

## CONNECTED TRANSACTIONS

We have entered into a number of agreements with our Parent Group and certain of our and their respective associates. As they will constitute connected persons of our Company under the Listing Rules, the transactions under these agreements will constitute continuing connected transactions for our Company under the Listing Rules.

**(A) Continuing connected transactions which are exempt from the reporting, announcement and independent shareholders' approval requirements**

**(1) Trademark licenses**

Xiamen Powerlong Group, which is principally engaged in investment holding, is the registered owner of the Trademarks in China. Our Company and Xiamen Powerlong Group have entered into a trademarks license agreement (the "Trademarks License Agreement") dated September 4, 2009, pursuant to which Xiamen Powerlong Group granted us an irrevocable and exclusive right to use the Trademarks in our property development business and our other ancillary businesses.

Pursuant to the Trademarks License Agreement, except for the Two Hotels, where Xiamen Powerlong Group allowed the Two Hotels to use the Trademarks in respect of their hotel operation, without our written consent, Xiamen Powerlong Group may not use and may not permit any person other than us to use the Trademarks in any property development business or our other ancillary businesses that competes or may compete with us in China. In addition, Xiamen Powerlong Group shall not register or use or permit any person other than us to register or use trademarks similar to the Trademarks in any property development business that competes or may compete with us in China. The Trademarks have been licensed to us on a royalty-free basis within the valid registration period of such Trademarks, including extensions from time to time of such registration of the Trademarks upon their expiration. Xiamen Powerlong Group has also agreed to be responsible for any expenses for enforcement against any infringement of the licensed Trademarks by any third parties. The term of the Trademark License Agreement is 10 years and is subject to an automatic extension for a further 10 years if so requested by us one month before the expiry date. Xiamen Powerlong Group has undertaken to enter into an agreement with us to transfer the Trademarks to us before March 31, 2010. The reason for such delay in transferring the Trademarks to us is that the Parent Group has applied the registration of the Trademarks as a "China Famous Brand," which is a recognition of the brand's quality in products and services. As the assignment of the Trademarks while the application is still in progress would involve the re-filing of the application package and result in undue administrative delay, the Directors believe that it would be more appropriate to transfer the Trademarks to us. Pursuant to the Trademark License Agreement, save for the Two Hotels of the Xiamen Powerlong Group, only we can use the Trademarks. Accordingly, the Retained Businesses, other than the Two Hotels, would need time to make arrangements to discontinue the use of the Trademarks. As it is reasonably expected that some of such Retained Businesses may not be able to completely discontinue their use of the Trademarks before [●], and that there are also regulatory procedures that need to be completed before the transfer can be effected, Xiamen Powerlong Group has agreed to transfer the Trademarks to our Company before March 31, 2010. The Company would need to apply for the registration of the transfer of the Trademarks with the Trademark office and as a gift, free of consideration. Upon completion of such transfer, the Trademark License Agreement will be terminated. It is expected that the Two Hotels would be allowed to use the Trademarks under license by our Company after completion of the transfer. Our

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Directors confirm that, in the event that our Company wishes to let the Two Hotels continue to use the Trademarks, the relevant requirements under Chapter 14A of the Listing Rules will be fully complied with.

Xiamen Powerlong Group is 88.9% indirectly owned by Hoi Kin Hong and therefore is a connected person of our Company under the Listing Rules.

As the right to use the Trademarks is granted to us on a free-of-charge basis by Xiamen Powerlong Group, the transactions under the Trademark License Agreement will be exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

### **(2) *Purchase of office equipment from Xiamen Powerlong Information***

On September 4, 2009, Fuzhou Powerlong entered into an office equipment purchase agreement ("Equipment Purchase Agreement") with Xiamen Powerlong Information, a company principally engaged in the business of distribution of office equipment, software development and the manufacture and sale of consumables, pursuant to which Xiamen Powerlong Information has agreed to supply office equipment such as printers, photocopiers, computers and fax machines to us for a term of three years commencing from January 1, 2009.

We have been purchasing office equipment from Xiamen Powerlong Information throughout the Track Record Period. For each of the three years ended December 31, 2006, 2007 and 2008, office equipment we purchased from Xiamen Powerlong Information amounted to approximately Rmb 0.8 million, Rmb 0.7 million and Rmb 0.1 million, respectively.

