Shanghai Bay Arrangements

Transfer of the Projects

On 11 June 2009, the Founder and Bright New entered into the Better Score Sale and Purchase Agreement with S.I. Properties and Shanghai Industrial Holdings Limited. The total consideration payable by S.I. Properties under the Better Score Sale and Purchase Agreement was the US$ equivalent of RMB2.0 billion. The consideration was determined following arm's length negotiations between Bright New and S. I. Properties taking into account the market value of the Projects in their existing state at the time. The capital value of the Projects as at 30 April 2009 as valued by Jones Lang LaSalle Sallmanns Limited was approximately RMB2.8 billion. Pursuant to the Better Score Sale and Purchase Agreement, Bright New agreed to transfer its entire issued share capital in Better Score Limited to S.I. Properties on the condition that S.I. Properties would provide us with an amount in the US$ equivalent of RMB1.3 billion. S.I. Properties is a wholly-owned subsidiary of Shanghai Industrial Holdings Limited, a company whose securities are listed on the Stock Exchange. Our Group and our Controlling Shareholders are independent of and unrelated with S.I. Properties, its controlling shareholder(s) and/or its subsidiaries. At the time of the above transfer, Better Score Limited indirectly held Block Nos. 2 and 8 of Shanghai Bay.

On 10 August 2009, we received a payment of approximately US$190.2 million (equivalent to RMB1.3 billion) which we used to partially redeem the Original Notes. S.I. Properties is obligated to make a second payment to us in an amount equal to the US$ equivalent of RMB0.7 billion when we transfer our legal interests in additional Blocks Nos. 9 and 10 of Shanghai Bay to S.I. Properties. We intend to use approximately US$28 million of such funds to repay the amount outstanding under the bridge loan, the details of which are set out in "History, Reorganisation and Group Structure — Financing". We will deposit the balance of approximately US$74 million into an account of Bright New that has been pledged as collateral for the Financing and may only be used for operating expenses and permitted uses until such financing is repaid.

Following the above mentioned transfer, Better Score Limited became a wholly-owned subsidiary of S.I. Properties and indirectly holds the legal and beneficial interests in Block Nos. 2 and 8 of Shanghai Bay through Shanghai Penghui, which is a wholly-owned subsidiary of Nantong Jiju, which in turn is a wholly-owned subsidiary of Greater Base Limited, a direct wholly-owned subsidiary of Better Score Limited.

Compulsory buy-back and management of the Projects

As an integral part of the above arrangement:

(i) Shanghai Xintai, Nantong Jiju, Shanghai Penghui, the Founder and Shanghai Industrial Holdings Limited entered into the Shanghai Penghui Share Transfer Agreement on 5 August 2009. It is stated in the Shanghai Penghui Share Transfer Agreement that Shanghai Xintai (or such person or persons of our Group nominated by it) has a right and an obligation to buy-back from Nantong Jiju, and Nantong Jiju has a right and an obligation to transfer back to Shanghai Xintai (or such person or persons of our Group nominated by it), the entire equity interest in Shanghai Penghui on 1 December 2011 (or such other date as Shanghai Xintai and Nantong Jiju may mutually agree). The parties shall sign the relevant transfer documents within thirty days thereafter. Upon exercise of such buy-back, Shanghai Xintai shall pay to Nantong Jiju an amount equal to RMB2.0 billion (if Block Nos. 9 and 10 of Shanghai Bay are transferred), which is equivalent to the aggregate principal amount received by our Group under the Better Score Sale and Purchase Agreement.

During the term of the Shanghai Penghui Share Transfer Agreement, if, among other things, (a) Shanghai Xintai fails to acquire Shanghai Penghui due to material litigation, or (b) Shanghai Xintai fails to ensure that Shanghai Penghui distributes shareholder's return in accordance with the Management Agreement and Shanghai Xintai, the Founder or Bright New fails to reimburse such shortfall to the Purchaser or Nantong Jiju (such events are collectively referred to as "**Non-performing Events**"), Nantong Jiju shall have the right to (x) issue a notice requiring Shanghai Xintai to take remedial action; (y) issue a notice requiring Shanghai Xintai to immediately acquire Shanghai Penghui and pay a penalty payment of 8.0% of the RMB equivalent of the total consideration paid by S.I. Properties under the Better Score Sale and Purchase Agreement if Shanghai Penghui fails to take remedial action as stated in (x) above, such interest rate of 8.0% was determined by the parties by reference to what the parties considered to be the typical borrowing costs of a PRC property developer at the time, and (z) terminate the Shanghai Penghui Share Transfer Agreement if Shanghai Xintai fails to acquire Shanghai Penghui and pay penalty payment in accordance with (y) above.

