Tang Xue Bin (唐學斌) as to 13%, four other individuals as to 4% each and one remaining individual as to 1%. Tang Xue Bin (唐學斌) joined us in 2002, is the general manager and a director of Shenzhen Fantasia Management and also a director of our other subsidiaries, Shenzhen Fantasia Colour, Shenzhen Colour Life Network, Shenzhen Kaiyuan, Shenzhen Liantang Management, Shenzhen Caiyue Hotel Management and Shenzhen Caiyue Hotel. The background of the five other individuals who hold an aggregate of a 17% interest in Shenzhen Fantasia Colour are employees of our other subsidiaries comprising two employees of Shenzhen Kaiyuan with a 4% and 1% interest, respectively, and as to 4% each by (i) an employee of Shenzhen Fantasia Management, (ii) an employee of Shenzhen Colour Life Network, and (iii) Dong Dong (董東), an employee of Shenzhen Fantasia Management and a director and assistant general manager of Shenzhen Fantasia Colour. As of the Latest Practicable Date and save for the relationships disclosed herein, these minority equity holders have no other relationship with the Group and its connected persons.
- c. Yixing Jiangnan Shuixiang where the remaining 40% equity interest is owned by Jing Liu (敬柳) who is also a director of Yixing Jiangnan Shuixiang. He has been an employee of other property development companies in China previously and has been our joint venture partner since the establishment of Yixing Jiangnan Shuixiang in April 2005. As of the Latest Practicable Date and save for the relationships disclosed herein, Jing Liu (敬柳) has no other relationship with the Group and its connected persons.
- d. Shenzhen Fantasia Investment where the remaining 48% equity interest is owned by Qiu Qiong Ming (邱瓊明), a director of Shenzhen Fantasia Investment and an employee of Shenzhen Kingkey Property Holdings Co., Ltd. (深圳市京基房地產股份有限公司), formerly known as Shenzhen Kingkey Property Development Company Limited (深圳市京基房地產開發有限公司). Prior to September 24, 2009, the 48% equity interest was held by Shenzhen Kingkey Property Holdings Co., Ltd. As of the Latest Practicable Date and save for the relationships disclosed herein, Qiu Qiong Ming (邱瓊明) has no other relationship with the Group and its connected persons.
- e. Fantasia Chengdu Development where the remaining 10% equity interest is owned by Sichuan Zhong Xu, established in China since 2001 and which provides consultancy services for investment projects, human resources training and information services. It has been our joint venture partner since the establishment of Fantasia Chengdu Development in June 2001. As of the Latest Practicable Date and save for the relationships disclosed herein, Sichuan Zhong Xu has no other relationship with the Group and its connected persons.
- f. Tianjin Songjiang-Fantasia where the remaining 40% equity interest is owned by Tianjin Songjiang Group, a Chinese property developer and investor and has been our joint venture partner since Tianjin Songjiang-Fantasia was established in April 2006. Tianjin Songjiang Group's controlling equity holder, Huatong Tianxiang Group Holdings Co., Ltd. (華通天香集團股份有限公司), via Shenzhen Meijiangan, is also the indirect controlling equity holder of our associated company, Dongguan Zuoting Youyuan in which we have a 37.5% equity interest. Tianjin Songjiang Group and one of our subsidiaries, Fantasia Group (China), has signed a cooperative framework agreement on April 27, 2007 with the People's Government of Pixian County (郫縣人民政府) in connection with Wangcong Ancient Sichuan Culture Park (望叢古蜀文化產業園). As of the Latest Practicable Date and save for the relationships disclosed herein, Tianjin Songjiang Group has no other relationship with the Group and its connected persons.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

Immediately following the Global Offering and the Capitalization Issue, there will be no change to our interests in the companies comprising our Group and our associated company. The following diagram illustrates the Company's shareholding structure, immediately following the Global Offering and the Capitalization Issue, but taking no account of any Shares which may be issued or sold upon the exercise of the Over-allotment Option or any option to be granted under the Share Option Scheme:



Note:

- (1) As Fantasia (Cayman) and Wellluck are Independent Third Parties, their Shares are counted towards the “public” as referred to in Rule 8.24 of the Listing Rules and are in addition to the above-mentioned 30% under public shareholders.