Our Directors estimate that the maximum amount of our annual purchases of office equipment from Xiamen Powerlong Information will not exceed Rmb 1,000,000, for each of the three years ending December 31, 2009, 2010 and 2011, which represent approximately 0.12% of our total cost of sales for the financial year ended December 31, 2008. Such estimate is based on the historical amount of office equipment purchased and the expected growth in the number of property development projects in the future. As Xiamen Powerlong Information is a wholesaler of office equipment, we are generally able to purchase office equipment from it at a discount of approximately 10% compared to the retail market price. We believe that Xiamen Powerlong Information is able to provide office equipment to us efficiently at competitive prices, therefore we prefer to purchase office equipment from it. Our Directors consider that the Equipment Purchase Agreement was entered into on normal commercial terms and in the ordinary course of business.

Xiamen Powerlong Information is 51% owned by Xiamen Powerlong Group, which is in turn 88.9% indirectly owned by Hoi Kin Hong and is therefore a connected person of our Company under the Listing Rules.

Since each of the percentage ratios (other than the profit ratio) for the Equipment Purchase Agreement is less than 0.1%, the transactions under the Equipment Purchase Agreement constitute continuing connected transactions for our Company which are exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

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**(B) Continuing connected transactions which are exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements**

**(3) *Hotel accommodation services agreement with Macau Powerlong Group***

On September 4, 2009, our Company entered into a hotel accommodation services agreement (the "Hotel Services Agreement") with Macau Powerlong Group pursuant to which Macau Powerlong Group agreed to provide hotel accommodation services to our Group's employees and guests, who are primarily independent suppliers or services providers to our Company, representing approximately 1.1%, 1.3% and 2.2% of the aggregate income of the Two Hotels for each of the three years ended December 31, 2006, 2007 and 2008, at the Two Hotels for a term of three years commencing from January 1, 2009. Macau Powerlong Group carried out such hotel accommodation services during the ordinary course of business, charged a discount of 50% to the normal room service charges and offered terms no less favorable than those offered by independent third parties for comparable services to us. We enjoyed a discount of 50% to the normal room service charges, a discount rate no less favorable than those offered by Macau Powerlong Group to the other independent purchasers who enter into bulk purchase agreements with it. We may choose to engage other independent hotels to provide accommodation services if they offer more competitive rates to us.

We generally select one or two hotels in each of the cities that we conduct business to be our designated hotels for the provision of accommodation services to our employees. We select such hotels based on their locations, the level of services they provide and whether we would enjoy competitive rates. Upon such selection, we would enter into services agreements with such hotels whereupon our staff can utilize the services at such hotels at the rates that we have agreed with the hotel. For each of the three years ending December 31, 2009, 2010 and 2011, our budget for hotel expenses is Rmb 3.8 million, Rmb 4.2 million and Rmb 4.2 million, respectively.

For each of the three years ended December 31, 2006, 2007 and 2008, the hotel accommodation charges we paid to Macau Powerlong Group amounted to approximately Rmb 1.3 million, Rmb 1.6 million and Rmb 2.8 million, respectively, representing approximately 1.7%, 1.5% and 1.4% of our total administrative expenses and selling and marketing costs for each of the three years ended December 31, 2006, 2007 and 2008. The increase in our utilization of the hotel accommodation services during the three years ended December 31, 2006, 2007 and 2008 was primarily due to our expansion to areas outside Xiamen, which called for more of our executives and employees not ordinarily based in Xiamen to travel to Xiamen for business and training purposes.

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Our Directors estimate that the maximum amount of service charges for hotel accommodation provided by the Two Hotels to us will not exceed Rmb 3.8 million, Rmb 4.2 million and Rmb 4.2 million for each of the three years ending December 31, 2009, 2010 and 2011, respectively. Given the expansion of our operations to other cities in China, our executives and employees who are not ordinarily based in Xiamen are required to travel to Xiamen and Jinjiang for business and training purposes. With the anticipated increase in our property development projects, the frequency of travel to those places by our employees and expected increase in guests, more hotel accommodation services is expected to be required from the Two Hotels than that for the previous years. The annual cap for the hotel accommodation services to be provided by the Two Hotels was estimated based on the historical number of nights stayed and the anticipated total number of room-nights of 5,000, 5,500 and 5,500, for each of the three years ending December 31, 2009, 2010 and 2011, respectively, to be spent by our staff in the Two Hotels and the service fees to be charged by Macau Powerlong Group on the basis of the agreed rate for accommodations at the Two Hotels.

Macau Powerlong Group is 88.9% owned by Hoi Kin Hong and is therefore a connected person of our Company under the Listing Rules.

It is customary for major users of hotels to negotiate with hotel operators for a discount to the standard hotel tariff. Accordingly, despite the 50% discount we enjoy at the Two Hotels, our Directors consider that the Hotel Services Agreement was entered into on commercial terms and the terms of which are fair and reasonable and are in the interest of our Company and our shareholders as a whole.