In the event the Shanghai Penghui Share Transfer Agreement is terminated in accordance with the above, Nantong Jiju shall have the right to dispose of the entire equity interest of Shanghai Penghui and/or its assets. However, if Nantong Jiju decides to dispose of its entire equity interest in Shanghai Penghui and/or its assets upon termination of the Shanghai Penghui Share Transfer Agreement, Nantong Jiju has agreed (a) not to dispose of the equity interest in Shanghai Penghui and/or any of its underlying assets to any related persons of Nantong Jiju; (b) to notify Shanghai Xintai of the proposed disposal within seven days after the relevant proposal is formulated; and (c) to dispose of its equity interest in Shanghai Penghui to Shanghai Xintai provided that, prior to the time when Nantong Jiju has executed all of the necessary documents for its internal corporate approval in connection with such proposed disposal, Shanghai Xintai, upon receipt of the notice referred to (b) above, will be able to purchase all of the equity interest in Shanghai Penghui in accordance with the Shanghai Penghui Share Transfer Agreement and pay Nantong Jiju all penalty payments in full.

If Nantong Jiju exercises its right to dispose of Shanghai Penghui (and/or its underlying assets) upon termination of the Shanghai Penghui Share Transfer Agreement, but the net proceeds from such disposal are less than the amount that Nantong Jiju is entitled to receive under the Shanghai Penghui Share Transfer Agreement (including the principal amount equivalent to RMB2.0 billion (if Block Nos. 9 and 10 of Shanghai Bay are transfered) under the Shanghai Penghui Share Transfer Agreement, the unpaid shareholder's return under the Management Agreement and any outstanding penalty payment) ("**Nantong Jiju Entitlement**"), Shanghai Xintai and the Founder shall reimburse Nantong Jiju the shortfall amount. In the event that the net proceeds from the disposal of Shanghai Penghui (and/or its underlying assets) exceed Nantong Jiju Entitlement, Nantong Jiju shall: (a) return the excess amount to Shanghai Xintai (in case of sale of Shanghai Penghui); or (b) retain the excess amount in Shanghai Penghui and transfer Shanghai Penghui back to Shanghai Xintai (upon request by Shanghai Xintai) at nil consideration (in case of disposal of the underlying assets of Shanghai Penghui).

(ii) Shanghai Xintai, Nantong Jiju, the Founder and Shanghai Penghui entered into the Management Agreement on 5 August 2009 pursuant to which Shanghai Xintai agreed to continue to manage the construction and sale of the Projects, as well as other daily operations of Shanghai Penghui, for the period commencing from the date of the Management Agreement and ending on the date of the occurrence of a termination event as specified in the Management Agreement (the "**Management Period**"). Termination events include, among others, the completion of the relevant business registration procedures for the transfer of the entire equity interest of Shanghai Penghui to Shanghai Xintai pursuant to the Shanghai Penghui Share Transfer Agreement. Shanghai Xintai shall be solely responsible for managing the financial and operational matters regarding the construction and operations of the Projects and it shall also be responsible for paying all construction and installation fees (including renovation fees), basic construction fees, and outstanding land premium (if any) in respect of the Projects (such amounts shall be treated as a part of the account payables in Shanghai Penghui's account). The operations of Shanghai Penghui bank account(s) shall be managed by designated persons of Shanghai Penghui, such designated persons include a representative of Shanghai Xintai and a representative of Nantong Jiju. During the Management Period, save for the development and operations of the Projects, Shanghai Penghui cannot carry out other business operations and it shall not engage any other person to manage the construction, operation and financial matters of the Projects.

As part of the Shanghai Bay Arrangements, S.I. Properties, through Nantong Jiju, shall receive a shareholder's return (net of tax) for each of the three years ending 31 December 2011 representing a total rate of return of 18% per annum. Such shareholder's return is calculated based on the actual consideration amount paid by S.I. Properties and the date of payment of the consideration.

