

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders own a number of other companies, including Macau Powerlong Group, Xiamen Powerlong Group and Macau Changyuan. The Parent Group carries out various lines of businesses, which can be classified into two categories: (i) businesses which do not compete, directly or indirectly, with our business (the “Remaining Business”); and (ii) hotel operation business (the “Hotel Operation”) (collectively, the Remaining Business together with the Hotel Operation, the “Retained Business”). The Remaining Business consists of businesses that are not related to the property development industry, including distribution of office automation equipment, manufacture and development of lithium batteries, department store operation, retail fashion, management of tourist attractions and food court operation.

As of June 30, 2009, the Parent Group had approximately 1,360 full-time employees. Except for Hoi Kin Hong and Hoi Wa Fong, none of our executive Directors assume any directorship or management roles in the Parent Group. Our Directors are of the view that our Directors and senior management are able to function independently of the Controlling Shareholders and their associates.

Delineation of Businesses

Our Directors are of the view that there is a clear delineation between the Retained Business and our business, as a result of which, none of the Retained Business would compete, or is expected to compete, directly or indirectly, with our core business of property development. None of the Parent Group, any of its subsidiaries or any of the other entities controlled by our Controlling Shareholders is engaged in any commercial property development business that competes or may compete with us.

The Retained Business was not injected into our Group as part of the Reorganization, nor was such business acquired by us after the Reorganization, as our Directors are of the view that such business, neither forms part of our core business nor is in line with our overall strategy to maintain and further strengthen our market position as a leading commercial property developer. Our Directors believe that each of the Retained Business can be clearly differentiated from our business for the following reasons.

(A) Hotel operation

The Parent Group is engaged in hotel operation business, which is ancillary to our core business, namely, commercial property development and operation. As such, when deciding whether to engage in any hotel operation business, our Directors will take into account various factors including whether such hotel operation business is located within our Powerlong City Plazas and whether it is able to help boost the customer traffic to our commercial properties, promote our brand image and attract reputable and reliable commercial tenants. In certain circumstances, we also take into consideration town planning requirements as part of our co-operation with local governments. In accordance with such selection criteria which forms part of our business model and overall strategy, we have included hotels in three of our existing property development projects, namely, Suzhou Taicang Powerlong City Plaza, Qingdao Powerlong City Plaza and Tai'an Powerlong City Plaza. As these hotels form an integral part of the commercial complexes and we believe they help to maintain the overall image and positioning of the commercial complexes attached to these hotels, we do not intend to sell or lease out these hotels. Instead, we have engaged professional hotel management companies to operate them.

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The Parent Group currently operates two five-star hotels, namely, Xiamen Powerlong Hotel (廈門寶龍大酒店) (“Xiamen Hotel”) and Jinjiang Powerlong Hotel (晉江寶龍大酒店) (“Jinjiang Hotel”) (collectively, the “Two Hotels”) in Xiamen and Jinjiang, Fujian Province, respectively. Each of Xiamen Hotel and Jinjiang Hotel has its own management teams and does not share any management personnel with us. Xiamen Hotel commenced its operation in 2001 and has approximately 189 rooms. Jinjiang Hotel commenced its operation in 2005 and has approximately 338 rooms. The revenue of the Xiamen Hotel for the three years ended December 31, 2006, 2007 and 2008 were approximately Rmb 64.9 million, Rmb 64.2 million and Rmb 62.9 million. The Xiamen Hotel made a loss of Rmb 10.2 million and Rmb 4.5 million for the years ended December 31, 2006 and 2007, respectively. For the year ended December 31, 2008, Xiamen Hotel made a profit of Rmb 1.4 million. The revenue and loss of the Jinjiang Hotel for the three years ended December 31, 2006, 2007 and 2008 were approximately Rmb 49.9 million, Rmb 57.1 million and Rmb 59.0 million, and Rmb 15.8 million, Rmb 8.0 million and Rmb 1.0 million, respectively. The operation of the Two Hotels is distinct from our business model and not in line with our development strategies as stated above, as each of the hotels included in our development projects is developed as a part of the large-scale and multi-functional quality commercial complexes, while the Two Hotels are stand-alone hotels. We consider that there will be no actual or potential competition between the Two Hotels and the hotels to be included in our development projects. Notwithstanding the differences as described above, pursuant to the Deed of Non-competition, we have been granted an option to acquire each of the Two Hotels if and when we choose.