Commerce & Finance Law Offices, the legal advisors as to PRC law to the Company, is of the opinion that:

- (1) With the exception of Fantasia HK’s acquisition of 25% equity interest in Chengdu Huawanli in 2006 (for which remedial measures have already been completed), the M&A Rules jointly promulgated by six ministries and commissions of the PRC, including MOFCOM, which became effective on September 8, 2006, are not applicable to any steps undertaken for the Reorganization. The M&A Rules are not applicable on the basis that approval for each of the six foreign invested PRC enterprises established by the Group, namely Fantasia Group (China), Shenzhen Yahoo, Shenzhen Zhifu, Fantasia Chengdu Development, Fantasia Chengdu Ecological and Tianjin Songjiang-Fantasia, was received from the relevant commerce authorities prior to the effective date of the M&A Rules. Moreover, any subsequent alteration to the shareholding of these companies or any investment in the equity or assets of a PRC domestic company undertaken by these companies, even if completed after the effective date of the M&A Rules, do not come within the scope of an “equity acquisition” or an “asset takeover” of a domestic company by a foreign investor as defined in Article 2 of the M&A Rules. Accordingly, the M&A Rules are not applicable to any steps of the Reorganization;
- (2) With the exception of the approval issued in 2006 by the Chengdu Municipal Bureau of Commerce in respect of Fantasia HK’s acquisition of 25% equity interest in Chengdu Huawanli (which approval, in accordance with the then newly promulgated M&A Rules, should have been issued by MOFCOM), requisite approvals for all steps undertaken for the Reorganization within the PRC for the purpose of the Global Offering have been obtained from all PRC governmental authorities pursuant to applicable PRC laws and regulations. All such governmental authorities have been granted authority to issue the corresponding approvals. As Fantasia HK transferred its 25% equity interest in Chengdu Huawanli to Shenzhen Huaqianli in 2008, the abovementioned failure to obtain approval from MOFCOM in accordance with the M&A Rules was properly cured and will not cause the business license of Chengdu Huawanli to be revoked and will not expose the Group to any material legal risk;
- (3) The M&A Rules are not applicable to the Global Offering and no approval or consent from the CSRC or any other PRC governmental authority is required in relation to the Global Offering.

## HISTORY AND DEVELOPMENT

### History

Our Group's history dates back to September 28, 1996 with the establishment of Shenzhen Fantasia Investment, a company which engaged in the business of property development in China. Shenzhen Fantasia Investment was established by Ms. Zeng, our executive Director who has 13 years of experience in senior management and entrepreneurship, as its majority shareholder. The remaining minority shareholder at that time was Shenzhen Kingkey Property Development Company Limited (深圳市京基房地產開發有限公司).

After the commencement of the construction of the Group's first residential development project, Shenzhen Endless Blue (深圳碧雲天), in 1999, Mr. Pan, our Chairman, executive Director and chief executive officer, joined Shenzhen Fantasia Investment as an assistant general manager. Since then, our core management team has consisted of Mr. Pan and Ms. Zeng.

With Mr. Pan's experience in the property market in China prior to joining our Group, our Group expanded its scope of business to include property operation services including property management services and property agency services. Therefore, two companies, Shenzhen Fantasia Management and Xingyan Property Consultancy, were established in 2000. Services provided by these two companies include property management, selling and marketing our Group's properties as well as properties developed by other developers.

We continued to expand in the following business segments, namely property development, property investment, property operation services including property management services, building equipment installation, maintenance and repair services, information network services and also property agency services including primary property agency services, secondary property brokerage services and property consulting and advisory services in various cities and regions in China. In 2006, we established more subsidiaries in Chengdu, Dongguan, Shenzhen, Huizhou and Tianjin including the following companies: Chengdu Huaqianli, Dongguan Fantasia, Dongguan Xingyan Property, Fantasia Chengdu Ecological, Fantasia Group (China), Huizhou Xingyan Property, Shenzhen Fantasia Colour, Shenzhen Huaqianli, Tianjin Fantasia Investment, and Tianjin Songjiang-Fantasia.