Since each of the percentage ratios (other than the profit ratio) for the Hotel Services Agreement is more than 0.1% but less than 2.5%, the transactions under the Hotel Services Agreement constitute continuing connected transactions for our Company which are exempted from independent shareholders' approval requirements but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

#### **(4) *Property management services agreements with the associates of Macau Powerlong Group and our Directors***

Our Company entered into seven property management services agreements (the "Property Management Services Agreements") with 福州寶龍樂園遊樂有限公司 (Fuzhou Powerlong Amusement Management Company Limited) ("Fuzhou Amusement"), 青島寶龍樂園旅遊發展有限公司 (Qingdao Powerlong Amusement Development Company Limited) ("Qingdao Amusement"), Qingdao Outlets, 鄭州食全食美餐飲管理有限公司 (Zhengzhou Powerlong Food & Beverage Company Limited) ("Zhengzhou F&B"), Zhengzhou Outlets, Hoi Kin Mei and Hoi Wa Fong on September 4, 2009. Fuzhou Amusement and Qingdao Amusement are amusement park operators, Qingdao Outlets and Zhengzhou Outlets are outlets stores, and Zhengzhou F&B is a food court operator. Pursuant to the Property Management Services Agreements, we provide property management services including security, cleaning and maintenance services, to the amusement park, retail stores, food court and offices operated and occupied by those companies, and the commercial units owned by Hoi Kin Mei and Hoi Wa Fong for a term of three years ending December 31, 2011. We charge property management services fees at prevailing market rates and on terms no more favorable than those offered by independent third parties for comparable

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services to those companies and persons. Our Directors are of the view that such transactions were conducted on normal commercial terms and in the ordinary course of business.

For the year ended December 31, 2006, we only provided property management services for the apartments occupied by Hoi Kin Mei and Hoi Wa Fong. We commenced providing property management services to Fuzhou Amusement when they started their business operations in 2007. For each of the three years ended December 31, 2006, 2007 and 2008, the aggregate amount of property management charges was approximately Rmb 0.2 million, Rmb 0.4 million and Rmb 0.9 million, respectively, representing approximately 0.3%, 0.3% and 0.5% of our total administrative expenses and selling and marketing costs for each of the three years ended December 31, 2006, 2007 and 2008, respectively.

The property management services fees we charge vary according to the locations, type of properties and use of properties. As Qingdao Amusement Qingdao Outlets and Zhengzhou Outlets commenced their business operations in 2009, our income from service fees increased significantly during that year. Our Directors estimate that the maximum service fees we charge under the Property Management Services Agreements will not exceed Rmb 1.9 million, Rmb 4.42 million and Rmb 4.42 million for each of the three years ending December 31, 2009, 2010 and 2011, respectively.

Each of Fuzhou Amusement, Qingdao Amusement, Qingdao Outlets, Zhengzhou Outlets and Zhengzhou F&B is wholly owned by Xiamen Powerlong Group, these companies are therefore connected persons of our Company under the Listing Rules.

Since each of the percentage ratios (other than the profit ratio) for the Property Management Agreements in aggregate is more than 0.1% but less than 2.5%, the transactions under the Property Management Agreements constitute continuing connected transactions for our Company which are exempted from independent shareholders' approval requirements but are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

### **(5) First office lease agreement of Fuzhou Powerlong**

On April 21, 2008, Xiamen Powerlong Information, a 51% owned subsidiary of Xiamen Powerlong Group, as landlord and Fuzhou Powerlong as tenant entered into a lease agreement (the "First Office Lease Agreement") pursuant to which, the property located on the third floor of Powerlong Center, Xiamen, with an aggregate GFA of approximately 3,093 square meters, is leased to Fuzhou Powerlong and/or its subsidiaries for office use. The First Office Lease Agreement has an initial term of two years commencing from January 1, 2008. On September 4, 2009, a supplemental agreement to the First Office Lease Agreement was entered into between the parties thereto to extend the term of the lease to December 31, 2011.

We are principally engaged in the business of property development and our leasing operation is limited to commercial properties developed by us and retained for long-term investment purposes. Our leasing properties are primarily retail and catering spaces and are let to retail outlets, entertainment and food and beverages operators, which usually command higher rentals than properties with mixed usages.



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As Powerlong Center is a commercial-residential development and is different from the properties that are the focus of our leasing operation, the third floor of Powerlong has not been included into our Group as part of the Reorganization. We do not believe that as a developer of large scale commercial properties, the inclusion of such asset into our Group would create any significant economic value or provide any benefits to our business model and overall strategy. We have absolute discretion in discontinuing the lease of the property and relocate to another premises. However, in view of the fact that Fuzhou Powerlong has been using the property for several years and that it would be inconvenient to relocate to another premises, we have decided to continue leasing the property as an office for our operation.

Under the First Office Lease Agreement, we shall pay an annual rent of approximately Rmb 1,484,832 for the above premises, which represents approximately 0.17% of our total cost of sales for the financial year ended December 31, 2008. The rent is equivalent to the fair rental value of the premises as assessed by Savills. The rent paid for the financial year ended December 31, 2008 was Rmb 1,484,832.

Xiamen Powerlong Information is a 51% owned subsidiary of Xiamen Powerlong Group, which is in turn 88.9% indirectly owned by Hoi Kin Hong and is therefore a connected person of our Company. The First Office Lease Agreement thus constitutes a continuing connected transaction for our Company in accordance with the Listing Rules.

### **(6) Second office lease agreement of Fuzhou Powerlong**

On April 21, 2008, Fuzhou Powerlong as tenant and Zhang Hao Yao (張顥耀) and Zhang Ming Xuan (張銘軒) jointly as landlord entered into a lease agreement (the "Second Office Lease Agreement") pursuant to which, the property located at the second floor of Powerlong Center, Xiamen, with an aggregate GFA of approximately 2,930 square meters is leased to Fuzhou Powerlong and/or its subsidiaries for office use.

The Second Office Lease Agreement has a term of two years commencing from January 1, 2008. On September 4, 2009, a supplemental agreement to the Second Office Lease Agreement was entered into between the parties thereto to extend the term of the lease to December 31, 2011. Under the Second Office Lease Agreement, the annual rent payable is Rmb 1,406,616 for the above premises, which represents approximately 0.16% of our total cost of sales for the financial year ended December 31, 2008. The rent is equivalent to the fair rental value of the premises as assessed by Savills. The rent paid for the financial year ended December 31, 2008 was Rmb 1,406,616.

Zhang Hao Yao and Zhang Ming Xuan are the nephews of Hoi Kin Hong, an executive Director and Controlling Shareholder, and Zhang Hao Yao and Zhang Ming Xuan are therefore connected persons of our Company. The Second Office Lease Agreement thus constitutes a continuing connected transaction for our Company in accordance with the Listing Rules.

As each of the percentage ratios (other than the profit ratio) for the First Office Lease Agreement when aggregated with the Second Office Lease Agreement is more than 0.1% but less than 2.5%, the transactions under the First Office Lease Agreement and Second Office Lease Agreement are subject to the reporting and announcement requirements but are exempt from the requirement of independent shareholders' approval under Chapter 14A of the Listing Rules.

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**(C) Continuing connected transactions which are subject to the reporting, announcement and independent shareholders’ approval requirements**

**(7) Long-term Lease Agreements**

We as landlord have entered into the following long term lease agreements the “Long-term Lease Agreements”):

<u>Tenant</u>	<u>Location of property</u>	<u>Area of property (square meters)</u>	<u>Term</u>	<u>Annual rent payable (RMB)</u>	<u>Use of property</u>
Fuzhou Amusement . . .	Fuzhou Powerlong City Plaza	6,879.79	10	2.55 million	Amusement park
Zhengzhou F&B . .	Zhengdong District, Zhengzhou	4,091.29	8	1.60 million	Food court
Zhengzhou Outlets	Zhengdong District, Zhengzhou	21,023.18	15	8.38 million	Outlet retail stores
Qingdao Outlets . .	Chengyang District, Qingdao	33,822.39	15	14.84 million	Outlet retail stores
Qingdao Amusement . . .	Chengyang District, Qingdao	18,563.73	10	14.25 million	Amusement park

The annual cap of each property lease agreement is the rent determined with reference to the current market rent of the same property for the relevant use. Savills has reviewed the Long-term Lease Agreements and considers that the rental payable are in line with market rates.

Each of Fuzhou Amusement, Qingdao Outlets, Zhengzhou Outlets, Zhengzhou F&B and Qingdao Amusement is wholly owned by Xiamen Powerlong Group, these companies are therefore connected persons of our Company under the Listing Rules.

We have also entered into long-term lease agreements for a term of 10 to 20 years with our other major tenants such as Carrefour and Gome Electronics. Our Directors are of view that long-term leases with major tenants are in line with the normal practice of other commercial complex operators in China. By entering into long-term lease agreements with our major tenants, we believe that we will be able to secure more stable rental income streams in the future.

