

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS

### RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised), Galaxy Earnest Limited beneficially owned by the Controlling Shareholders will effectively hold 85% of the total issued share capital of our Company (assuming the Over-allotment Options are not exercised). Apart from our Group, the Controlling Shareholders own, directly and indirectly, other companies or commercial enterprises including, (1) Mingfa Group Qianqiuye Concrete Product (NJ), which is principally engaged in the business of providing various concrete product services; and (2) Mingfa Property Development (XM), which was principally engaged in the business of real estate management and agency service provision in the past, but is dormant and no longer continues to carry on any business.

As we are principally engaged in the development of residential properties and commercial complexes and other related businesses, our Directors are of the view that there are clear delineations between our principal businesses and the businesses of the above companies owned by the Controlling Shareholders.

None of our Executive Directors, our Controlling Shareholders or their respective associates are engaged in any business that, directly or indirectly, competes or may compete with the business of our Group.

#### **Non-compete undertaking**

Each of the Controlling Shareholders has entered into the deed of non-competition in favor of our Company, pursuant to which each of the Controlling Shareholders has undertaken, subject to the exceptions mentioned below, that he would not, and would procure that neither he nor his associate or companies controlled by him (other than the Group) directly or indirectly be interested in or engaged in any business which competes or is likely to compete directly or indirectly with the Group's business as set out in this prospectus, in the PRC and any other area in which the Group carries on business (“**Restricted Activity**”).

The aforesaid undertakings do not apply with respect to the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a recognized stock exchange and:

- (a) the total number of the shares held by the Controlling Shareholders or their associates does not amount to more than 5% of the issued shares of the company; and
- (b) the Controlling Shareholders or their associates are not entitled to appoint a majority of the directors or management of that company.

The non-competition undertaking and the rights and obligations thereunder are subject to and conditional upon the Global Offering becoming unconditional as specified under the section headed “Structure of the Global Offering” of this prospectus.

## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS**

The obligation of the Controlling Shareholders under the deed of non-competition will remain in effect until:

- (a) the date on which the Shares cease to be listed on the Stock Exchange; or
- (b) the date on which the Controlling Shareholders and their associates cease to own 5% or more of the then issued share capital of the Company directly or indirectly

whichever occurs first.

Each of the Controlling Shareholders undertakes to our Company that he would, during the term of the deed of non-competition indemnify and keep indemnified our Company and our Group against any loss suffered by our Company or our Group (as relevant) arising out of any breach of any of his/its undertaking under the deed of non-competition.

### **Independence of management, financing and operation**

Having considered the following factors, our Directors are satisfied that our Group will be able to be operationally and financially independent from the Controlling Shareholders and their associates:

Non-competition — although there are certain businesses owned by the Controlling Shareholders as mentioned above in this section, none of the Controlling Shareholders or our Directors or Executive Directors has any interest in a business which competes or is likely to compete, either directly or indirectly, with our Group's business. In addition, each of the Controlling Shareholders has given a non-competition undertaking in favor of us. For details, please refer to the section headed "Relationship with Controlling Shareholders and Connected Transactions — Non-compete Undertakings" of this prospectus.

Management independence — Our Board comprises three Executive Directors, one Non-Executive Director and three Independent Non-Executive Directors. Despite the interest of the Controlling Shareholders in certain businesses outside the Group, we consider that our Board will function independently from the Controlling Shareholders because:

- (a) each Director is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions; and
- (c) our board comprises seven Directors and three of them are independent non-executive Directors, which represents more than one-third of the members of the Board. This is in line with or better than current governance best practice in Hong Kong.

## **RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND CONNECTED TRANSACTIONS**

Financial independence — Our Group has an independent financial system and makes financial decisions according to its own business needs. As at December 31, 2008, approximately RMB382 million was owed by the Group to the Controlling Shareholders. All of the outstanding amount owed to the Controlling Shareholders were settled prior to the Listing. We also fully repaid our unsecured bank borrowings of RMB250 million, which was guaranteed by Mr. Wong Wun Ming and Mr. Huang Qingzhu, on October 12, 2009. Similarly, security provided by Ms. Chen Bihua for our bank borrowings of RMB19 million is also expected to be discharged prior to the Listing. In the circumstances, we believe we are capable of obtaining financing from third parties without reliance on the Controlling Shareholders.

Operational independence — Our Group has an independent work force to carry out the development of property projects and has not shared its operation team with the Controlling Shareholders' businesses outside our Group. Although during the Track Record Period, there have been certain transactions between us and our related parties, details of which are set out in note 42 in the Accountant's Report, our Directors have confirmed that these related party transactions were conducted in the ordinary course of business and on fair and reasonable normal commercial terms. None of the historical related party transactions with the connected persons as defined in the Listing Rules are expected to continue after the Listing.

### **CONNECTED TRANSACTIONS**

We have not entered into any transactions with our connected persons which will continue following the Listing and which will constitute non-exempt continuing connected transactions within the meaning of the Listing Rules.