
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Independence from our Controlling Shareholders

The Group will be able to operate its business independently of our Controlling Shareholders and their associates, including Shanghai Ditong and Yangguang Management for the following reasons:

Financial Independence

Our Group has an independent financial system — we have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payments. We can make financial decisions according to our own business needs and have independent access to third party financing. The non-trading and financing balances with, as well as guarantees provided by and to the Controlling Shareholders and their associates will be fully repaid and settled.

Operational Independence

Our Group has been operating independently during the Track Record Period and thereafter and has not shared our facilities, marketing, sales and general administration resources with the Controlling Shareholders and/or their associates (including Shanghai Ditong), save for certain ad hoc assistance provided by some members of the finance team of Shanghai Xintai and Suzhou Hongsheng (both of which are our wholly-owned subsidiaries) to Shanghai Ditong for the reconciliation of information relating to construction projects. Such assistance was not provided after January 2008 and will not be provided going forward.

Other than the property management services to be provided by our connected person Yangguang Management and construction services to be provided by our connected person Shanghai Ditong, no services will be provided by the Controlling Shareholders and/or their associates for our Group’s operation activities. For each of the three years ended 31 December 2008 and the four months ended 30 April 2009, Shanghai Ditong was the largest supplier of the Group accounting for 51.4%, 54.4%, 42.9% and 41.1% of the Group’s total purchase amount from direct suppliers, construction and installation services and other indirect costs respectively, and for each of the three years ended 31 December 2008 and the four months ended 30 April 2009, the total construction costs incurred in respect of the construction services provided by Shanghai Ditong amounted to approximately RMB1,033.1 million, RMB1,019.7 million RMB1,185.5 million and RMB195.3 million, representing approximately 86.8%, 96.1%, 90.6% and 91.3% of our total construction and installation costs (excluding the purchase amount from direct suppliers) incurred respectively. Although Shanghai Ditong was our largest supplier and provided substantially all of our construction services during the Track Record Period, in the opinion of the Directors, there are other willing general construction contractors readily available in the market that we can engage to provide us with construction services of comparable standard at a comparable price. This is because we maintain a list of construction companies with different qualifications in places where our projects are located such that we can contact third party construction contractors that have the necessary qualifications and capability to meet the particular specifications for our different project developments. In addition, pursuant to the relevant regulations governing the tender process, the tender was able to proceed only with the participation of the bidders of comparable standing. For details of the bidding requirements. For each of our property development projects during the Track Record Period and thereafter, a

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certified engineering supervisory company which is independent of the Group and our construction contractor for the relevant property project was appointed to supervise all aspects of the construction of the property project. The engineering supervisory company is responsible for monitoring the quality of construction materials used in our projects, conducting safety control checks, monitoring the work progress and quality of construction to ensure that our requirements and the construction schedule specified in the relevant contract with our construction contractor are strictly adhered to. For details regarding the independent supervisory process of the independent engineering supervisory company, please refer to the section headed “Business — Procurement and Quality Control”. We have been seeking to diversify our service providers by engaging other independent construction companies for our new development projects, for example, we did not invite Shanghai Ditong to participate in the tender for the construction of Phase III of Sunny Town. Going forward, the annual transaction value with Shanghai Ditong will not exceed 93.0%, 53.4% and 27.8% of our estimated total construction fees payable for each of the three financial years ending 31 December 2011, respectively.

The Directors are of the view that the shift of the provision of construction services by Shanghai Ditong to independent construction contractors would not materially affect the Group’s business operations because our project management department in each project company retains control over the management of the overall construction of the project and is responsible for monitoring the quality of the construction work and the construction progress. Typically, each of our project company comprises about 25 experienced staff responsible for the development of a property project. Such staff includes project managers, engineers and personnel in charge of budgeting and finance. The engineers are responsible for the monitoring the construction work, the budgeting and finance team is responsible for monitoring the purchase of construction materials and the project managers are responsible for monitoring the construction progress and construction work. The project managers report to the regional companies of our Group about the construction progress and quality of the construction work from time to time. In addition to having our own internal control measures to supervise the construction progress and construction work from time to time, we engage an independent certified engineering supervisory company for each of our project development to monitor the quality of construction materials used, construction progress and quality of construction work. The supervisory company will provide monthly reports to us and thus our Group can ensure the quality of construction work will not deviate from the construction plan. Our Group can seek compensation from the construction contractor if the quality of construction work deviates from the construction plan. As such, the Directors believe that with these control measures in place, switching to another general construction contractor will not materially affect our project developments. The Directors also consider that the role of a construction contractor is to provide construction services in accordance with the pre-determined detailed design plan and drawings with the technical specifications and thus so long as the detailed design plan with the specifications required have been prepared and the Group retains sufficient level of quality control over the construction process, the construction work provided by different construction contractors (all holding the same class of qualification licence and having the requisite expertise) will not be different in any material respect as the construction contractors are only expected to follow the detailed construction plan and drawings, and quality requirements in completing the construction work. The Directors also note that after construction is completed, we need to obtain a completion and acceptance certificate from the relevant local authority before we are able to deliver our properties to the customers, and thus with these measures we are able to maintain the quality of our project developments even if we shift the construction services provided by Shanghai Ditong to other independent construction contractors.