As Fuzhou Amusement was only incorporated in 2007, there were no historical transactions of a similar nature prior to 2007. For each of the two years ended December 31, 2007 and 2008, the rental income under the lease agreement with Fuzhou Amusement was approximately Rmb 0.76 million and Rmb 2.55 million, respectively. Zhengzhou F&B,

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Zhengzhou Outlets, Qingdao Amusement and Qingdao Outlets commenced their operations only in 2009, there has been no historical transaction with these companies during the three years ended December 31, 2006, 2007 and 2008.

The maximum aggregate annual rental payable by the tenants to us under the Long-term Lease Agreements for the three years ending December 31, 2009, 2010 and 2011 (the “current rent period”) must not exceed Rmb 13.52 million, Rmb 41.63 million and Rmb 41.63 million, respectively, and will be reviewed upon their expiry. Upon the expiry of the current rent period under the Long-term Lease Agreements on December 31, 2011, we will ensure re-compliance with all relevant requirements under Chapter 14A of the Listing Rules.

The rent payable under the Long-term Lease Agreements will be reviewed by our independent non-executive Directors every three years taking into account market conditions but should not be lower than the rent applicable to a third party tenant leasing the premises for similar purpose. Pursuant to the Long-term Lease Agreements, the annual rental increment should not be lower than 3% after the current rent period.

The Directors are of the view that the Long-term Lease Agreements as disclosed above (whether with third party tenants or our connected parties) were conducted on normal commercial terms and in the ordinary course of business, and are appropriate and in the best interest of our shareholders for the following reasons:

- As part of our income is expected to be generated from rental return by leasing out various units of plazas to commercial tenants going forward, stable rental yield with reliable tenants is considered particularly important and relevant to our operation and the success of our business model. A lease term exceeding three years is one of the most straightforward ways to help secure stable rental income and reduce the risk associated with loss of rental income as a result of termination of short-term leases.
- In line with our business model and strategy, we also enter into long-term lease agreements with third party commercial tenants. Our commercial tenants are able to promote our image, as well as to boost and maintain the number of customers visiting our commercial complexes. As such, it is in our interest to enter into long-term leases with our tenants so as to reduce any disruption caused to the operation, and any adverse impact on the image, of our commercial complexes as a result of the departure by any such tenant upon the termination of short-term leases.
- Furthermore, despite the long-term nature of the Long-term Lease Agreements, we have the flexibility to review and revise the rent payable under these agreements. In particular, the rent to be revised should not be lower than the rent applicable to a third party tenant leasing the premises for similar purpose, and in any event, the annual rental increment should not be lower than 3% after the first three-year term. As such, the entry into long-term lease agreements with such connected parties will enable us to benefit from stable rental income while providing us with the ability to revise the rent upward should we consider appropriate.



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Since the rent payable under the Long-term Lease Agreement is more than 2.5%, the transactions under the Long-term Lease Agreement constitute continuing connected transactions for our Company which are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Based on the foregoing circumstances and opinions, our Directors are of the view that the lease terms longer than three years under the Long-term Lease Agreements are in line with normal business practice for contracts of this type and of such duration in the PRC.

### *Waivers*

The transactions described in paragraphs (3) to (6) above constitute our continuing connected transactions under Rule 14A.34 of the Listing Rules. The applicable percentage ratios as defined in Rule 14A.10 of the Listing Rules and calculated with reference to the proposed annual caps each year shown above are more than 0.1% but less than 2.5%. As such, the non-exempt continuing connected transactions in paragraphs (3) to (6) above would normally require full reporting and announcement but would be exempt from the independent shareholders' approval. The proposed annual cap for transactions under paragraph (7) is more than 2.5%, the non-exempt continuing connected transactions would be subject to reporting, announcement and independent shareholders' requirements under the Listing Rules.

We have applied for, and the Stock Exchange has granted us, waivers from strict compliance with the announcement and (where applicable) independent shareholders' approval requirements of the Listing Rules in respect of each of these transactions subject to the aggregate value of each of these non-exempt continuing connected transactions for each financial year not exceeding the relevant annual cap amount set forth in the respective caps stated above.

### *Directors' view*

Our Directors, including the independent non-executive Directors, consider that all the continuing connected transactions in paragraphs (1) to (7) are conducted upon normal commercial terms and are fair and reasonable and in the interests of our shareholders as a whole and are in the ordinary and usual course of our business. Our Directors, including the independent non-executive Directors, are also of the view that the annual caps of all of the non-exempted continuing connected transactions in paragraphs (3) to (7) above are fair and reasonable.