As we also intend to develop and expand our hotel services including hotel management and operation services, the Group established Shenzhen Caiyue Hotel Management in 2008, and Shenzhen Caiyue Hotel, Shenzhen Fantasia Hotel Management, Fantasia Hotel Management International, Shenzhen Fantasia Business Management and Fantasia Property Management International in 2009.

### Business Development Milestones

The following events are the key business milestones of our Group since its establishment:

- 1998 We commenced construction of our first residential property development project Shenzhen Endless Blue (深圳碧雲天) in Futian District, Shenzhen, the PRC.
- 2000 Shenzhen Endless Blue (深圳碧雲天) was completed. We began to engage in property management business which provides property management services including security services, the maintenance of properties and facilities, gardening and other property management services to residential properties and office spaces. We also commenced construction of our first boutique, partially furnished residential project Fairy Land (芳鄰) in Luohu District, Shenzhen, the PRC.  
Xingyan Property Consultancy was established on February 21, 2000.
- 2001 Fairy Land (芳鄰) was completed.  
We diversified our property portfolio to include office building development. We commenced construction of our first office building development project, Hailun Complex (喜年中心), in Futian District, Shenzhen, the PRC.

## HISTORY, REORGANIZATION AND GROUP STRUCTURE

Geographically, we expanded our property development business to Chengdu and Chengdu Tonghe was established on October 18, 2001.

2002 Construction of Shenzhen Pair Life (深圳錦上花), a residential project in Luohu District, Shenzhen, the PRC commenced.

2003 Hailun Complex (喜年中心) and Shenzhen Pair Life (深圳錦上花), a residential project in Luohu District, Shenzhen, the PRC were completed. Construction of another residential project in Shenzhen, Self Life (趣園), commenced.

We commenced construction of our first residential development project in Chengdu, Chengdu Pair Life (成都錦上花), in Jinjiang District, Chengdu, the PRC.

We also commenced construction of our first residential and commercial building development project in Chengdu, Human Art Wisdom (藝墅花鄉), in Chengnan District, Chengdu, the PRC.

2004 Self Life (趣園) was completed.

Commenced construction of Shenzhen My Place (深圳花好園), a residential project in Futian District, Shenzhen, the PRC.

In Chengdu, both Chengdu Pair Life (成都錦上花) and Human Art Wisdom (藝墅花鄉) were completed.

2005 Shenzhen My Place (深圳花好園) was completed.

Commenced construction of Phases I and II of Fantasia Special Town (別樣城), a residential community development project, located in Gongxing Town, Chengdu, the PRC.

Phase I of Fantasia Special Town (別樣城) was completed.

2006 In Chengdu, construction of Phases I and II of a large scale residential community project, Chengdu Love Forever (成都花郡) in Chenghua District, Sichuan, the PRC commenced.

Construction of Phase III of Fantasia Special Town (別樣城) commenced.

Fantasia Group (China) was established on January 20, 2006 and in the same year became the holding company of the respective equity interests of Shenzhen Fantasia Investment, Shenzhen Fantasia Management, Xingyan Property Consultancy and Chengdu Tonghe.

Shenzhen Fantasia Colour was established on August 25, 2006 and became the holding company of Shenzhen Fantasia Management on November 13, 2006 and Shenzhen Kaiyuan on December 5, 2006.

2007 Geographically, we expanded our property development business to include the Yangtze River Delta region. We commenced construction of Town on the Water (雲海間), a community of upscale residences, in Xizhu Town, Yixing, Jiangsu Province, the PRC. The project is expected to be completed in January 2010.

In Chengdu, Phases II and III of Fantasia Special Town (別樣城) and Phases I and II of Chengdu Love Forever (成都花郡) were completed.

Construction of a residential building, Flower Harbor (花港家園), commenced in Yantian District, Shenzhen, the PRC.

Construction of an industrial project, Shenzhen Future Plaza (深圳香年廣場), commenced in Nanshan District, Shenzhen, the PRC.

In Chengdu, construction for Chengdu My Place (成都花好園), a residential and commercial community property development located in Wuhou District and Phase 1.1 of Grand Valley (大溪谷), a large scale residential complex property development project located in Guangming village, Heshan Town, Pujiang County commenced.

2008 Apart from Shenzhen, Chengdu and Yixing, we also expanded our property development business to other cities in the Pearl River Delta region to include Dongguan and Huizhou.

Expanded our property development business to the Beijing-Tianjin metropolitan region. We began work on the general design and the planning of Yingcheng Lake (營城湖), a residential community property development project in Hangu District of Tianjin, the PRC. In Tianjin, construction of Tianjin Hailun Plaza (天津喜年廣場), an urban complex, also commenced. The whole project is expected to be completed in December 2010.

In Shenzhen, construction of a residential community project, Shenzhen Love Forever (深圳花郡), commenced. This project is expected to be completed in March 2011.

In Chengdu, construction of the following projects commenced:

- (i) Chengdu Hailun Plaza (成都喜年廣場), a large urban complex. The 49-storey building will be the tallest building and a local landmark in Chengdu upon completion in November 2009 as currently expected.
- (ii) Phase I of Chengdu Mont Conquerant (成都君山), a large scale residential community property development project located in a famous tourist attraction in Yongshang Town. Phase I of this project is expected to be completed in August 2010;
- (iii) Phase 1.1 of Fantasia Town (花樣城), a large scale residential community property development project; and
- (iv) Phase 1.2 of Grand Valley (大溪谷). This is expected to be completed in November 2009.

Phase III of Chengdu Love Forever (成都花郡), Phase 1.1 of Grand Valley (大溪谷), Chengdu My Place (成都花好園), Flower Harbor (花港家園) and Shenzhen Future Plaza (深圳香年廣場) were completed.

2009 In Dongguan, construction of a residential community development project, Dongguan Mont Conquerant (東莞君山), commenced. The whole project is expected to be completed in June 2011. In Chengdu, construction of Phases 1.1 to 1.3 of Meinian International Plaza (美年國際廣場), a large urban complex, commenced. Phases 1.1 and 1.2 of this project are expected to be completed in October 2010 and Phase 1.3 in October 2011.

In Chengdu, construction of Phase 2.1.1 of Grand Valley (大溪谷) commenced and is expected to be completed by December 2010. Construction of Phase 2 of Fantasia Town (花樣城) also commenced and is expected to be completed by May 2011.

Phase 1.1 of Fantasia Town (花樣城), Phases IV and V of Chengdu Love Forever (成都花郡) were completed.

As of the Latest Practicable Date, we had 29 property development projects at various stages of development, including 11 projects located in the Chengdu-Chongqing Economic Zone, 14 projects located in the Pearl River Delta area, two projects located in the Yangtze River Delta Region and two projects located in the Beijing-Tianjin metropolitan region. We have also entered into several preliminary framework agreements relating to three potential new projects.

### Our Shareholding Structure

On October 17, 2007, our Company was incorporated as an exempted company under the laws of the Cayman Islands. The companies comprising our Group underwent a reorganization to rationalize our Group's structure in preparation for the listing of our Shares on the Stock Exchange. As a result, our Company became the holding company of our Group by December 31, 2007. A diagram showing our Group's structure after Reorganization as of the date of this prospectus is set forth under the paragraph entitled "Group Structure After the Corporate Reorganization" in this section.

Further details of the shareholding history of our Company, reorganization, and our subsidiaries are set out in the paragraphs headed "Changes in Share Capital of our Company" "The Reorganization", and "Changes in the Share Capital of our Subsidiaries" in the "Statutory and General Information" section in Appendix VIII in this prospectus.