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Independent access to customers

We conduct our own sales and marketing with our own independent sales team or through independent third party agents. The Group has a large and diversified base of customers that are unrelated to the Controlling Shareholders and/or their associates.

Independence of management

The daily operation of our Group is carried out by an independent experienced management team. Save for the Founder, who is a director of Best Era, there is no overlapping of directorships and senior management between our Group and our Controlling Shareholders. In particular, there is no management overlap between the Group and Shanghai Ditong.

Independent access to sources of supplies

Although for each of the three years ended 31 December 2008 and the four months ended 30 April 2009, Shanghai Ditong is the largest supplier of our Group accounting for 51.4%, 54.4%, 42.9% and 41.1% of the Group’s total purchase amount from direct suppliers, construction and installation services and other indirect costs, in the opinion of the Directors, there are other willing general construction contractors readily available in the market that can be engaged to provide us with construction services of comparable standard. We have been seeking to diversify our service providers by engaging other independent construction companies for our new development projects. Going forward, for each of the three years ending 31 December 2011, our Group will monitor the annual construction fees payable to Shanghai Ditong will not exceed 40%, 30% and 20%, respectively, of the estimated total amounts payable for the anticipated project developments of our Group.

Founder’s Interest outside the Group

Apart from his controlling interests in our Group, at present, the Founder holds interests in companies which are principally engaged in the shipbuilding business in the PRC. None of his interests in these companies compete, directly or indirectly, with our business.

Competing Interests

As of the Latest Practicable Date, apart from his indirect shareholding interests in our Group, none of the Founder and his associates, was engaged or otherwise be interested in any business which is in direct or indirect competition, or which may potentially compete, with the business of our Group. Our Controlling Shareholders have entered into a deed of non-compete undertaking in favour of our Group. For details, please refer to the paragraph headed “Deed of Non-Compete Undertaking”.

Our Group is principally engaged in the development and sale of high quality residential and commercial properties in the PRC whereas the principal business of Shanghai Ditong is the provision of construction services. Although Shanghai Ditong’s articles of association permit Shanghai Ditong to engage in property development, Shanghai Ditong has confirmed that it does not engage in property

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development business. Further, Shanghai Ditong has undertaken to us that, among others, as long as it remains a connected person of our Company, it shall not and shall procure that its subsidiaries shall not directly or indirectly engage in any business that competes with the Group’s business.

Deed of Non-Compete Undertaking

In order to protect our Group’s interests and our current business activities, our Controlling Shareholders, the Founder and Best Era (collectively, the “**Covenantors**”), have entered into a deed of non-compete undertaking dated 9 September 2009 (“**Deed of Non-compete Undertaking**”) in favour of our Company (for our Company and as trustee for each of our subsidiaries from time to time), pursuant to which each Covenantor has undertaken and covenanted with our Company that, among others, for so long as each Covenantor and/or their respective associates (as defined in Rule 1.01 of the Listing Rules) directly or indirectly hold, whether individually or taken together, 30% or more of the issued share in our Company, each Covenantor shall not and shall procure their respective associates not to directly or indirectly engage or otherwise be interested in the business of the development, sales, leasing and investment of properties in the PRC (other than through our Group) and business which is the same or similar to that carried on by our Group from time to time. The foregoing does not apply to ownership of shares in any company whose shares are listed on the Stock Exchange or on any other stock exchange and which competes with our Group provided that such shares do not exceed 5% of such listed company’s issued share capital and provided further that at no time shall the Founder and/or his associates participate in the management of such company.

In order to promote good corporate governance practices and to improve transparency, the Deed of Non-compete Undertaking includes, among others, the following provisions:

- (i) the independent non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-compete Undertaking by the Covenantors; and
- (ii) each of the Covenantors has undertaken to us that it/he will provide all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-compete Undertaking.

On the basis of the matters described in this section, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates.