
HISTORY, REORGANIZATION AND GROUP STRUCTURE

HISTORY AND DEVELOPMENT

History and development

Our Group traces its roots to 1994 when Chongqing Longhu Development (known as Chongqing Jiachen Economic and Cultural Development Co. Ltd. at the time of establishment) was established¹. The then equity holders were Mr. Cai, Madam Gao Chao, the mother of our Chairperson Madam Wu, and two other Independent Third Parties, namely China Shirong News Agent (中國市容報社) and Chongqing Yatai Industrial Trading Development Co., Ltd. (重慶亞泰工貿發展公司), each holding a 25% interest in the company. Chongqing Longhu Development is our principal operating subsidiary and the holding company of a majority of our PRC operations. Our Company currently holds a 91.3% equity interest of Chongqing Longhu Development.

On April 26, 1995, Madam Wu acquired a 53% equity interest in Chongqing Longhu Development through the increase in the registered capital of Chongqing Longhu Development². At the same time, Mr. Cai also increased his equity holding in Chongqing Longhu Development to 32% through the increase in the registered capital of Chongqing Longhu Development. Following the completion of such an increase in the registered capital, Madam Wu and Mr. Cai collectively held 85% in Chongqing Longhu Development with the remaining 15% interests held by Madam Gao Chao and the two Independent Third Parties, of which 5% was held by Madam Gao Chao. During the period between 1997 to 2000³, Madam Wu and Mr. Cai have collectively acquired all the equity interests owned by the two Independent Third Parties.

On October 18, 2002, Juntion Development, which was then owned as to 60% by Madam Wu and 40% by Mr. Cai, acquired 60% interest in Chongqing Longhu Development by increasing its registered capital from RMB20 million to RMB50 million. As a result, Chongqing Longhu Development became a sino-foreign equity joint venture with the remaining 40% equity interests owned by Madam Wu, Mr. Cai and Madam Gao Chao, who each owned 23.2%, 14.8% and 2%, respectively. On October 14, 2005, the transfer⁴ by Madam Gao Chao of all her interest in Chongqing Longhu Development to Madam Wu was approved by the relevant authorities. On November 2, 2005, such transfer was registered with Chongqing Industry and Commerce Bureau.

On October 19, 2007, Juntion Development increased its equity holding in Chongqing Longhu Development to 91.3% by increasing its registered capital and thereby diluting the direct equity holdings of Madam Wu and Mr. Cai in Chongqing Longhu Development collectively to 8.7%. Based on the direct results of enquiries made with MOFCOM regarding interpretation of the “Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors” promulgated by MOFCOM on September 8, 2006 (the “Merger Rules”), our PRC legal advisers understand that an increase in the equity interest of Juntion Development in Chongqing Longhu Development by way of subscription of additional registered capital would only require an approval from the original local approving authority (i.e. Chongqing Foreign Trade and Economic Commission) and that approval from MOFCOM would not be required. However, it is unclear whether MOFCOM approval would be required with respect to the transfer of equity interests from existing holders of equity of Chongqing Longhu Development to Juntion Development as a foreign investor. In light of the circumstances, it was decided that the 8.7% interest of Madam Wu and Mr. Cai in Chongqing Longhu Development would continue to be held by them through a PRC limited liability company.

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On February 3, 2008, Madam Wu and Mr. Cai transferred their respective direct equity holdings of 5.5% and 3.2% in Chongqing Longhu Development to Chongqing Xuke.

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- (1) The registered capital of Chongqing Longhu Development was RMB2 million at the time of its establishment.
 - (2) The registered capital was increased from RMB2 million to RMB10 million.
 - (3) Madam Wu increased her equity holding from 53% to 58% by acquiring 5% interest from China Shirong News Agent in July 1997 at a cash consideration of RMB500,000 determined on the basis of the transferor's original investment cost upon arm's length negotiations between the parties, and Mr. Cai increased his equity holding from 32% to 37% by acquiring 5% interest from Chongqing Yatai Industrial Trading Development Co., Ltd. in April, 2000 at a cash consideration of RMB500,000 determined on the basis of the transferor's original investment cost upon arm's length negotiations between the parties. Following the above acquisitions, Madam Wu, Mr. Cai and Madam Gao Chao became the only equity holders of Chongqing Longhu Development. On June 21, 2001, the registered capital of Chongqing Longhu Development was subsequently increased from RMB10 million to RMB20 million and Madam Wu, Mr. Cai and Madam Gao Chao each subscribed for the additional capital on a pro rata basis based on their respective equity holdings in Chongqing Longhu Development.
 - (4) Madam Gao Chao transferred her 2% interest in Chongqing Longhu Development to Madam Wu at a cash consideration of RMB1 million determined on the basis of the transferor's original investment cost upon arm's length negotiations between the parties.

According to our PRC legal advisers who have consulted with the relevant officials of MOFCOM, where a foreign invested company has, prior to September 8, 2006, completed round-trip investment approval procedures, obtained approval from the relevant local PRC authority and obtained the foreign invested enterprise certificate, the original local PRC authority will be responsible for granting approval in respect of subsequent capital injections by way of increasing the registered capital of that foreign invested enterprise. Furthermore, based on the consultation of our PRC legal advisers with the CSRC, in the event that the round-trip investment has been completed before September 8, 2006, and such transaction has been approved by the competent authority, CSRC approval is not required for the offshore holding company applying for listing abroad.

According to our PRC legal advisers, whereas Madam Wu and Mr. Cai have made round-trip investments in Chongqing Longhu Development and completed the relevant approval procedures prior to September 8, 2006, Chongqing Longhu Development has obtained approval from local PRC authority in respect of the increase in its registered capital after September 8, 2006 and has completed the relevant registration with the relevant PRC authorities. Our PRC legal advisers are therefore of the opinion that such increase in registered capital does not fall within Article 11 of the Regulations for Merger with and Acquisition of Domestic Enterprises by Foreign Investors 《關於外國投資者并購境內企業的規定》.