(B) *Leasing operation*

We are principally engaged in the business of property development and our leasing operation is limited to the leasing of commercial properties developed by us and retained for long term investment purposes.

Our rental properties are primarily retail and catering spaces and are leased out to retail outlets, entertainment and food and beverages operators. We are usually able to enjoy a higher rate of return on the rental income of commercial properties developed by us than those which we acquired in the open market for rental purpose.

One of our subsidiaries, Fuzhou Powerlong, is currently leasing the third floor of Powerlong Center in Xiamen, for office use, from Xiamen Powerlong Information, a 51% owned subsidiary of Xiamen Powerlong Group. The property is the only property owned by the Controlling Shareholders at Powerlong Center and is held for investment. Details of the lease is set out in “Connected Transactions — Continuing connected transactions which are exempt from the reporting, announcement and independent shareholders’ approval requirements — First Office Lease Agreement of Fuzhou Powerlong.”

Powerlong Center is a commercial-residential development which is different from the properties that are the focus of our leasing operation. In addition, we have no leasing operation in Xiamen and have not acquired any property for the sole purpose of leasing them out. Therefore, we believe that our leasing operation is different from that of the leasing operation of the Controlling Shareholders at Powerlong Center, which is a property that has been acquired solely for the purpose of leasing out.

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In addition, we also do not believe that our indoor amusement park developments would be in competition with that of the amusement park operation of the Parent Group, as we are only involved in the leasing of properties to amusement park operators whereas subsidiaries of the Parent Group are operators of amusement park facilities.

Directors

Except for Hoi Kin Hong, Hoi Wa Fong and Hoi Wa Fan, who hold directorships in the Two Hotels but are not involved in the day-to-day management of these hotels, none of our other Directors is a director or a substantial shareholder of any business, which competes or is likely to compete, either directly or indirectly, with our business.

Our Directors, Hoi Wa Fong, Shih Sze Ni and Hoi Wa Fan, purchased commercial units in Fuzhou Powerlong City Plaza with an aggregate site area of approximately 492 square meters at market value in 2006 and 2007 for investment purposes. They have no intention to undertake any commercial property leasing business, which directly or indirectly competes with us. These properties are the only properties held by Hoi Wa Fong, Shih Sze Ni and Hoi Wa Fan and they have all been leased to other independent tenants for commercial purposes. Hoi Wa Fong, Shih Sze Ni and Hoi Wa Fan have undertaken to us that they will not acquire properties for commercial leasing purposes in the future. They have also undertaken to us that in the event that we are offering comparable commercial units for lease to tenants on terms similar to those offered by them, they will offer the first right of leasing of the properties to us.

Deed of Non-competition

Our Controlling Shareholders have undertaken to us in the Deed of Non-competition that (i) we have the first right of refusal to acquire the Parent Group's interests in (a) the Two Hotels, should they decide to dispose of such intents in future, and (b) the Mingfa Interest, in the event that completion of the acquisition of the Mingfa Interest fails to take place on December 31, 2009 or such other date as may be agreed by us; and (ii) subject to the terms of the Deed of Non-competition they will not, and shall procure their controlled affiliates (other than members of our Company) not to, engage in any property development and hotel operation businesses in China including (without limitation) the following activities:

- (i) acquiring, holding, developing, transferring, disposing or otherwise dealing in, whether directly or indirectly, land, real estate properties or property-related investments (except for the properties occupied and used by the Controlling Shareholders for the purpose of their business operations);
- (ii) engaging, having a right or in any way having an economic interest, in the promotion or development of or investment in land or real estate properties (except for the properties occupied and used by the Controlling Shareholders for the purpose of their business operations);
- (iii) acquiring, holding, transferring, disposing or otherwise dealing in any option, right or interest over any of the matters set out in paragraphs (i) and (ii) above;
- (iv) acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, shares of any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in paragraphs (i) to (iii) above; or

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- (v) acquiring, holding, developing, transferring, disposing or otherwise dealing in, whether directly or indirectly, hotels or hotel-related investments,

provided that, subject to the option granted by the Controlling Shareholders to us to acquire any of their business, the Parent Group may continue with the operation of the Two Hotels, and except for acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, shares of any company (whose shares are listed on the Stock Exchange or any other stock exchange), with any interest in the matters set out in paragraphs (i) to (iv) above so long as (a) their aggregate interest in such company is less than 5%; and (b) they are not controlling more than 10% of the composition of the board of directors of such company.

