

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Upon completion of the Reorganization, Mr. Lam Lung On and his spouse Ms. Kwok Ying Lan will own approximately 37.5% and 37.5%, respectively, of the issued share capital of our Company and hence Mr. Lam Lung On and Ms. Kwok Ying Lan together are our Controlling Shareholders.

#### Background of Mr. Lam Lung On and Ms. Kwok Ying Lan

Mr. Lam Lung On has over 15 years of experience in residential, commercial and hotel property development and investment. In 1994, Mr. Lam entered the property development business in Xiamen, PRC and laid the foundation for our Group and established the “Yuzhou” brand name. Ms. Kwok Ying Lan has over 12 years of experience in property development and investment, as well as in financial management. She joined our Group in April 1997. Please see “Directors and Senior Management” for more details.

#### Retained Businesses of our Controlling Shareholders

Upon the completion of the Reorganization and as of the date of this document, Mr. Lam Lung On and Ms. Kwok Ying Lan have control or interests in certain businesses outside our Group (the “Retained Businesses”). These businesses include (i) a communications business operated by Zongheng Group (the “Communications Business”); (ii) a communication training center business operated by Zongheng Co. (the “Communication Training Center Business”); and (iii) a retail property leasing business which is concerned with the leasing of retail properties in three residential developments, which are owned by Mr. Lam Lung On (one of our Controlling Shareholders) and certain of his associates, namely, Mr. Lam Wang Yu (the son of our Controlling Shareholders) and Ms. Huang Shunu (the sister-in-law of our Controlling Shareholders) (the “Retail Property Leasing Business”). Mr. Lam Lung On, Mr. Lam Wang Yu and Ms. Huang Shunu are collectively defined as the “Lam Family Group”.

Details of the Retained Businesses are summarized below:

<u>Business Type</u>	<u>Key Features</u>
Communications Business	Provision of a variety of communication services, including, but not limited to, the sale of communication products and equipment, maintenance of communication network and design of communication projects.
Communication Training Center Business	Operation of a communication training center relating to communication services.
Retail Property Leasing Business	Leasing of the Lam Family Group’s Retail Properties located on the ground floor or lower floors of three residential property developments in Xiamen, namely Yuzhou Overseas City, Yuzhou Harbour City and Yuzhou Garden.

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The Communications Business and the Communication Training Center Business do not compete, directly or indirectly, with our Group’s business. The Retail Property Leasing Business competes, although only to a limited extent which is not material to us, with our Group’s business as we engage in the leasing of our Group’s retail properties located at certain residential property developments in Xiamen as well as in Fuzhou, Shanghai and Hefei.

The Retained Businesses were not included in our Group as part of the Reorganization as our Directors are of the view that (i) the Communications Business and the Communication Training Center Business do not form a part of our business; and (ii) for reasons set out below, the Retail Property Leasing Business only constitutes competition which is immaterial to our Group’s business.

### **Delineation of our Group’s business from the Communications Business and the Communication Training Center Business**

Our Directors are of the view that there is a clear delineation between each of the Communications Business and the Communication Training Center Business and our core business, which is the development of high-quality residential, retail and commercial properties, for the following reasons:

**Communications Business:** The Communications Business is conducted through Zongheng Group. Zongheng Group was acquired as to 99.9551% by Gangyi Communications Co. (which was then held by Ms. Ye Biyun and Mr. Lin Conghui on behalf of Mr. Lam Lung On and Ms. Kwok Ying Lan pursuant to an entrustment agreement dated September 1, 2006) and the acquisition was completed September 13, 2006. The other three shareholders were Mr. Du Rusheng, Mr. Yang Ze and Ms. Fu Miaoling, who held 0.02251%, 0.01239% and 0.01% equity interest, respectively. On January 24, 2008, Gangyi Communications Co. transferred its 99.9551% interest in Zongheng Group to Gangyi Capital Co. For details of the shareholding structure and board composition of Gangyi Capital Co., see “Definitions — Gangyi Capital Co.” On July 10, 2009, Gangyi Capital Co. acquired 0.02251% and 0.01239% equity interest from Mr. Du Rusheng and Mr. Yang Ze, respectively, thereby consolidating its interest as to 99.99% in Zongheng Group. Zongheng Group engages in various aspects of the provision of communication services which include the installation, sale and maintenance of electronic products and communication equipments, design, tender and construction of communication projects and maintenance of communication network, wholesale and retail sale of office and communication equipment, compilation and sale of telephone directories, provision of telephone directory enquiry services and provision of agency services in relation to communications business. Zongheng Group does not engage in any sale or development of residential, retail or commercial properties and our Group does not operate or otherwise engage in any aspect of the provision of communication services. As such, there is no overlap of business or competition, directly or indirectly, between Zongheng Group and us.

**Communication Training Center Business:** Zongheng Co. was acquired as to 100% equity interest by Gangyi Investment Co. on January 31, 2007 from Zongheng Group and Xiamen Zongheng Group Tech Co., Ltd., and was transferred to Yaozhou Management Co. on January 3, 2008. For details of the shareholding structure and board composition of each of Gangyi Investment Co. and Yaozhou Management Co., see “Definitions — Gangyi Investment Co.” and “Definitions — Yaozhou Management Co.” Zongheng Co. operates a communication training center (which was established

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before it was acquired by Gangyi Investment Co.) for the provision of training relating to communication services. As Zongheng Co. does not engage in any sale or development of residential, retail or commercial properties and our Group does not operate or otherwise engage in any aspect of the establishment of communication training center, there is no overlap of business or competition, directly or indirectly, between Zongheng Co. and us.

### **The Retail Property Leasing Business and reasons for its non-inclusion in our Group**

The Retail Property Leasing Business is solely concerned with the leasing of Lam Family Group’s Retail Properties owned by the Lam Family Group. Such properties are located on the ground floor or lower floors of residential properties within three property developments developed by our Group, namely Yuzhou Overseas City, Yuzhou Harbour City and Yuzhou Garden. The sale of such retail properties constituted a part of the related party sales referred to in “Connected Transactions — Connected transactions which have been or will be discontinued upon or shortly before the completion of the Reorganization — Sale of properties” and details on the background to the sale of Lam Family Group’s Retail Properties is set out below.

Our Group also engages in a similar leasing business involving retail properties located on the ground floor or lower floors of residential property developments developed by us as well as retail properties within the vicinity of commercial complexes and office premises developed by us. Our Group holds certain of these retail properties for sale and the remaining portion for investment.

As of the Latest Practicable Date, a portion of the retail properties held by the Lam Family Group and our Group respectively are located in two overlapping residential property developments, namely Yuzhou Harbour City and Yuzhou Garden (collectively, the “Overlapping Projects”).

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The following table sets forth the location, usage, GFA in sq.m. and other information of the retail properties held by the Lam Family Group and our Group as of the Latest Practicable Date:

Project	Location	Lam Family Group			Our Group				
		Usage	Leased Out (sq.m.)	Available for Lease (sq.m.)	Total GFA (sq.m.)	Usage	Leased Out (sq.m.)	Available for Lease (sq.m.)	Total GFA (sq.m.)
<b>Retail properties in completed projects and project phases</b>									
Yuzhou Overseas City (Phase I)	Xiamen	Investment	7,048.2	1,059.6	8,107.8 <sup>(1)</sup>	—	—	—	—
Yuzhou Overseas City (Phase II)	Xiamen	Investment	6,399.7	2,192.8	8,592.5 <sup>(2)</sup>	—	—	—	—
Yuzhou Shuilian Manor	Xiamen	—	—	—	—	—	—	—	54.9
Yuzhou Hai Tian Plaza	Xiamen	—	—	—	—	—	—	—	991.7
Yuzhou Harbour City (Phase I)	Xiamen	Investment	4,181.1	792.1	4,973.3 <sup>(3)</sup>	—	—	—	—
Yuzhou Harbour City (Phase II)	Xiamen	—	—	—	—	—	—	—	—
Yuzhou New City (Phase I)	Xiamen	—	—	—	—	—	—	—	171.3
Yuzhou New City (Phase II)	Xiamen	—	—	—	—	—	—	—	215.0
Yuzhou Garden (Phase I)	Xiamen	Investment	—	1,483.0	1,483.0 <sup>(4)</sup>	—	—	—	3,785.5
Yuzhou Garden (Phase II)	Xiamen	—	—	—	—	—	—	—	483.7
Yuzhou World Trade Center (Phase I) <sup>(5)</sup>	Xiamen	—	—	—	—	—	—	—	1,722.0
Yuzhou Jinqiao International (Phase I) <sup>(5)</sup>	Shanghai	—	—	—	—	—	—	—	33,979.0
Yuzhou Jinqiao International (Phase II) <sup>(5)</sup>	Shanghai	—	—	—	—	—	—	—	3,829.0
									3,662.0
			<b>Aggregate GFA (sq.m.)</b>	<b>17,629.1</b>	<b>5,527.6</b>	<b>23,156.6</b>			<b>48,894.1</b>
<b>Retail properties in projects and project phases under development</b>									
Oriental Venice (Phase I)	Fuzhou	Investment	—	—	—	—	—	—	2,300.1
Yuzhou Yuanbo City	Xiamen	Investment	—	—	—	—	—	—	8,208.0
Yuzhou Diyuan Manor	Xiamen	Investment	—	—	—	—	—	—	1,529.0
Yuzhou Golden Seacoast	Xiamen	Investment	—	—	—	—	—	—	39,384.0
Yuzhou World Trade Center (Phase II)	Xiamen	Investment	—	—	—	—	—	—	16,505.0
Yuzhou International Hotel	Xiamen	Investment	—	—	—	—	—	—	42,124.0
Yuzhou Huacao City (Phase I)	Hefei	Investment	—	—	—	—	—	—	14,600.0
Yuzhou Jinqiao International (Phase III)	Shanghai	Investment	—	—	—	—	—	—	4,475.0
									<b>129,125.1</b>
<b>Retail properties in project phases held for future development</b>									
Oriental Venice (Phase III)	Fuzhou	Investment	—	—	—	—	—	—	6,611.0
Yuzhou Jinqiao International (Phase IV)	Shanghai	Investment	—	—	—	—	—	—	3,800.0
Yuzhou Huacao City (Phase II)	Hefei	Investment	—	—	—	—	—	—	79,300.0
									<b>89,711.0</b>

Notes:

- Mr. Lam Lung On acquired all of these properties in June 2007.
- Mr. Lam Wang Yu acquired 8,104.0 sq.m. in January 2007 and 488.6 sq.m. in June 2007.
- Ms. Huang Shumu acquired all of these properties in January 2007.
- Mr. Lam Wang Yu acquired all of these properties from our Group in October 2006 and leased the same back to our Group for the period from October 2006 to December 2007.
- Phase I of Yuzhou World Trade Center and Phases I and II of Yuzhou Jinqiao International have been completed. As of the Latest Practicable Date, our Group held retail properties located in such project phases as properties held for investment. In the classification of our projects in this document, all phases of a project are considered to be properties under development prior to the completion of such project in its entirety. As both Yuzhou World Trade Center and Yuzhou Jinqiao International have not been completed in their entirety and are therefore categorized as projects under development in this document, the retail document held by our Group in Phase I of Yuzhou World Trade Center and Phases I and II of Yuzhou Jinqiao International are included in the properties held for investment under the properties under development category (instead of the completed properties category) in the table on page 105 of this document.
- Our Group currently holds these retail properties as properties held for sale. We intend to sell these retail properties at a price and on commercial terms which we consider appropriate.

■ denotes Overlapping Projects in which the Lam Family Group and our Group hold certain retail properties.

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The following table sets forth the revenues derived by our Group and the Lam Family Group from the leasing of retail properties for the periods indicated:

	For the year ended December 31,			For the six months ended June 30, 2009
	2006	2007	2008	
	RMB'000	RMB'000	RMB'000	
<b>Our Group's retail property leasing business</b>				
Gross rental income . . . . .	—	19,386 <sup>(1)</sup>	22,707 <sup>(1)</sup>	12,346 <sup>(1)</sup>
Rental income from properties in Overlapping Projects held for sale . . .	642 <sup>(7)</sup>	1,615 <sup>(7)</sup>	1,712 <sup>(2)</sup>	644 <sup>(2)</sup>
Rental income from properties held for sale (excluding properties in Overlapping Projects) . . . . .	5,397	3,240	486 <sup>(3)</sup>	264
	<u>6,039</u>	<u>24,241</u>	<u>24,905</u>	<u>13,254</u>
<b>Retail Property Leasing Business</b>				
Net rental income derived from Lam Family Group's Retail Properties <sup>(6)</sup> . . . . .	— <sup>(9)</sup>	8,505 <sup>(4)</sup>	17,197 <sup>(5)</sup>	6,851 <sup>(8)</sup>
	<u>—</u>	<u>8,505</u>	<u>17,197</u>	<u>6,851</u>