Our source of funding for payments of the shareholder's return to S.I. Properties for the three years ending 31 December 2011 and the buy back of the Projects in 2011 is primarily the pre-sale proceeds of the Projects. To the extent that the pre-sale proceeds of the Projects are not sufficient for this purpose, Shanghai Xintai shall settle the balance through its own resources such as bank loans and cash flow generated from its business operations.

Collateral and Guarantee

As security for the performance of Bright New and Shanghai Xintai under the Better Score Sale and Purchase Agreement, the Shanghai Penghui Share Transfer Agreement and the Management Agreement, the following collateral and guarantee were provided:

(1) *Guarantee provided by Tianjin Yangguang Xindi*

Pursuant to the Better Score Sale and Purchase Agreement, Tianjin Yangguang Xindi provided a joint and several guarantee in the guaranteed amount of RMB500,000,000 in favour of Nantong Jiju.

(2) *Pledge of Block 6 Development*

Pursuant to the Better Score Sale and Purchase Agreement, if prior to 31 December 2011 Block No. 6 of Shanghai Bay ("**Block 6 Development**") is developed to a stage that it can be pledged (i.e. Certificate of Real Estate Ownership (房地產權證), Plot Planning Permission (建設用地規劃許可證), Construction Project Planning Permission (建設工程規劃許可證), Building Construction Permit (建築工程施工許可證) have all been obtained), Shanghai Xintai shall pledge Block 6 Development in favour of Nantong Jiju for a pledge value of RMB350 million. When Block 6 Development is developed to a stage such that it can be pre-sold, the Purchaser and Nantong Jiju shall begin the pre-sale of the Block 6 Development and the proceeds from such pre-sale shall be deposited into the designated bank account of Shanghai Penghui, such account shall be managed by designated persons of Shanghai Penghui, which include a representative of Shanghai Xintai and a representative of Nantong Jiju, until the pledge is released or we acquire the entire equity interest of Shanghai Penghui. The Purchaser has agreed to unconditionally release the pledge over Block 6 Development upon the earlier of (i) the pre-sale proceeds of Block 6 Development actually received by Shanghai Penghui amounting to an aggregate of RMB350 million and (ii) the acquisition of the entire equity interest of Shanghai Penghui by Shanghai Xintai in accordance with the Shanghai Penghui Share Transfer Agreement. Shanghai Xintai shall be entitled to all of the pre-sale proceeds exceeding the RMB350 million received by Shanghai Penghui.

In the event that on 31 December 2011 Block 6 Development has not been developed to a stage such that it can be pledged and Shanghai Xintai does not acquire the entire equity interest of Shanghai Penghui in accordance with the Shanghai Penghui Share Transfer Agreement, Shanghai Xintai shall pay RMB350 million to Nantong Jiju.

(3) *Guarantee by the Founder*

The Founder entered into the Better Score Sale and Purchase Agreement, Management Agreement and Shanghai Penghui Share Transfer Agreement as a guarantor, guaranteeing (i) the due and punctual performance and discharge by Bright New of its obligations under or pursuant to the Better Score Sale and Purchase Agreement; (ii) the due and punctual performance by Shanghai Xintai of its obligations under the Shanghai Penghui Share Transfer Agreement; and (iii) the payment obligations of Shanghai Xintai under the Management Agreement. Such guarantee will be replaced by a guarantee to be provided by our Company.

Nature of the above arrangements

The Directors are of the view that whilst the legal and beneficial interest in Better Score Limited and the Projects have been transferred to S.I. Properties, the abovementioned arrangements and effectively a financing arrangement for the reasons set out below:

(i) S.I. Properties has a right and an obligation under the Shanghai Penghui Share Transfer Agreement to transfer the legal and beneficial interests in the Projects back to us on 1 December 2011 (or such other date as Shanghai Xintai and Nantong Jiju may mutually agree);

(ii) Other than (a) the shareholder's return pursuant to the Management Agreement, (b) the repayment of the principal amount equivalent to RMB2.0 billion (if Block Nos. 9 and 10 are transferred) upon exercise of the buy-back obligation by us as set out in the Shanghai Penghui Share Transfer Agreement and (c) the right to dispose of Shanghai Penghui upon termination of the Shanghai Penghui Share Transfer Agreement, S.I. Properties does not, and will not, have any right with respect to the Projects.