Pursuant to the Deed of Non-competition, the Controlling Shareholders granted an option (the “Option”) to us to acquire the Mingfa Interest and the Two Hotels in accordance with (a) commercial terms which shall have been opined upon by our independent non-executive Directors based on advice from an independent financial advisor as being, inter alia, normal commercial terms, in the ordinary course of our business, fair and reasonable and in the interests of our Company as a whole; and (b) any procedural requirements of the Listing Rules which may be required in relation to any such acquisition. The Option allows us to acquire the attributable interests of the Controlling Shareholders, or any part thereof, in such companies or projects at their fair market values, provided that consent from third party for such transfer is obtained, if applicable. If the parties to the Deed of Non-competition fail to agree on the acquisition price, the valuation of such projects or companies and the price shall be determined by an independent qualified valuer. The Option is independent and in addition to the right of first refusal to acquire the Controlling Shareholders’ interests in the Mingfa Interest and the Two Hotels granted under the Deed of Non-Competition.

In considering whether to exercise the Option, our independent non-executive Directors will take into account ordinary commercial considerations such as the business and financial condition, management efficiency, operational results, level of profitability of the Two Hotels (as the case may be), our then development strategy, and whether the terms of the acquisitions are fair and reasonable and on normal commercial terms with reference to the then prevailing market prices of the Mingfa Interest and the Two Hotels (as the case may be). We consider that it is not practicable to pre-determine at this stage the precise benchmarks on which the Options will be exercised. In view of our robust corporate governance measures, the decision as to whether we should exercise the Options will be made by our independent non-executive Directors who will act in the best interests of our Company and our shareholders as a whole at the relevant time with reference to the then prevailing circumstances. The review and exercise of the Options would be in accordance with the decision-making process and corporate governance measures set out in “— Relationship with Our Controlling Shareholders — Deed of Non-competition” and “— Relationship with Our Controlling Shareholders — Corporate Governance Measures” in this section.

The exercise of any of the Options under the Deed of Non-competition will constitute a connected transaction for us, and we will comply with the procedures set out in Chapter 14A of the Listing Rules in respect of connected transactions, including independent shareholders’ approval if required. Any decision relating to the exercise of the Option under the Deed of Non-competition will be made by our independent non-executive Directors.

Further, pursuant to the Deed of Non-competition, the Parent Group will not conduct any property development and hotel operation except for the management of the Two Hotels. If any future business opportunity involving business which may compete with our principal business is

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made available to the Parent Group, any of our Controlling Shareholders or their affiliates, the Parent Group shall promptly refer such business opportunity to us. We have a right within three months thereafter to request the Parent Group to allow us to take up such business opportunity and in the event that we decide to take up the opportunity, the Parent Group will use its best endeavor to assist us to obtain the opportunity. The Parent Group shall provide the details of any such business opportunity to the Board in writing within seven days after the Parent Group becomes aware of such business opportunity and the Controlling Shareholders shall procure that such details be provided to our independent non-executive Directors within three business days from the date of receipt of such information. When considering whether or not to take up a new business opportunity, our independent non-executive Directors will take into account the written proposal prepared by our management regarding such business opportunity and consider whether the relevant business opportunity is expected to present a sustainable level of profitability, accord with our then development strategy, and whether the terms of the new business opportunity are fair and reasonable and on normal commercial terms with reference to the then prevailing market prices of such business opportunity. Our independent non-executive Directors may from time to time commission the assistance of external professional advisors (including an independent financial advisor) at the cost of our Company as they consider necessary or desirable to advise them regarding the terms of any such new business opportunity or any such other matter. The Parent Group agrees to provide all information reasonably required by our independent non-executive Directors and/or independent financial advisor to assist them in their assessment of the new business opportunity.

The decision-making process regarding the Deed of Non-competition will be monitored as follows:

- our independent non-executive Directors will be responsible for deciding, without attendance by any other executive Directors or non-executive Director (except as invited by our independent non-executive Directors to assist them), whether or not to exercise the Option or to accept a new business opportunity referred to us by the Parent Group or any other matter arising under the terms of the Deed of Non-competition from time to time;
- our independent non-executive Directors will review the compliance and enforcement of the Deed of Non-competition by the Parent Group from time to time as required and on a quarterly basis; and
- our independent non-executive Directors will review, on an annual basis, any decision in relation to the new business opportunity referred to us by the Parent Group or the exercise of the Option, and state their decision with basis in relation to the new business opportunity and the exercise of the Option in our annual report and/or by announcement to the public.

The Parent Group shall not pursue any business opportunity involving business which may compete with our principal business unless and until our independent non-executive Directors (a) resolve that we do not intend to take up such business opportunity; or (b) do not resolve whether or not to pursue such business opportunity within three months after the Parent Group notifies us in writing.

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Our independent non-executive Directors will also review, at least on annual basis, the options, pre-emptive rights or first rights of refusal, if any, provided by our Controlling Shareholders on its existing or future competing businesses and decide whether to exercise these rights.

In addition, to ensure our independent non-executive Directors are able to conduct the above decision-making process, each of our Controlling Shareholders has undertaken in the Deed of Non-competition to provide and to procure the provision to us of all information necessary for the enforcement of the undertakings contained therein. Each of our Controlling Shareholders has further undertaken to make a statement in our annual report confirming their compliance and that of their respective affiliates with the terms of the Deed of Non-competition. We will disclose in our annual report on how the undertakings in the Deed of Non-competition were complied with and enforced in accordance with the principles of making voluntary disclosures in the Corporate Governance Report as defined in Appendix 23 of the Listing Rules.

Corporate Governance Measures

We may, as needed, enter into connected transactions with our Controlling Shareholders and their affiliates. Our Controlling Shareholders, Hoi Kin Hong, Hoi Wa Fong and Hoi Wa Fan, are also our Directors and may not compete with us as provided in the Deed of Non-competition. Each of our Controlling Shareholders has confirmed that he or she fully comprehends his or her obligations to act in our shareholders' and our best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interests, we have implemented the following measures:

- We have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her associates have a material interest nor shall such Director be counted in the quorum present at the meeting.
- A Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters involving the Parent Group (including the Retained Business) and our Group and/or matters in which such Director or his/her associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors.
- We are committed that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors, two of whom have experience as a director of listed companies (namely, Ngai Wai Fung and Nie Mei Sheng) and one of whom has expertise in the property sector (namely, Mei Jian Ping). We believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our public

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shareholders. Details of our independent non-executive Directors are set out in the section entitled “Directors, Senior Management and Employees — Directors and Senior Management — Directors — Independent non-executive Directors.”

- We have appointed WAG Worldsec Corporate Finance Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.
- As required by the Listing Rules, our independent non-executive Directors shall review any connected transactions annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are either on normal commercial terms or on terms no less favorable to us than available to or from independent third parties and on terms that are fair and reasonable and in the interests of our shareholders as a whole.
- On an annual basis, our independent non-executive Directors will review the non-competition undertakings provided by the Covenanters and their compliance with such undertakings, including those in relation to the Mingfa Interest and the Two Hotels, on an annual basis.

In addition, if our independent non-executive Directors consider it necessary or desirable, they may also engage professional advisors (including an independent financial advisor) at the costs of our Company to advise them on matters relating to the Deed of Non-competition or on any business opportunities which may be referred to us by the Controlling Shareholders, details of which are set out in “— Relationship with Our Controlling Shareholders — Deed of Non-competition” above in this section.

We have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provide that a Director shall not attend a Board meeting if such Director or his or her associates has material interest in the matter which is subject of the resolution to be proposed at the meeting for the Board to consider and vote upon.

Independence from the Controlling Shareholders

(A) *Management independence*

Our Board currently comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Other than Hoi Kin Hong, Hoi Wa Fong and Hoi Wa Fan, none of our other Directors holds any directorship or senior management role in the Retained Business. Both Hoi Kin Hong and Hoi Wa Fong assume non-executive directorships with the Retained Business. Hoi Kin Hong assumes non-executive directorships with the Retained Business because he is exercising his rights as the shareholder. As part of the family arrangement and a successor of Hoi Kin Hong of the Retained Business, Hoi Wa Fong assumes non-executive directorship with the Retained Business for the purpose of looking after the interests of his family members. The main roles of Hoi Kin Hong and Hoi Wa Fong are to oversee the strategic and operational decisions of our businesses. Hoi Wa Fan is our non-executive Director with no executive function in our Group but she assumes an executive role in the Retained Business. Hoi Wa Fan will not be involved in the day-to-day management or affairs and operations of our businesses, and she is expected to maintain only an advisory role with us.

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In the event that Hoi Wa Fan is required to absent herself from any board meeting on any matter which may give rise to a potential conflict of interest with the Parent Group, the remaining Directors will have sufficient expertise and experience to fully consider any such matter.


It is expected that Hoi Kin Hong, Hoi Wa Fong and Hoi Wa Fan will spend not less than 90%, 95% and 20%, respectively, of their working time in the operation of our Group, and not more than 10%, 5% and 80%, respectively, of their working time in the operation of the Parent Group. Notwithstanding the directorships of Hoi Kin Hong, Hoi Wa Fong and Hoi Wa Fan in the Retained Business, our Directors, including the independent non-executive Directors, are of the view that our Board is able to manage our business on a full time basis independently from the Retained Business for the following reasons:

- (a) each of Hoi Kin Hong and Hoi Wa Fong confirms and undertakes that, so long as he remains as an executive Director of the Company, all positions held by him with the Parent Group are, and will continue to be, of a non-executive nature. In addition, each other Director confirms that, as of the date of this document, he or she does not hold any directorship or senior management position with the Parent Group, and further undertakes that, so long as he or she remains as an executive Director of our Company, he or she will not accept any executive directorship or senior management position with the Parent Group or any other entity save for entities within our Group;
- (b) none of our Retained Business competes, or is likely to compete, with our core business and with the corporate governance measures in place to manage existing and potential conflicts of interest, therefore, the dual roles assumed by Hoi Kin Hong, Hoi Wa Fong and Hoi Wa Fan in most cases will not affect the requisite degree of impartiality of our executive Directors in discharging their fiduciary duties owed to our Company;
- (c) we have three independent non-executive Directors, and certain matters of the Company, including connected transactions, options and other matters referred to in the Deed of Non-competition, details of which are set out in the paragraph entitled “— Deed of Non-competition”, must always be referred to the independent non-executive Directors for review. This helps to enhance the independence of our management from that of the Retained Business;
- (d) in an event of conflict of interests, the relevant Director(s), including Hoi Kin Hong, Hoi Wa Fong and Hoi Wa Fan will abstain from voting, will not be present in the relevant Board meetings and will be excluded from deliberation by our Board. Hence the relevant Directors would be unable to influence the Board from making decisions on the matters in which he or she is, or may be, interested. We believe all of our Directors, including the three independent non-executive Directors, have the requisite qualifications, integrity and experience to maintain an effective board and observe their fiduciary duties in an event of conflict of interests. Please refer to the section entitled “Directors, Senior Management and Employees — Directors and Senior Management — Directors” for a summary of the relevant experiences and qualifications of our Directors; and
- (e) save as disclosed herein, our daily operations will be managed by our senior management team, none of whom holds any senior managerial position or directorship position within the Retained Business.

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(B) *Operational independence*

We are independent from our Controlling Shareholders as we do not share operational or production capabilities with our Controlling Shareholders, and we have independent access to suppliers and customers, as well as an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operation capacity in term of capital and employees to operate independently from the Parent Group.

Although we entered into certain transactions such as lease of office premises and license of trademarks “**POWERLONG**” and “” (the “Trademarks”) with the Parent Group, details of which are set out in the section entitled “Connected Transactions,” we do not share office premises or facilities with the Parent Group. For office premises, we believe they can be easily replaced by other comparable alternative premises with affordable rentals without causing any material disruption to our operations should we decide to relocate. In respect of the Trademarks, Xiamen Powerlong Group has agreed to enter into the transfer agreement in respect of the transfer of the Trademarks to us before March 31, 2010. Our Company would need to apply for the registration of the transfer of the Trademarks with the relevant trademark registration authorities in the PRC and upon the completion of such transfer, there will be no trademarks license agreement with the Parent Group. More importantly, all such continuing connected transactions with the Parent Group have been entered into and will continue to be entered into on normal commercial terms in the ordinary course of business. As such, our Directors confirm that we are able to operate independently despite the existence of such transactions and can carry on our business independently of our Controlling Shareholders and their associates.

(C) *Financial independence*

We believe that we are able to maintain financial independence from our Controlling Shareholders and their associates.

In addition, we have an independent financial system and finance team which is responsible for our own treasury function, cash receipts and payments, and independent access to third party financing. We also have our own internal control and accounting systems, and accounting and finance department.

Based on the above, our Directors are of the view that our Directors and senior management are able to function independently of the Controlling Shareholders and their associates.