Notes:

- (1) This was derived from retail properties in Phase I of Yuzhou World Trade Center with an aggregate GFA of 33,979 sq.m.
- (2) This was derived from our retail properties in Phases I and II of Yuzhou Garden.
- (3) This was derived from our retail properties in Yuzhou Hai Tian Plaza.
- (4) This was derived from certain Lam Family Group's Retail Properties with an aggregate GFA of 16,865.8 sq.m.
- (5) This was derived from certain Lam Family Group's Retail Properties with an aggregate GFA of 18,918.9 sq.m.
- (6) These are unaudited numbers extracted from management accounts of the Lam Family Group.
- (7) This was derived from our retail properties in Phase II of Yuzhou Harbour City and Phases I and II of Yuzhou Garden.
- (8) This was derived from certain Lam Family Group's Retail Properties with an aggregate GFA of 17,947.9 sq.m.
- (9) No rental income was derived for the year ended December 31, 2006 as Mr. Lam Wang Yu, who is a member of the Lam Family Group, acquired two retail properties in Phase I of Yuzhou Garden from our Group in October 2006 and leased them back to our Group for a rent-free period of three months. Prior to such acquisition, the Lam Family Group did not own any Lam Family Group's Retail Properties.

Although the Lam Family Group and our Group engage in the leasing of retail properties (some of which are located in the Overlapping Projects), our Directors are of the view that the impact of any competition between the Retail Property Leasing Business and our Group's business is immaterial, taking into consideration the nature of the relevant projects, the aggregate GFA and rental income involved, the non-competition undertakings and corporate governance measures to be adopted, as well as the undertaking to sell all Lam Family Group's Retail Properties, details of which are set out below.

The Lam Family Group acquired retail properties in the following property developments from our Group during the three years ended December 31, 2008 and the six months ended June 30, 2009 under the following circumstances:

**Phases I and II of Yuzhou Overseas City and Phase I of Yuzhou Harbour City:** Properties in Phases I and II of Yuzhou Overseas City and Phase I of Yuzhou Harbour City were completed and delivered in December 2004, March 2007 and October 2005, respectively. Following the completion of these projects, our Group proceeded to dispose all of the remaining unsold retail properties for cash to repay investors involved in such projects. In 2007, as there was insufficient market demand in Xiamen for bulk sales of retail properties, our Group sold the remaining retail properties to Mr. Lam Wang Yu,

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Mr. Lam Lung On and Ms. Huang Shunu, respectively. Our Group’s senior management believes that these properties were sold at wholesale prices reflecting the then prevailing market rates. Furthermore, investors involved in these projects did not object to such sale of properties.

**Phase I of Yuzhou Garden:** Properties in Phase I of Yuzhou Garden were completed and delivered in August 1999. In October 2006, our Group sold its office premises (which comprised of two retail properties with an aggregate GFA of 1,483.0 sq.m.) to Mr. Lam Wang Yu who leased them back to our Group. This sale and leaseback enabled our Group to reduce our tax payables for the two years ended December 31, 2007. We had occupied these office premises until our relocation to Yuzhou Overseas City in January 2008. Our Group’s senior management believes that (i) these office premises were sold at wholesale prices reflecting the then prevailing market rates; and (ii) these office premises were leased back to our Group at the then prevailing market rate on normal commercial terms (which include the customary rent-free period). Our PRC legal advisor is of the opinion that, on the basis that both the sale price stipulated in the property sale contract between our Group and Mr. Lam Wang Yu and the rental paid by our Group to Mr. Lam Wang Yu pursuant to the leaseback were in accordance with the then prevailing market rates, the sale and leaseback arrangement above is not in violation of the applicable PRC regulations.