Commerce & Finance Law Offices, our PRC legal counsel, has advised that, with the exception of the registration of the transfer of 16.67% equity interests in Huizhou Huaqianli, formalities for which are currently being undertaken and in respect of which there is expected to be no legal impediment, all necessary consents and approvals from the relevant PRC governmental authorities for consummation of the transfers and changes in registered capital as described above have been obtained.

### Pre-IPO Investment

We entered into the Subscription Agreement on December 12, 2007 with Fantasia (Cayman) and Wellluck as investors and Ms. Zeng, Mr. Pan, Ice Apex, Graceful Star and Fantasy Pearl as Founding Shareholders in relation to the issue of an aggregate of 12,900 Shares and the Bonds for a total consideration of US\$200 million, 50% of which represented subscription price of the 12,900 new Shares and the remaining 50% represented subscription price of the Bonds. Interest on the Bonds accrues at 12% per annum, the Bonds are not convertible into Shares and the relevant terms were agreed after arm's length negotiations with the Investors.

Fantasia (Cayman) is an exempted company incorporated in the Cayman Islands with limited liability and is an affiliate of Goldman Sachs. Goldman Sachs is a corporation duly organized under the laws of the State of Delaware in the U.S. and listed on the New York Stock Exchange.

Wellluck is a majority owned subsidiary of HSBC NF China Investors Limited, which is the general partner of HSBC NF China Real Estate Fund, L.P. It is incorporated in the British Virgin Islands and its business is investment in equity and fixed income securities. HSBC NF China Real Estate Fund is a private equity real estate opportunity fund focused on Greater China, established as a joint venture between HSBC Specialist Investments Limited and the Nan Fung Group.

We believed that the introduction of the Investors would complement the Group's business development. The proceeds from the Subscription Agreement had been used to increase our land bank and repay indebtedness. As of the Latest Practicable Date, approximately 68.5% of the proceeds had been applied to increase our land bank in China, approximately 20.2% of the proceeds had been applied to repay indebtedness and approximately 11.3% of the proceeds had been used for general corporate purposes.

As part of the terms of the Subscription Agreement, among other things, security was given to each of the Investors over Shares held directly or indirectly by Mr. Pan and Ms. Zeng, shares in our non-PRC subsidiaries, the registered capital in some of our principal subsidiaries in China and certain inter-company loans. Such security will be discharged no later than the Listing Date in connection with a Qualified IPO.

Fantasia (Cayman) and Wellluck paid an aggregate of US\$100 million for 12,900 Shares, then comprising 12.9% of the Shares then in issue. Taking into account the Capitalization Issue, such 12.9% shareholding would be represented by 470,205,000 Shares and consequently, the price per Share paid by each of Fantasia (Cayman) and Wellluck is approximately HK\$1.648 per Share. Assuming an offer price of HK\$1.98 (being the mid-point of the offer price range), the price paid by Fantasia (Cayman) and Wellluck is equivalent to a discount of approximately 16.8% to such price per Offer Share.

Pursuant to an Investors' Agreement, the Founding Shareholders have undertaken that certain major decisions of the Company, including any change in the share capital of any company in our Group, incorporation of any new subsidiary, entry into new joint venture, any amendment of memorandum and articles of association of the Company, cessation of any business operation, disposal of or creation of any charge or security over substantial assets, payment or declaration of dividend and dissolution or liquidation of any company in our Group, shall be subject to prior written consent of the majority investors. In addition, none of the Founding Shareholders may, directly or indirectly, carry on or be engaged or concerned or interested in any activities which are or may be in competition with the business of our Group or solicit or contact with a view to the engagement or employment of any senior employees or officers of a company in our Group within the previous two-year period. However, no undertaking given under the Investors' Agreement shall continue after the Listing Date.

Fantasia (Cayman) had also appointed a director to our Board upon completion of the Subscription Agreement but such director had, in accordance with the terms of the Restructuring Deed (referred to below), resigned on the date of entering into the Restructuring Deed.