(iii) We have retained the right to manage and control operational and financial matters with respect to the Projects, including the development, construction and the sale of the Projects.

(iv) We have assumed the risk of depreciation in the value of the Projects and are entitled to any appreciation gain the Projects may bring.

(v) Upon the occurrence of the Non-performing Events as described in the Shanghai Penghui Share Transfer Agreement, Nantong Jiju shall have the right to dispose of the entire interest of Shanghai Penghui and/or its assets. In the event that the net proceeds from the disposal of Shanghai Penghui and/or its underlying assets exceed Nantong Jiju Entitlement, Nantong Jiju shall: (a) return the excess amount to Shanghai Xintai (in case of sale of Shanghai Penghui); or (b) retain the excess amount in Shanghai Penghui and transfer Shanghai Penghui back to Shanghai Xintai (upon request by Shanghai Xintai) at nil consideration (in case of disposal of the underlying assets of Shanghai Penghui).

    The above arrangement is reflected in the accountant's report set out in Appendix I to the document. On that basis, the Directors have concluded that the arrangement, in substance, should be regarded as a loan transaction in accordance with the Hong Kong Financial Reporting Standards, given that the risk and reward of the Projects have not been transferred to Nantong Jiju and therefore the results and balance sheet of Shanghai Penghui will be fully consolidated into our consolidated financial statements.

Our PRC legal counsel opined that the Shanghai Penghui Share Transfer Agreement and the Management Agreement and the transactions contemplated therein are legal, valid, binding, and are in compliance with relevant PRC rules and regulations. Our PRC legal counsel further opined that the transfer of the Projects together with the related arrangements are not considered loan transactions and thus the General Principles of Loans (貸款通知) are not applicable.

Reasons for entering into the Shanghai Bay Arrangements

One of the key benefits for entering into the Shanghai Bay Arrangements was to repay a portion of the Original Notes (as converted into US$) in the aggregate principal amount of US$192,775,841 as part of the restructuring as described in "*History, Reorganisation and Group Structure — Financing — Restructuring of Original Notes*". As at 31 December 2008, the weighted average effective interest rate of the Original Notes was approximately 24.3% . In addition, since Renminbi (which is the denominator of the Original Notes) has appreciated since the Original Notes were issued, thereby further increasing the Company's financing costs with respect to the Original Notes, our Directors believe that it would be beneficial to the financial position of our Group to refinance a portion of the Original Notes with the proceeds from the Shanghai Bay Arrangements due to the relatively lower interest rate payable with respect to such proceeds. At the time of entering into the Shanghai Bay Arrangements, our Group had not encountered any difficulties in obtaining financing for any of its projects. However, our Company did not seek to obtain any offshore financing (but instead opted for the Shanghai Bay Arrangements) to repay the Original Notes because it would not have been possible for our Group to provide the security package that the relevant offshore financial institutions would have demanded.

Definitions used in this Appendix

Terms (other than those defined in the Definitions section) shall have the following meaning:

"Better Score Sale and Purchase Agreement"	the sale and purchase agreement dated 11 June 2008 and entered into by and among the Founder, Bright New, Shanghai Industrial Holdings Limited and S.I. Properties (as supplemented by a supplemental agreement dated 30 July 2009) in relation to the transfer of the entire issued share capital of Better Score Limited
"Management Agreement"	the management agreement dated 5 August and entered into by and among Shanghai Xintai, Nantong Jiju, the Founder and Shanghai Penghui in relation to the management of the Projects and other daily operations of Shanghai Penghui
"Shanghai Penghui Share Transfer Agreement"	the share transfer agreement dated 5 August 2009 and entered into by and among Shanghai Xintai, Nantong Jiju, Shanghai Penghui, the Founder and Shanghai Industrial Holdings Limited in relation to the acquisition of Shanghai Penghui
"S.I. Properties"	S.I. Properties Holdings Limited, an indirect wholly-owned subsidiary of Shanghai Industrial Holdings Limited and an independent third party