As a result of the above acquisitions, both our Group and the Lam Family Group hold retail properties in the Overlapping Projects. We believe that while there is actual and potential competition between the Retail Property Leasing Business and our Group’s leasing business, the extent of such competition is immaterial to our Group for the following reasons:

### *Projects and GFA*

- *Our Group’s larger portfolio.* In terms of GFA, our Group holds more retail properties for leasing purposes and has leased out more retail properties than the Lam Family Group. As of June 30, 2009, Lam Family Group’s portfolio comprises of retail properties with an aggregate GFA of 23,156.6 sq.m. (of which 17,947.9 sq.m. has been leased out and 5,208.8 sq.m. is available for lease) and our Group’s portfolio comprises of retail properties with an aggregate GFA of 48,894.1 sq.m. (of which 40,362.0 sq.m. has been leased out and 8,532.1 sq.m. is available for lease). Our Group expects to increase its holding of retail properties by 214,216.1 sq.m. upon completion of the projects disclosed in this document.
- *Properties in Overlapping Projects insignificant to our Group’s portfolio.* As of June 30, 2009, the Lam Family Group holds 4,973.3 sq.m. in Yuzhou Harbour City and 1,483.0 sq.m. in Yuzhou Garden. As of the same date, our Group holds 171.3 sq.m. in Yuzhou Harbour City and 2,205.7 sq.m. in Yuzhou Garden, which only accounted for approximately 0.35% and 4.5% of the aggregate GFA of completed retail properties then held by us.

### *Rental income*

- *Our retail property leasing segment.* Revenue derived from our retail property leasing segment has been insignificant compared to our Group’s total revenue. For the two years



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ended December 31, 2008 and the six months ended June 30, 2009, the combined rental income from properties held for sale and for investment was approximately RMB24,241,000, RMB24,905,000 and RMB13,254,000, respectively, which only accounted for approximately 2.23%, 1.41% and 1.01%, respectively, of our total revenue for the corresponding periods.

- *Lam Family Group’s Retail Properties.* Revenue derived from the Retail Property Leasing Business has been insignificant as compared to our Group’s total revenue. For the two years ended December 31, 2008 and the six months ended June 30, 2009, the net rental income derived from Lam Family Group’s Retail Properties was approximately RMB8,505,000, RMB17,197,000 and RMB6,851,000, respectively, which were equivalent to approximately 0.78%, 0.97% and 0.52%, respectively, of our total revenue for the corresponding periods. In addition, the net rental income derived from Lam Family Group’s Retail Properties for the two years ended December 31, 2008 and the six months ended June 30, 2009 were equivalent to approximately 35%, 69% and 52%, respectively, of our Group’s total rental income for the corresponding periods.
- *Overlapping Projects.* Within the retail property leasing segment, the impact of competition between the Lam Family Group and our Group in terms of the Overlapping Projects has been insignificant since 2007. Our rental income derived from the Overlapping Projects for the two years ended December 31, 2008 and the six months ended June 30, 2009 only accounted for approximately 6.7%, 6.9% and 4.9% of our Group’s total rental income during the same periods.

### *Non-competition Undertakings*

- *Minimizing competition by way of leasing.* For so long as the Lam Family Group holds any of the Lam Family Group’s Retail Properties, we expect there will be actual or potential competition between the Retail Property Leasing Business and our Group’s leasing business in terms of leasing. To minimize competition by way of leasing upon the completion of the Reorganization, our Controlling Shareholders undertake not to, and shall procure certain of their associates not to, renew any existing leases of the Lam Family Group’s Retail Properties which expire or are otherwise terminated within six months after the completion of the Reorganization. Please see “— Non-Competition Undertakings from our Controlling Shareholders” for more details. By virtue of such arrangements, upon the completion of the Reorganization, the involvement of the Lam Family Group in the Retail Property Leasing Business will be reduced to that of passive owners of the properties concerned. The Lam Family Group will not have the opportunity to use their expertise and industry knowledge to secure better returns from their properties.
- *No further acquisitions.* Our Controlling Shareholders undertake not to, and shall procure certain of their associates not to, acquire any additional investment properties, whether from our Group or otherwise, which would result in competition between the business of our Group and the business of our Controlling Shareholders and certain of their associates. Where our Group is required to dispose of unsold retail properties for the purpose of repaying investors involved in our projects, our Group will not sell any such retail properties to our Controlling Shareholders or certain of their associates and may acquire

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such unsold properties itself where appropriate. Please see “— Non-Competition Undertakings from our Controlling Shareholders” for more details.

- *Disposal of all Lam Family Group’s Retail Properties.* To completely eliminate competition between the Retail Property Leasing Business and our Group’s leasing business, our Controlling Shareholders undertake to, and shall procure the Lam Family Group to, sell all the Lam Family Group’s Retail Properties to Independent Third Parties on an arm’s length basis no later than six months after the completion of the Reorganization. Our Group has no intention to sell any commercial properties or retail properties held by us in Xiamen within six months immediately after the completion of the Reorganization. In the event that the Lam Family Group fails to sell all the Lam Family Group’s Retail Properties after the six-month period, our Controlling Shareholders undertake to sell, and shall procure the Lam Family Group to sell, all such remaining Lam Family Group’s Retail Properties (the “Residual Properties”) to our Group at a price to be determined with reference to an independent valuation of the Residual Properties concerned (the “Injection of Residual Properties”). The Injection of Residual Properties, if any, shall constitute connected transactions of our Group and our Directors confirm that our Group will comply with the relevant requirements of Chapter 14A of the Listing Rules. Please see “— Non-Competition Undertakings from our Controlling Shareholders” for more details.

The Retail Property Leasing Business will not be included into our Group’s business (other than to the extent of any Injection of Residual Properties) after taking into consideration: (i) our Directors’ view that any competition posed or to be posed by the Retail Property Leasing Business to our Group’s business is or will be immaterial; and (ii) undertakings by our Controlling Shareholders in relation to the disposal of all the Lam Family Group’s Retail Properties to Independent Third Parties within six months after the completion of the Reorganization.

Apart from the Retail Property Leasing Businesses above, the Controlling Shareholders of our Company and their associates do not engage in any other business which may compete, directly or indirectly, with the business of our Group.



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**Properties other than retail properties held by our Controlling Shareholders and their associates**

In addition to the retail properties held by the Lam Family Group as disclosed in “— Retained Businesses of our Controlling Shareholders”, our Controlling Shareholders and certain of their associates have retained their interests in the following residential properties and carparking spaces located in property developments developed by our Group for their own use and outside of the Retained Business:

<u>Property Development</u>	<u>Name of Owner/ Relationship with our Controlling Shareholders</u>	<u>Type of Property</u>	<u>Total GFA (sq.m.)</u>	<u>Difference between this property and properties held by our Group within the same property development</u>
Phase II of Yuzhou Overseas City, Xiamen	Kwok Ying Lan (our Controlling Shareholder)	residential	741.3	The units are situated in a different block from units held by our Group for sale.
	Lam Wang Yu (son of Lam Lung On and Kwok Ying Lan)	carparking spaces	400.7	Although Lam Wang Yu and our Group own carparking spaces in this property development, Lam Wang Yu holds such carparking spaces for self-use whereas our Group holds such carparking spaces for sale.
	Lam Yu Fong (daughter of Lam Lung On and Kwok Ying Lan)	residential	817.6	The units are situated in a different block from units held by our Group for sale.
Phase I of Yuzhou Harbour City, Xiamen	Lam Yu Fong (daughter of Lam Lung On and Kwok Ying Lan)	residential	95.2	Our Group does not hold any residential properties in this property development.

**Non-Competition Undertakings from our Controlling Shareholders**

On October 9, 2009, our Controlling Shareholders entered into a deed of non-competition undertakings (the “Deed of Non-competition”) with our Company pursuant to which they jointly and severally confirm or undertake, among others, for the period commencing on the date of the completion of the Reorganization and ending on the earlier of the date when the Controlling Shareholders cease to collectively hold, or are otherwise beneficially interested in 30% or more of the issued share capital of our Company (the “Non-competition Period”) that:

- (a) as of the date of the Deed of Non-competition, save as disclosed in the section headed “Relationship with our Controlling Shareholders” in this document, neither they nor any associates controlled and/or funded by them (whether directly or indirectly) engage or are interested in any entity which engages in any business that is directly or indirectly in competition with, or likely to compete with, the business of our Group;

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- (b) for so long as any of them is a Director and/or chairman of our Company, or they collectively hold or are otherwise beneficially interested in 30% or more of the issued ordinary share capital of our Company:
  - (i) they shall not, and shall procure associates controlled and/or funded by them (whether directly or indirectly) not to, engage in any business which will or may compete directly or indirectly with the business carried out by our Group, whether as a shareholder, officer, partner, agent, consultant or otherwise and whether for profit, reward or otherwise, save as disclosed in the section headed “Relationship with our Controlling Shareholders” in this document;
  - (ii) in the event that they or associates controlled and/or funded by them (whether directly or indirectly) are given any opportunity or identify any opportunity to engage in a business that is in competition with that of our Group, they shall, and shall procure those associates to, inform our Company of such opportunity as soon as practicable and provide all relevant information as is available to them or any such associates to our Company. Our Company has the right within one month thereafter to take up the opportunity. In the event that our Company decides to take up the opportunity, they shall use their best endeavors to assist our Group to obtain such opportunity. In the event that we decline such opportunity or fail to respond within the stipulated period, they or associates controlled and/or funded by them (whether directly or indirectly) may take up such opportunity upon terms no more favorable than those offered to our Group;
  - (iii) they shall not, and shall procure associates controlled and/or funded by them (whether directly or indirectly) not to, solicit business from a person, firm, company, incorporation, partnership or organization which is a customer or a potential customer of our Group, where our Group is involved in or engages in such business or has submitted a bid, tender or offer in respect of such business; and
  - (iv) they shall not, and shall procure associates controlled and/or funded by them (whether directly or indirectly) not to, solicit or endeavor to cause any current or former employee of any member of our Group to work for any other person, firm or company engaging in a business which will or may compete directly or indirectly with the business carried out or to be carried out by our Group;
- (c) for so long as any of them or the Lam Family Group holds any Lam Family Group’s Retail Properties after the Reorganization:
  - (i) they shall, and shall procure the Lam Family Group to, sell all Lam Family Group’s Retail Properties to Independent Third Parties at an arm’s length basis within six months after the Reorganization;
  - (ii) in the case where there are any Residual Properties at the end of six months after the Reorganization, they shall, and shall procure the Lam Family Group to, effect the Injection of Residual Properties as soon as it is practicable; and
  - (iii) pending the sale of the Lam Family Group’s Retail Properties to Independent Third Parties in paragraph (c)(i) and, where applicable, the Injection of Residual Properties

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in paragraph (c)(ii) above, they shall, and shall procure the Lam Family Group to, remain as passive owners of the Lam Family Group’s Retail Properties; they shall not, and shall procure the Lam Family Group not to, renew any existing leases of the Lam Family Group’s Retail Properties which expire or are otherwise terminated on a date within the first six-months immediately after the Reorganization;

- (d) they shall not, and shall procure associates controlled and/or funded by them (whether directly or indirectly) not to, acquire any additional retail properties from our Group or otherwise, which would result in competition between their business and our Group’s business;
- (e) in order to ensure compliance with the undertakings set forth in (a) to (d) above, each of them shall:
  - (i) provide all information necessary for a review at least once every six months by our independent non-executive Directors of the compliance by our Controlling Shareholders with the non-competition undertakings, such as: (x) information on business opportunities including project names, amount of investment and the geographical location which may be identified by our Controlling Shareholders or associates controlled and/or funded by them (whether directly or indirectly); and (y) information on any property developments or investments conducted by our Controlling Shareholders or associates controlled and/or funded by them (whether directly or indirectly) during the year or a negative confirmation, as appropriate;
  - (ii) procure our Company to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of their non-competition undertakings either in our annual report or by way of announcement to the public;
  - (iii) make an annual declaration of compliance with their non-competition undertakings in our annual report and ensure that the disclosure of details of their compliance with and the enforcement of the non-competition undertakings is consistent with the principles of voluntary disclosure in the Corporate Governance Report contained in Appendix 23 to the Listing Rules; and
  - (iv) abstain from attending and voting at any meeting of our Shareholders and/or the Board and procure associates controlled and/or funded by them (whether directly or indirectly) to abstain from attending and voting at such meeting for consideration and approval of any matters which may give rise to any actual or potential conflicts of interest.

For the avoidance of doubt, there is no restriction on the engagement, participation, investment, or holding of interest (economically or otherwise) by the Controlling Shareholders (whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist any other person) in any business which will or may compete directly or indirectly with the business carried out by our Group by way of passive investment during the Non-competition Period through acquiring or holding any investment or interest in units or shares of any company, investment trust, joint venture, partnership or other entity in whatever form which engages in any business which will or may compete

## **RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS**

directly or indirectly with the business carried out by our Group (a “Competing Entity”), where such investment or interest does not exceed 5% of the outstanding voting rights of such Competing Entity (taking into account the aggregate number of shares held by all of the Covenantors), and provided such investment or interest does not grant, nor does the Controlling Shareholders and/or their associates otherwise hold, any right to control the composition of the board of directors or managers of such Competing Entity nor any right to participate, directly or indirectly, in such Competing Entity.

In order to ensure compliance with the non-competition undertakings given by each of our Controlling Shareholders, our independent non-executive Directors will (i) review, at least once every six months, the compliance with the Deed of Non-competition by our Controlling Shareholders; and (ii) review and approve the decision as to whether to take up any business opportunity which is referred to our Group by our Controlling Shareholders and their associates. Our Company will disclose the results of the reviews and the decisions made by our independent non-executive Directors on the enforcement of breaches of the non-competition undertakings by way of announcement to the public and in our annual report.

## **RELIANCE OF AND INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS**

### **Operational Independence**

We have our own independent access to supplies of raw materials, our independent operation capabilities, as well as our own independent sales and marketing teams. Other than as disclosed in “Connected Transactions — Exempt Continuing Connected Transactions” of this document, our Group does not use or share any facilities or resources owned or possessed by the Controlling Shareholders or any of their associates during the three years ended December 31, 2008 and the six months ended June 30, 2009 and up to the Latest Practicable Date. Other than the Retail Property Leasing Business, there is no competing business between each of our Controlling Shareholders and our Group and our Controlling Shareholders have entered into the Deed of Non-competition in favor of our Company. Please see “Relationship with our Controlling Shareholders — Non-Competition Undertakings from our Controlling Shareholders” for more details. Therefore, we are able to operate independently and can carry on our business independently of our Controlling Shareholders and their associates.

### **Financial Independence**

As of the date of this document, all loans, advances and balances due to and from our Controlling Shareholders and their respective associates have been fully settled and that all securities and guarantees provided by our Controlling Shareholders and their respective associates on our Group’s borrowings have been fully released. Our Group has its own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payments, as well as independent access to third party financing. As such, our Directors believe that we are financially independent from our Controlling Shareholders and their associates.

## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

### Management Independence

Our Board currently comprises four executive Directors and three independent non-executive Directors. Other than Mr. Lam Lung On, Ms. Kwok Ying Lan, Mr. Lin Longzhi and Mr. Lin Conghui, who are our executive Directors holding directorships in the Retained Business, none of our Directors or senior management holds any directorship or senior management role in the Retained Business.

Notwithstanding the directorships held by Mr. Lam Lung On, Ms. Kwok Ying Lan, Mr. Lin Longzhi and Mr. Lin Conghui 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) Mr. Lam Lung On, Ms. Kwok Ying Lan, Mr. Lin Longzhi and Mr. Lin Conghui confirm that, so long as they remain as executive Directors of our Company, all positions held by them within the Retained Business are, and will continue to be, of a non-executive nature. In addition, each independent non-executive Director confirms that, as of the date of this document, he or she does not hold any directorship or senior management position within the Retained Business, and further undertakes that, so long as he or she remains as a Director of our Company, he or she will not accept any executive directorship or senior management position within the Retained Business;
- (b) Each of Mr. Lam Lung On, Ms. Kwok Ying Lan, Mr. Lin Longzhi and Mr. Lin Conghui confirms and undertakes that so long as they remain as an executive Director of our Company, he or she will devote sufficient time and resources required to discharge their director duties (including fiduciary duties and duties of skill, care and diligence) as Directors of our Company;
- (c) As the Communications Business and the Communication Training Center Business do not compete and are unlikely to compete with our core business, and the Retail Property Leasing Business only constitutes competition which is immaterial to our Group’s business, the dual roles assumed by Mr. Lam Lung On, Ms. Kwok Ying Lan, Mr. Lin Longzhi and Mr. Lin Conghui in most cases will not affect the requisite degree of impartiality of our executive Directors in discharging their fiduciary duties owed to our Company;
- (d) We have three independent non-executive Directors, and certain matters of our Company, including connected transactions and other matters referred to in the non-competition undertakings, details of which are set out in the section headed “— Non-Competition Undertakings from our Controlling Shareholders” above, 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;
- (e) 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. Please see “Directors and Senior Management” for more details; and
- (f) 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.