Prior to the Latest Practicable Date, we, our Controlling Shareholders and the Investors entered into negotiations whereby, in consideration of the consensual restructuring of the Shares and the Bonds, the Parties agreed to the terms and waivers as set forth below. Following such negotiations, the relevant parties entered into the Restructuring Deed on October 10, 2009. According to the material terms agreed in the Restructuring Deed:-

- (a) we had, on October 13, 2009, paid US\$30 million to the Investors to redeem Bonds in the principal amount of US\$28,920,308.48 together with accrued interest of US\$1,079,691.52, representing interest at 12% per annum accrued from the immediately preceding interest payment date;
- (b) the remainder of the Bonds in the principal amount of US\$71,079,691.52 shall be redeemed by the Company (together with interest at 12% per annum accrued to the date of receipt of all sums due in respect of the Bonds) on the earlier of the Listing Date and November 30, 2009. With effect from such payment and conditional on us completing a Qualified IPO, the Investors shall waive any rights and claims they may have had prior to the date of the Restructuring Deed against the Controlling Shareholders and us pursuant to the transaction documents signed with the Investors;
- (c) the Investors shall sell an aggregate of 243,000,000 Shares as part of the Global Offering in a Qualified IPO at the Offer Price, representing 5% of the number of Shares in issue immediately following the Global Offering and the Capitalization Issue but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and would further sell additional Shares pursuant to the exercise of the Over-allotment Option. Such number of additional Shares sold by the Investors shall be equal to the total number of Shares to be sold pursuant to each and any exercise of the Over-allotment Option multiplied by a fraction, the numerator of which shall be the total number of Shares sold and to be sold by the Investors pursuant to the Global Offering in a Qualified IPO (but not taking into account the Shares which may be sold by the Investors pursuant to any exercise of the Over-allotment Option) and the denominator of which shall be the sum of the total number of new Shares sold pursuant to the Global Offering in a Qualified IPO (but not taking into account any new Shares which may be issued pursuant to any exercise of the Over-allotment Option) and the number of Shares specified in the numerator; and
- (d) we shall only proceed with an initial public offering if our market capitalization by reference to the Offer Price is a Qualified IPO.

Prior to the date of this prospectus, we had paid US\$74,378,973.87 to the Investors to redeem the remainder of the Bonds in the principal amount of US\$71,079,691.52 together with accrued interest of US\$3,299,282.35. For information on the sources of funding for redeeming the Bonds, please see “Financial Information — Indebtedness, Contingent Liabilities and Capital Expenditures” in this prospectus.

Although the Investors’ Agreement lapses after the Listing Date and no party shall have any claim against the other after the Listing Date in respect of agreements previously entered into between them provided that a Qualified IPO occurs and redemption of the Bonds takes place in accordance with paragraphs (a) and (b) above, a continuing obligation after the Listing Date and a term of the Restructuring Deed provides that the Controlling Shareholders shall pay to each Investor an amount equivalent to the Agreed Payment on a date no later than the 10th payment business day immediately after the 20 trading day period following the end of the Lock-up Period. The “Agreed Payment” means the amount in U.S. dollars:-

- (i) in the event that the Investors retain Shares immediately after the Listing Date, an amount in cash received by such Investor equivalent to an internal rate of return of 18.5% per annum on

its investment in the Shares from the date of its investment until the settlement date after accounting for any net proceeds received by it in respect of Shares sold pursuant to the Global Offering and any exercise of the Over-allotment Option, gross proceeds from any Shares sold after expiration of the Lock-up Period referred to below and the volume weighted average price of the Shares for the 20 trading day period after expiration of the Lock-up Period and which are still held by such Investor immediately prior to the settlement date. The settlement date is the date on which the Agreed Payment is received in full by the relevant Investor; or

- (ii) in the event that all of the Investors' Shares are sold as part of the Global Offering, an amount in cash received by such Investor equivalent to an internal rate of return of 18.5% per annum on its investment in the Shares from the date of its investment until the settlement date after accounting for any net proceeds received by it in respect of the Shares sold pursuant to the Global Offering.

Any remaining Shares not sold by the Investors in the Global Offering shall be the subject of an undertaking from the Investors that in the Lock-up Period, the Investors shall not dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests, or encumbrances in respect of those Shares other than pursuant to the Global Offering, the Over-allotment Option and/or any permitted transfer. The Investors may sell their Shares after the Lock-up Period but each Investor has agreed that it shall not sell all and not part only of its Shares in an off market trade knowingly to our competitors, the identities of whom have been agreed between us and the Investors.

Prior to the entry into the Restructuring Deed, the Investors were of the view that delays in obtaining certain land use rights or property certificates constituted potential events of default under the Investors' Agreement and the Bonds. However, the Investors had not exercised their rights to call for an event of default under the Investors' Agreement and the Bonds. If there had been an event of default, (i) interest under the Bonds shall accrue on the overdue sum at the rate of 5% per annum over and above the rate of interest 12% of per annum from the due date and (ii) the Investors would be entitled to exercise rights to require the Controlling Shareholders to acquire their Shares at an amount equal to an internal rate of return of 25% per annum of the Investors' investment in the Shares and the Bonds at 110% of the sum of principal outstanding together with all accrued interest. We have always maintained that we had a legitimate and reasonable basis for the delays to obtain the relevant land use rights or property certificates. After arms length negotiations with the Investors, an internal rate of return of 18.5% per annum was agreed in respect of the Investors' investment in the Shares and a revised repayment schedule for the Bonds in accordance with paragraphs (a) and (b) above was agreed in respect of the Investors' investment in the Bonds. The Investors shall also waive any rights and claims they may have had prior to the date of the Restructuring Deed against the Controlling Shareholders and us pursuant to the transaction documents signed with the Investors and with effect from the partial payment of the Bond as mentioned in paragraph (a) above and conditional on us completing a Qualified IPO. If we fail to redeem the Bonds in accordance with the terms of the Restructuring Deed or complete a Qualified IPO, the Investors' waiver of potential breaches under the Subscription Agreement and the Investors' Agreement does not become unconditional.

As security for the Controlling Shareholders' obligation to pay the Agreed Payment, Fantasy Pearl has charged 470,205,000 Shares to the Investors (the "Investors' Share Charge"), representing 9.675% of the number of Shares in issue immediately following the Global Offering and the Capitalization Issue, but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option. Once the Agreed Payment is received in full by each Investor or if each Investor has received an amount in cash equivalent to an internal rate of return of 18.5% per annum on its investment in the Shares, the security granted by Fantasy Pearl to the Investors shall be released unconditionally. Save for this, any and all security granted in favour of the Investors as part of their investment will be released no later than the Listing Date, provided that the Underwriting Agreements have become unconditional on the Listing Date in connection with a Qualified IPO and subject to the Bonds being redeemed in accordance with the terms of the Restructuring Deed.

We shall bear, among other things, the costs and expenses of ourselves, the Controlling Shareholders and the Investors in the preparation and negotiation of the Restructuring Deed and related documents.

### **Registration with the PRC Government Authorities**

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or the SAFE Circular No. 75, issued on October 21, 2005, (i) a PRC citizen residing in the PRC, or a PRC resident, shall register with the local branch of the SAFE before he or she establishes or controls an overseas special purpose vehicle, or an overseas SPV, for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interests into an overseas SPV, such PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of the SAFE; and (iii) when the overseas SPV undergoes a material 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 the SAFE. In May 2007, the SAFE issued the guidance to its local branches with respect to the procedures for the SAFE registration, which strengthen the supervision on registrations pursuant to the SAFE Circular No. 75 and imposes obligations on onshore subsidiaries of the overseas SPVs to coordinate and supervise the relevant PRC residents to complete registration. Under the SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including the imposition of fines or restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the overseas SPV. Commerce & Finance Law Offices, our PRC legal counsel, are of the opinion that Ms. Zeng and Mr. Pan have completed their registration with the relevant local branch of the SAFE with respect to their interests in our Group and have complied with Circular No. 75 and the guidance.