As regards the impact of the "Notice regarding further enhancing and regularization of the approval and regulation of real estates directly invested by foreign companies" (Shang Zhi Han [2007] No. 50) 《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》(商資函[2007]50號), the notice imposes, among other measures, controls restricting foreign investment in high-end real estate properties and investments in domestic real estate enterprises through round trip investments. In addition, the notice requires the foreign invested real estate companies to make filings with MOFCOM after its establishment has been approved by local governmental authorities. For those companies which fail to complete the filings with MOFCOM or pass the foreign invested enterprise joint annual examinations, foreign exchange management authorities and designated foreign exchange banks shall not accept the purchase and sale of foreign exchange. The notice also provides for measures reinforcing the administrative process for approving and supervising foreign direct investments in the PRC real estate sector.

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Our directors consider that the notice may affect our Group when making investments in the PRC real estate market, as our Group is required to comply with additional measures in the administrative process such as obtaining approvals and completing filings with MOFCOM.

As regards the impact of the “Notice of the Comprehensive Department of SAFE regarding the List of the First Batch of Foreign Invested Real Estate Projects which have completed filing with the Ministry of Commerce” (Hui Zhong Fa [2007] No. 130) 《國家外匯管理局綜合司關於下發第一批通過商務部備案的外商投資房地產項目名單的通知》(匯綜發[2007]130號), it stipulates, among other things, that a branch of SAFE will no longer process foreign debt registration or application for purchase of foreign exchange for real estate enterprises with foreign investment that obtained approval certificates from and passed the procedures for archiving with MOFCOM on or after June 1, 2007. The new regulation prohibits foreign invested real estate companies from raising funds offshore from their foreign shareholder by way of shareholder loans.

Our PRC legal advisers advised that, as a result of this regulation, in order to inject offshore funds into real estate companies onshore, we would need to do so by increasing the registered capital of our current property development companies or by establishing new real estate companies, and that such real estate companies would have to make prior filings with MOFCOM before foreign exchange registration or the exchange of settlement and sales procedures. Our PRC legal advisers are of the opinion that there are no legal obstacles against which the Group may face in completing such filing procedures in accordance with the current PRC laws and regulations. Currently, there is no project for which the Group had obtained approval to remit proceeds from [●] to the Mainland.

According to the “List of the Seventh Batch of Foreign Invested Real Estate Projects which have completed filing” 《第七批完成備案的外商投資房地產項目名單》 and the “List of the Ninth Batch of Foreign Invested Real Estate Projects which have completed filing” 《第九批完成備案的外商投資房地產項目名單》 published on the website of MOFCOM, our PRC legal advisers are of the opinion that our sino-foreign cooperative joint ventures, Chengdu Huixin (成都匯新置業有限公司), Chengdu Jia’nan (成都嘉南置業有限公司), Chengdu Jinghui (成都景匯置業有限公司), Chengdu Tuosheng (成都拓晟置業有限公司) and Shanghai Hengrui (上海恒睿房地產有限公司) which are established on or after June 1, 2007 and engaged in real estate development, have all completed the relevant filings with MOFCOM, and have complied with the relevant requirements under the said notices.

We originated from Chongqing

We commenced the construction of our first real estate development project in Chongqing in April 1997, known as Longfor Garden Nanyuan, through Chongqing Longhu Properties.

We undertook the development of our second property project, namely, Longfor Garden Xiyuan, in the midst of the development of Longhu Garden Nanyuan in October, 2000. Longfor Garden Xiyuan is adjacent to Longfor Garden Nanyuan which was completed in May, 2001.

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As part of our “multiple products, selected regional focus” strategy, we ventured into our first commercial development project known as North Paradise Walk in 2002. This project became one of the most popular shopping centers in Chongqing with retail units, restaurants and entertainment facilities.

In March 2006, we commenced the development of our first office building, the West Paradise Walk in Chongqing. This project comprised a total of 188 office units, certain retail units and 744 car parks. Construction of the development was completed in April 2008.

We believe our experience in developing a wide variety of products in the property sector and our strong corporate foundation laid in the early stage of our development paved our way to expand into other PRC cities outside of Chongqing.

Our entry into the Chengdu market in 2005

Our first development project outside of Chongqing is King Land in Chengdu, a residential development project which comprised high-rise apartments and retail units undertaken by Chengdu Longhu Jinhua. Construction of Phase 1 of King Land commenced in December, 2005 and was completed in November, 2007 whereas construction of Phase 2 of King Land commenced in March, 2006 and was completed in April, 2008.

As at the Latest Practicable Date, there are six projects under development or for future development.

A successful debut in Beijing in 2005

We entered into the Beijing market in December, 2005 when Beijing Longhu Properties first acquired the land for the Beijing Rose and Ginkgo Villa project, which is a luxurious townhouse residential development in the central villa district of Beijing. Pre-sale of phase 1 of this project commenced in September, 2007.

In Beijing, our first two projects, Beijing Rose and Ginkgo Villa and Beijing Chianti, received an overwhelming market response when they were launched in September 2007, with 95% and 100% of the offered units, respectively, sold on the first day of pre-sales at premium pricing, and generated a total of approximately RMB3.0 billion of contract sales in the first four months of sales.

As at the Latest Practicable Date, we have five projects in Beijing under construction and another two projects are planned for future development. In addition, we have one primary land development project in Beijing with a site area of approximately 374,736 sq.m.

Our entry into the Xi’an and Shanghai markets in 2007

We entered the Xi’an market in the second half of 2007. We plan to develop one commercial project and four residential projects, tentatively to be named as Chang’an Wonder, Qujiang Glory, Xi’an Fairy Castle, Xi’an Flamenco Spain and Xi’an Chianti. It is our current plan to develop Chang’an Wonder into a

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commercial project, Qujiang Glory into townhouses, Xi’an Fairy Castle into high-rise apartments, Xi’an Flamenco Spain into high-rise apartments and Xi’an Chianti into low-rise garden apartments and high-rise apartments.

Shanghai is the first of our target markets in the eastern coastal region of China. We have acquired two separate sites in Qingpu and Jiading in late 2007. It is our current plan to develop these two sites into high-end residential development projects.

As at the Latest Practicable Date, we have five projects and two projects under development or for future development in Xi’an and Shanghai, respectively.

Our entry into the Wuxi, Shenyang and Changzhou markets in 2009

Building on our success in Shanghai, we entered the property market in Wuxi, Jiangsu province in August 2009. We acquired the site for the Taike Yuan Project in Taihu International Scientific and Technology District, Wuxi in August 2009. Our current plan is to develop the site into high-rise residential apartments and villas. We also expanded into the property market in Changzhou, Jiangsu Province by winning an auction of a parcel of land in Qinglong Living Area (青龍生活區) of Changzhou in October 2009. Our current plan is to develop the site into high-rise apartments, low-rise garden apartments and villas. We acquired another piece of land also in Qinglong Living Area in Changzhou in October 2009. Our current plan is to develop the site into high-rise apartments, low-rise garden apartments and stand-alone villas.

We see Shenyang of Liaoning province as a city that has favorable market potential for further development. As part of our plan to expand to the Pan Bohai Rim, we won an auction for a parcel of land in Huishan District, Shenyang in September 2009. Our current plan is to develop the site into townhouse and low-rise residential developments. In October 2009, we won the auction of a parcel of land located in Daoyi District (道義區) of Shenyang as our second project in Shenyang. Our current plan is to develop the site into high-rise apartments, low-rise garden apartments and villas.

As at the Latest Practicable Date, we were undergoing overall planning and design for the above projects in Wuxi, Shenyang and Changzhou.

Our acquisitions and disposals

(a) Acquisitions

We made the following acquisitions during the Track Record Period and the period from the expiry of the Track Record Period to the Latest Practicable Date to indirectly acquire further land for future property development or to increase our economic interest in existing projects.

On January 9, 2007, we acquired a 68.18% equity interest in Chengdu Longhu Jincheng from Chengdu Jijian Real Estate Development Co., Ltd. (成都集建房屋開發有限公司), an Independent Third Party, for a consideration of RMB176,370,000. The consideration was determined based on the fair value of the company as of a valuation date agreed between the parties.

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During the financial year ended December 31, 2007, we acquired Xi’an Longhu Xingcheng from Xi’an Gao Ke Chan He Real Estate Co., Ltd. (西安高科鐘河房產有限公司), an Independent Third Party, for a consideration of RMB564,943,038. The consideration was determined based on the fair value of the company as of a valuation date agreed between the parties.

In December 2008, through Chongqing Longhu Properties, we acquired from Chongqing International Trust Investment, an Independent Third Party, its 49% interest in Chongqing Longhu Xijie for a consideration of RMB365,383,000. The consideration was determined based on the parties’ pre-existing agreement entered into between the parties at the time when Chongqing International Trust Investment invested in Chongqing Longhu Xijie by reference to the original investment costs of Chongqing International Trust Investment. Following the acquisition, Chongqing Longhu Xijie is held by Chongqing Longhu Properties and Chongqing Longhu Development as to 97.79% and 2.21%, respectively. At around the same period, Chongqing Longhu Properties acquired from COF I SRL, an Independent Third Party, a 30% interest in Shanghai Hengrui for a consideration of RMB537,796,459. Such acquisition was made as a result of the exercise of the right of ING Real Estate China Opportunity Fund LP as part of the joint venture arrangement, under which ING Real Estate China Opportunity Fund LP may require our Group to acquire its interest in the joint venture at a consideration based on a pre-determined formula. The consideration for the 30% interest was determined based on the said pre-determined formula. Following the acquisition, Shanghai Hengrui was held by Chongqing Longhu Properties as to 50% with the remaining 50% interest held by COF I SRL.

In October 2009, through Shanghai Hengchi, we acquired from Jiangsu Changfa Properties Co. Ltd. (江蘇常發地產股份有限公司), an Independent Third Party, its 60% equity interest in Changzhou Jia’nan for a total consideration of RMB30 million which was determined based on arm’s length negotiations. Changzhou Jia’nan will develop our Qinglong Project II. In October 2009, through Shanghai Hengchi, we acquired from Changzhou Changfa Agricultural Equipment Co., Ltd. (常州常發農業裝備有限公司), an Independent Third Party, its 1% equity interest in Changzhou Jia’nan for a total consideration of RMB500,000 which was determined based on arm’s length negotiations. Following the above acquisitions, Shanghai Hengchi held a 91% equity interest in Changzhou Jia’nan.

(b) *Disposals*

During the financial year ended December 31, 2007, in order to consolidate our Group’s business as a property developer, we disposed of our 70% equity interest in a non-wholly owned subsidiary, Chongqing Juntion Architecture Engineering Co., Ltd. (重慶嘉遜建築營造工程有限公司), a construction company, to Mr. Zhao Tie, who is an Independent Third Party, for a total cash consideration of approximately RMB14 million. The consideration was determined on the basis of our original investment cost upon arm’s length negotiations with the transferee. We made this disposal because we are not actively involved in the construction business and we would like to focus on our core business as a property developer. For further information, please refer to the sections headed “Accountant’s Report — 35. Disposal of a subsidiary” and “Business — Contracting, Procurement, Project Management and Quality Control”.

The preceding paragraphs refer to only part (but not all) of our development projects. For details of our development projects, please refer to the section headed “Business — Our Property Development Projects” below.

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Joint ventures

In recent years, we have formed various joint ventures to undertake different property development projects in the PRC with renowned property developers and investment funds. We set out below the existing joint venture entities, including sino-foreign equity joint ventures and sino-foreign cooperative joint ventures, which members of our Group have established with third parties (not being members of our Group).

(a) *Equity joint ventures*

Chongqing Longhu Development

Chongqing Longhu Development is a sino-foreign equity joint venture incorporated under the laws of the PRC. For further information regarding the corporate development of Chongqing Longhu Development, please refer to the paragraph headed “History and Development” in this section of the document. According to the joint venture contract of August 2002, the duration of Chongqing Longhu Development is for approximately 20 years from the date of amendment to the business licence. The registered capital of Chongqing Longhu Development is in the amount of RMB230 million and is beneficially owned by Juntion Development and Chongqing Xuke as to 91.3% and 8.7%, respectively. Chongqing Xuke is a limited liability company owned by Madam Wu and Mr. Cai. Such registered capital of Chongqing Longhu Development was contributed by Juntion Development and Chongqing Xuke in accordance with their respective percentages of shareholding in Chongqing Longhu Development. The business scope of Chongqing Longhu Development includes property development.

The board of directors of Chongqing Longhu Development comprises 5 directors.

Chengdu Longhu Jinhua

In November 2004, Chongqing Longhu Development, Juntion Development and Topper Industrial entered into the joint venture contract in relation to Chengdu Longhu Jinhua. Topper Industrial was selected as the joint venture partner of Chongqing Longhu Development and Juntion Development by virtue of the company’s experience in and knowledge of property development in the local area in which our project is located. Chengdu Longhu Jinhua is a sino-foreign equity joint venture incorporated under the laws of the PRC. The duration of Chengdu Longhu Jinhua is for 20 years from the date of establishment. Under the joint venture contract, the registered capital of Chengdu Longhu Jinhua is RMB100 million and is beneficially owned by Chongqing Longhu Development, Juntion Development and Topper Industrial as to 67%, 25% and 8%, respectively. Such registered capital of Chengdu Longhu Jinhua is to be contributed by Longhu Development, Juntion Development and Topper Industrial in accordance with their respective percentages of shareholding in Chengdu Longhu Jinhua. According to the capital verification report dated May 16, 2007 issued by Sichuan Zhong Heng Anxin Certified Public Accountants Co., Ltd., the entire registered capital of Chengdu Longhu Jinhua has been fully paid up. The business scope of Chengdu Longhu Jinhua includes properties development and sale of properties. The board of directors of Chengdu Longhu Jinhua comprises 5 directors of which Chongqing Longhu Development, Juntion Development and Topper Industrial have the right to appoint 3 directors, 1 director and 1 director, respectively.

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Sichuan Longhu

In April 2006, Chongqing Longhu Development, Juntion Development and Topper Industrial entered into the joint venture contract in relation to Sichuan Longhu. Topper Industrial was selected as the joint venture partner of Chongqing Longhu Development and Juntion Development by virtue of the company’s experience in and knowledge of property development in the local area in which our project is situated. Sichuan Longhu is a sino-foreign equity joint venture incorporated under the laws of the PRC. The duration of Sichuan Longhu is for 20 years from the date of establishment. Under the joint venture contract, the registered capital of Sichuan Longhu is RMB50 million and is beneficially owned by Chongqing Longhu Development, Juntion Development and Topper Industrial as to 75%, 17% and 8%, respectively. Such registered capital of Sichuan Longhu is to be contributed by Longhu Development, Juntion Development and Topper Industrial in accordance with their respective percentages of shareholding in Sichuan Longhu. According to the capital verification report dated October 29, 2007 issued by Sichuan Zhong Heng Anxin Certified Public Accountants Co., Ltd., the entire registered capital of Sichuan Longhu has been fully paid up. The business scope of Sichuan Longhu includes property development. The board of directors of Sichuan Longhu comprises 5 directors of which Chongqing Longhu Development, Juntion Development and Topper Industrial shall have the right to appoint 3 directors, 1 director and 1 director, respectively.

Beijing Longhu Properties

Beijing Longhu Properties is a limited liability company incorporated under the laws of the PRC in December 2002. The duration of Beijing Longhu Properties is for 20 years from the date of establishment. The registered capital of Beijing Longhu Properties is in the amount of RMB1 billion and is beneficially owned by Chongqing Longhu Development, He Tiantao and Beijing Huanchuan Xinrun Investment Co. Ltd. as to 98.5%, 0.3% and 1.2%, respectively. Such registered capital of Beijing Longhu Properties was contributed by Chongqing Longhu Development, He Tiantao and Beijing Huanchuan Xinrun Investment Co. Ltd. in accordance with their respective percentages of shareholding in Beijing Longhu Properties. According to the capital verification report dated September 2007 issued by Beijing Fangcheng Certified Public Accountants Co., Ltd., the entire registered capital of Beijing Longhu Properties has been fully paid up. The business scope of Beijing Longhu Properties includes property development.

The board of directors of Beijing Longhu Properties comprises 3 directors.

Xi’an Longhu Jincheng

Xi’an Longhu Jincheng is a limited liability company incorporated under the laws of the PRC in September 2007. The initial registered capital of Xi’an Longhu Jincheng was RMB30 million which was subsequently increased to RMB430 million in June 2009. Xi’an Longhu Jincheng is beneficially owned by Xi’an Longhu Properties and Xi’an Lifeng Property Management Co., Ltd. as to 99.3% and 0.7%, respectively. Such registered capital of Xi’an Longhu Jincheng was contributed by Xi’an Longhu Properties and Xi’an Lifeng Property Management Co., Ltd. in accordance with their respective percentages of shareholding in Xi’an Longhu Jincheng. According to the capital verification report dated April 14, 2009 issued by Shanxi Heng Xing Certified Public Accountants Co., Ltd., the entire registered capital of Xi’an Longhu Jincheng has been fully paid up. The business scope of Xi’an Longhu Jincheng includes property development and sale of properties. The board of directors of Xi’an Longhu Jincheng comprises 5 directors as appointed in the shareholders meeting.

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Shanghai Hengrui

In December 2007, COF I SRL and Chongqing Longhu Properties entered into a joint venture contract to incorporate Shanghai Hengrui. COF I SRL, an investment vehicle of ING Real Estate China Opportunity Fund LP, was selected as a joint venture partner of the members of our Group by virtue of our business relationship with ING Real Estate China Opportunity Fund LP and also its capital resources. Shanghai Hengrui is a sino-foreign equity joint venture incorporated under the laws of the PRC. The duration of Shanghai Hengrui is for 20 years from the date of establishment. Under the joint venture contract, the registered capital of Shanghai Hengrui is in the amount of RMB1,589 million and was beneficially owned by COF I SRL and Chongqing Longhu Properties as to 80% and 20%, respectively at the time of establishment of Shanghai Hengrui. Such registered capital of Shanghai Hengrui was contributed by COF I SRL and Chongqing Longhu Properties in accordance with their respective percentages of shareholding. According to the capital verification report dated April 2008 issued by Shanghai Shanghai Certified Public Accountants Co., Ltd., the entire registered capital of Shanghai Hengrui has been fully paid up. The business scope of Shanghai Hengrui includes property development.

In December 2008, Chongqing Longhu Properties acquired from COF I SRL a 30% interest in Shanghai Hengrui. Such acquisition was made as a result of the exercise of the right of ING Real Estate China Opportunity Fund LP as part of the joint venture arrangement, under which ING Real Estate China Opportunity Fund LP may require our Group to acquire its interest in the joint venture at a consideration based on a pre-determined formula. As a result of which, Chongqing Longhu Properties and COF I SRL each owns 50% interest in Shanghai Hengrui.

ING has the right to require our Group to acquire all of its remaining interests in the offshore holding company and all related shareholders' loan (if any) upon the earlier of (a) the sales (including pre-sales) of units of properties developed by Shanghai Hengrui having exceeded a specified percentage of the total units and (b) the fifth anniversary of the date of establishment of the joint venture. The purchase price payable by our Group will be principally determined by reference to the valuation of the then unsold properties to be agreed between the parties or otherwise determined by an independent valuer, after taking into account applicable taxes payable.

The board of directors of Shanghai Hengrui comprises 5 directors of which COF I SRL and Chongqing Longhu Properties may appoint 4 directors and 1 director, respectively. The Chairman of the board of directors of Shanghai Hengrui shall be appointed by Chongqing Longhu Properties.

(b) *Cooperative joint ventures*

Longhu Land

In June 2005, Chongqing Longhu Properties and Jiaxun Land entered into a joint venture contract to incorporate Longhu Land. Jiaxun Land is a wholly owned subsidiary of a joint venture that we set up with HKL (China West) Property Investments Limited. We effectively hold approximately 47.37% interest in Jiaxun Land. Longhu Land is a sino-foreign cooperative joint venture incorporated under the laws of the PRC. The duration of Longhu Land is for 20 years from the date of establishment. Under the joint venture contract, the registered capital of Longhu Land is USD12 million. The registered capital was subsequently increased to USD27 million in July 2007. Longhu Land is beneficially owned by Chongqing Longhu Properties and Jiaxun Land as to 5% and 95%, respectively. Such registered capital of Longhu Land was

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contributed by Chongqing Longhu Properties and Jiaxun Land in accordance with their respective percentages of shareholding in Longhu Land. According to the capital verification report dated July 2007 issued by the Chongqing Yong He Certified Public Accountants Co., Ltd., the entire registered capital of Longhu Land has been fully paid up. The business scope of Longhu Land includes property development.

The board of directors of Longhu Land comprises 6 directors of which Chongqing Longhu Properties and Jiaxun Land may appoint 1 director and 5 directors, respectively. The first Chairman of the board of directors of Longhu Land shall be appointed by Juntion Land.

Chongqing Longhu Yiheng

In October 2006, Chongqing Longhu Properties and Fantastic Star entered into a joint venture contract to incorporate Chongqing Longhu Yiheng. Fantastic Star was selected as a joint venture partner of the members of our Group by virtue of our business relationship with the company and its affiliates and also the capital resources of the company. Chongqing Longhu Yiheng is a sino-foreign cooperative joint venture incorporated under the laws of the PRC. Chongqing Longhu Yiheng has commenced business during the Track Record Period and the duration of Chongqing Longhu Yiheng is for 20 years from the date of establishment. Under the joint venture contract, the registered capital of Chongqing Longhu Yiheng is RMB50 million. This was subsequently increased to RMB360 million in September 2007. Chongqing Longhu Yiheng is jointly owned by Chongqing Longhu Properties and Fantastic Star as to 51% and 49 %, respectively. The profit generated or loss incurred by the joint venture is also allocated among Chongqing Longhu Properties and Fantastic Star in accordance with these respective percentages. The registered share capital of Chongqing Longhu Yiheng was contributed by Chongqing Longhu Properties and Fantastic Star in accordance with their respective percentages of shareholding in Chongqing Longhu Yiheng. According to the capital verification report dated August 30, 2007 issued by Chongqing Yong He Certified Public Accountants Co., Ltd., the entire registered capital of Chongqing Longhu Yiheng has been fully paid up. The business scope of the Chongqing Longhu Yiheng includes property development.

The board of directors of Chongqing Longhu Yiheng comprises 11 directors of which Chongqing Longhu Properties and Fantastic Star shall have the right to appoint 10 directors and 1 director, respectively. The first Chairman of the board of directors of Chongqing Longhu Yiheng shall be appointed by Chongqing Longhu Properties.

Chengdu Longhu Tongjin

In April 2007, ING COF and Chongqing Longhu Development entered into the joint venture contract in relation to Chengdu Longhu Tongjin. ING COF, an investment vehicle of ING Real Estate China Opportunity Fund LP, was selected as a joint venture partner of the members of our Group by virtue of our business relationship with ING Real Estate China Opportunity Fund LP and also its capital resources. Chengdu Longhu Tongjin is a sino-foreign cooperative joint venture incorporated under the laws of the PRC. The duration of Chengdu Longhu Tongjin is for 20 years from the date of establishment. Under the joint venture contract, the registered capital of Chengdu Longhu Tongjin is in the amount of RMB750 million. The registered capital was subsequently increased to RMB966,549,865. Chengdu Longhu Tongjin was beneficially owned by Chongqing Longhu Development and ING COF as to 51% and 49%, respectively. Such registered capital of Chengdu Longhu Tongjin was contributed by ING COF and Chongqing Longhu

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Development in accordance with their respective percentages of shareholding in Chengdu Longhu Tongjin. According to the capital verification report dated October 15, 2007 issued by Sichuan Zhong Heng Anxin Certified Public Accountants Co., Ltd., the entire registered capital of Chengdu Longhu Tongjin has been fully paid up. The business scope of Chengdu Longhu Tongjin includes property development.

In November 2008, Chengdu Jiaxun acquired from ING COF a 24% interest in Chengdu Longhu Tongjin. Such acquisition was made as a result of the exercise of the right of ING Real Estate China Opportunity Fund LP as part of the joint venture arrangement, under which ING Real Estate China Opportunity Fund LP may require our Group to acquire its interest in the joint venture at a consideration based on a pre-determined formula. The purchase consideration is RMB231,971,968 which was determined based on the said pre-determined formula agreed. Following the acquisition, we hold a total of 75% interest in Chengdu Longhu Tongjin through Chongqing Longhu Development as to 51% and Chengdu Jiaxun as to 24%. ING COF holds the remaining 25% interest.

ING has the right to require our Group to acquire all of its remaining interests in the offshore holding company and all related shareholders' loan (if any) upon the earlier of (a) the sales (including pre-sales) of units of properties developed by Chengdu Longhu Tongjin having exceeded a specified percentage of the total units and (b) the fifth anniversary of the date of establishment of the joint venture. The purchase price payable by our Group will be principally determined by reference to the valuation of the then unsold properties to be agreed between the parties or otherwise determined by an independent valuer, after taking into account applicable taxes payable.

The board of directors of Chengdu Longhu Tongjin comprises 11 directors of which Chongqing Longhu Development, ING COF and Chengdu Jiaxun may appoint 9 directors, 1 director and 1 director, respectively. The Chairman of the board of directors of Chengdu Longhu Tongjin shall be appointed by Chongqing Longhu Development.

Chengdu Jia'nan

In November 2007, ING COF I (HK) and Chengdu Jiaxun entered into the joint venture contract in relation to Chengdu Jia'nan. Chengdu Jia'nan is a sino-foreign cooperative joint venture incorporated under the laws of the PRC. The duration of Chengdu Jia'nan is for approximately 20 years from the date of establishment. The initial registered capital was RMB100,000,000, which was increased to RMB382,890,100 in November 2007, in which ING COF I (HK) is interested as to 92.16% and Chengdu Jiaxun is interested as to 7.84%. Such registered capital of Chengdu Jia'nan was contributed by ING COF I (HK) and Chengdu Jiaxun in accordance with their respective percentages of shareholding in Chengdu Jia'nan. According to the capital verification report dated November 2007 issued by Sichuan Yuan He Certified Public Accountants Co., Ltd., the entire registered capital of Chengdu Jia'nan has been fully paid up. The business scope of Chengdu Jia'nan includes property development.

The board of directors of Chengdu Jia'nan comprises 5 directors of which ING COF I (HK) and Chengdu Jiaxun may appoint 2 directors and 3 directors, respectively. The Chairman of the board of directors of Chengdu Jia'nan shall be appointed by Chengdu Jiaxun.

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Chengdu Tuosheng

In November 2007, Front Harbour and Chengdu Jiaxun entered into the joint venture contract in relation to Chengdu Tuosheng. Chengdu Tuosheng is a sino-foreign cooperative joint venture incorporated under the laws of the PRC. The duration of Chengdu Tuosheng is for approximately 20 years from the date of establishment. The initial registered capital was RMB100,000,000 which was increased to RMB633,495,100 in November 2007, in which Front Harbour is interested as to 95.26% and Chengdu Jiaxun is interested as to 4.74%. Such registered capital of Chengdu Tuosheng was contributed by Front Harbour and Chengdu Jiaxun in accordance with their respective percentages of shareholding in Chengdu Tuosheng. According to the capital verification report dated November 2007 issued by Sichuan Yuan He Certified Public Accountants Co., Ltd., the entire registered capital of Chengdu Tuosheng has been fully paid up. The business scope of Chengdu Tuosheng includes property development.

The board of directors of Chengdu Tuosheng comprises 5 directors of which Front Harbour and Chengdu Jiaxun may appoint 2 directors and 3 directors, respectively. The Chairman of the board of directors of Chengdu Tuosheng shall be appointed by Chengdu Jiaxun.

Chengdu Jinghui

In November 2007, COF I (HK) and Chengdu Jiaxun entered into the joint venture contract in relation to Chengdu Jinghui. Chengdu Jinghui is a sino-foreign cooperative joint venture incorporated under the laws of the PRC. The duration of Chengdu Jinghui is for 20 years from the date of establishment. The initial registered capital was RMB100,000,000 which was increased to RMB653,275,800 in November 2007, in which COF I (HK) is interested as to 95.41% and Chengdu Jiaxun is interested as to 4.59%. Such registered share capital of Chengdu Jinghui was contributed by COF I (HK) and Chengdu Jiaxun in accordance with their respective percentages of shareholding in Chengdu Jinghui. According to the capital verification report dated November 1, 2007 issued by Sichuan Yuan He Certified Public Accountants Co., Ltd., the entire registered capital of Chengdu Jinghui has been fully paid up. The business scope of Chengdu Jinghui includes property development.

The board of directors of Chengdu Jinghui comprises 5 directors of which COF I (HK) and Chengdu Jiaxun shall have the right to appoint two directors and three directors, respectively. The Chairman of the board of directors of Chengdu Jinghui shall be appointed by Chengdu Jiaxun.

Chengdu Huixin

In November 2007, Chengdu Jiaxun and Sunny Champ entered into the joint venture contract in relation to Chengdu Huixin. Chengdu Huixin is a sino-foreign cooperative joint venture incorporated under the laws of the PRC. The duration of Chengdu Huixin is for 20 years from the date of establishment. The initial registered capital was RMB100,000,000 which was increased to RMB629,993,500 in November 2007, in which Chengdu Jiaxun and Sunny Champ are interested as to 32.05% and 67.95%, respectively. Such registered capital of Chengdu Huixin was contributed by Chengdu Jiaxun and Sunny Champ in accordance with their respective percentages of shareholding in Chengdu Huixin. According to the capital verification report dated November 1, 2007 issued by Sichuan Yuan He Certified Public Accountants Co., Ltd., the entire registered capital of Chengdu Huixin has been fully paid up. The business scope of the Chengdu Huixin includes property development.

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The board of directors of Chengdu Huixin comprises 5 directors of which Chengdu Jiaxun and Sunny Champ shall have the right to appoint three directors and two directors, respectively. The Chairman of the board of directors of Chengdu Huixin shall be appointed by Chengdu Jiaxun.

Our Joint venture for the Century Peak View Project in Chengdu

The four sino-foreign cooperative joint ventures established in November 2007, namely, Chengdu Jia'nan, Chengdu Tuosheng, Chengdu Jinghui and Chengdu Huixin, are specific project companies for development of the Century Peak View project in Chengdu. We invested in these four project companies through our subsidiary Chengdu Jiaxun. The entire project is a joint venture that we set up with an offshore holding company jointly owned by ING Real Estate China Opportunity Fund LP ("ING") on one part and Aetos Capital Asia T.E. II, Ltd. and Aetos Capital Asia II, Ltd. (collectively, "Aetos") on the other part. We effectively hold a 9.1% interest in the joint venture.

Under the joint venture arrangement, each of ING and Aetos may require our Group to acquire part or all (as the case may be) of its equity interests (direct or indirect) at prices based on pre-determined formulae upon the occurrence of certain specific events. In particular, ING and Aetos had the right (to be exercised no later than August 30, 2008) to require the Group to acquire from them a total of 45.5556% interest of the offshore holding company jointly owned by ING and Aetos and the related shareholders' loans (if any) at a price determined by a pre-determined formula in order to give an agreed internal rate of return to ING and Aetos based on their proportionate actual capital contributions to the joint venture from the time of their investments in the joint venture to the date of completion of the equity transfer, being approximately RMB968 million, assuming the acquisition had taken place by September 30, 2008, the prescribed deadline for completion of acquisition. In or about August 2008, ING and Aetos had indicated to us that they wish to exercise such right of redemption.

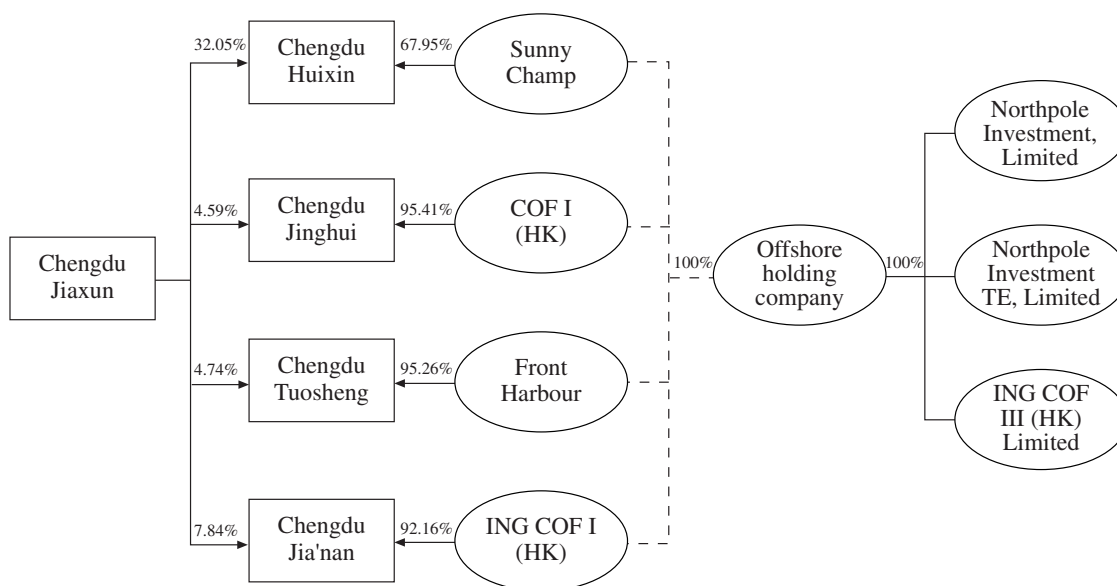
Following discussion and negotiation between the parties, on October 15, 2009, we entered into a supplemental agreement with Northpole Investment, Limited and Northpole Investment TE, Limited which are both subsidiaries of Aetos with their registered office at M&C Corporate Services Limited, PO Box 309GT, Uglan House, South House, South Church Street, George Town, Grand Cayman, Cayman Islands and ING COF III (HK) Limited, an investment vehicle of ING with its registered office at Room 1001-1002, 10F, Man Yee Building, No.68, Des Voeux Road, Central, Hong Kong. Pursuant to such supplemental agreement, condition upon the [●] and [●], we will acquire from ING and Aetos a total of 44.4444% interest of their offshore holding company at a consideration to be determined based on the pre-determined formula, which will give ING and Aetos an agreed internal rate of return based on their proportionate actual capital contributions from the time of their investments in the joint venture to the date of completion of the acquisition. We currently intend to fund the acquisition out of [●]. Assuming the acquisition takes place on December 31, 2009, the purchase price payable under the supplemental agreement will be approximately RMB1.04 billion.

Following the acquisition, our Group will hold 44.4444% interest in the offshore holding company of ING and Aetos, with the remaining 55.5556% interest held by ING and Aetos. Our Group will not be entitled to have majority control of the board of directors of the offshore holding company following the acquisition. The acquisition will increase our Group's effective interest in the Century Peak View project to 49.13%. At present, we are entitled to nominate and have nominated three out of the total of five directors of each of the PRC joint venture entities; and major financial and operating decisions of any of the PRC joint venture entities, including without limitation, the obtaining of external financings, grant of financial assistance to

HISTORY, REORGANIZATION AND GROUP STRUCTURE

third party, formulation of or material change to business plan, disposal of material assets, change of auditors and dividend declaration require the unanimous approval of the board of directors of the relevant PRC joint venture entity, including the directors nominated by ING and Aetos. These arrangements will continue to be in place after the acquisition. Since our Group, ING and Aetos will continue to share control over the economic activities of the PRC joint venture entities after the acquisition, we expect that the PRC joint venture entities will continue to be accounted for as jointly controlled entities of our Group under IAS. Based on the current completion schedules of the project, we expect the project will start to generate meaningful cash inflow in or about 2010. If the acquisition does not proceed, our effective interest in the Century Peak View project will remain at 9.1%, unless and until ING and/or Aetos exercise their further rights of redemption referred to in the paragraph below. Under the supplemental agreement, completion of the acquisition is to take place within 30 days (or such other date agreed by the parties) after the conditions precedent to the acquisition have been satisfied. Given that the acquisition would be completed pursuant to the supplemental agreement which was executed before the [●], it will not be subject to Chapter 14 or other requirements of the Listing Rules upon its completion after the [●]. However, we will notify our Shareholders of the completion as soon as practicable after that by way of an announcement. If the conditions precedent to the acquisition are not satisfied by May 31, 2010, the provisions of the supplemental agreement shall cease to be effective and the original joint venture agreement between the parties shall remain unchanged.

The following chart depicts the structure in relation to the joint venture as at the Latest Practicable Date:

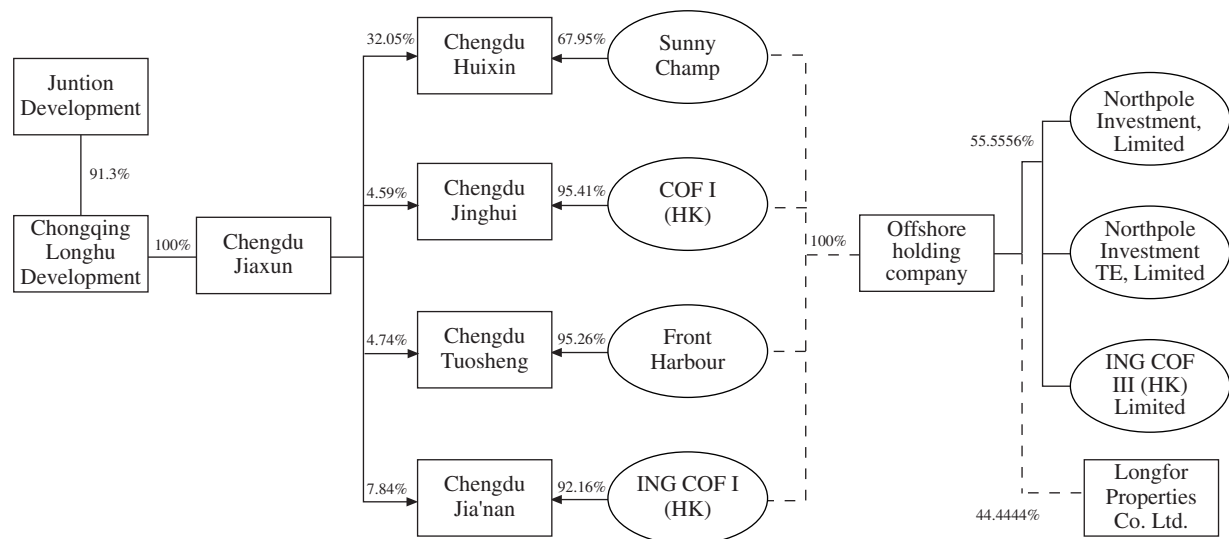


Notes:

1. Dotted lines in the above chart indicate indirect shareholding or control via investment vehicle(s).
2. As at the Latest Practicable Date, our Group effectively held a 9.1% equity interest in the joint venture.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

The following chart depicts the structure in relation to the joint venture upon completion of the proposed acquisition from ING and Aetos of a total of 44.4444% interest of their offshore holding company:



Notes:

1. Dotted lines in the above chart indicate indirect shareholding or control via investment vehicle(s).
2. The four sino-foreign cooperative joint ventures established in November 2007, namely, Chengdu Jia'nan, Chengdu Tuosheng, Chengdu Jinghui and Chengdu Huixin, are specific project companies for development of the Century Peak View project in Chengdu.
3. Chengdu Jiaxun is a wholly owned subsidiary of Chongqing Longhu Development, which is owned by our Group as to 91.3%.
4. Before completion of the proposed acquisition from ING and Aetos of a total of 44.4444% interest of their offshore holding company, ING and Aetos effectively held 90% interest in the joint ventures and Chengdu Jiaxun effectively held 10% interest in the joint ventures (Our Group effectively held a 9.1% in the joint ventures, being 9.13% of the 10% interest of Chengdu Jiaxun). After the completion of the proposed acquisition, our Group will effectively hold a 49.13% interest in the joint ventures, being the aggregate of the initial 9.13% interest plus 44.4444% of the 90% interest of ING and Aetos before completion of the proposed acquisition.
5. For the avoidance of doubt, the holding of equity interest by way of initial capital contributions in the four sino-foreign cooperative joint ventures (as indicated in the shareholding information in the above charts) may not have any correlation to the distribution of the respective interests of the parties in the joint ventures, which is permissible under the laws of the PRC.

The joint venture arrangement between the parties (as amended by the above supplemental agreement) also provides that, in the event that ING and Aetos have made advances to our Group by applying their entitlements to distributions made by the joint venture and the total amount of such advances exceeds a certain percentage of the paid up capital of the PRC joint venture entities, ING may also require our Group to acquire either the shareholder's loan advanced by it to the offshore holding company or the equity interests in each of the PRC joint venture entities so as to reduce ING's capital contributions to the joint venture to 19% and to increase our Group's capital contributions to 56%. The purchase consideration payable will be determined by reference to a specified percentage of the amount of the then paid-up capital of the PRC joint venture entities. As at the Latest Practicable Date, ING and Aetos have not made any advances to our Group pursuant to the joint venture arrangement. We do not expect such right of ING to become exercisable within 12 months after the [●]. In addition, ING and Aetos also have the right to require our Group to acquire all

HISTORY, REORGANIZATION AND GROUP STRUCTURE

of their remaining interests in the offshore holding company and all related shareholders’ loan (if any) upon the earlier of (a) the sales (including pre-sales) of units of properties developed by the PRC joint venture entities having exceeded a specified percentage of the total units and (b) the fifth anniversary of the date of the parties’ investment in the PRC joint venture entities. The purchase price payable by our Group will be principally determined by reference to the valuation of the then unsold properties to be agreed between the parties or otherwise determined by an independent valuer, after taking into account applicable taxes payable. In light of the above arrangement, based on the current completion schedules of the project, we expect we will eventually hold the entire interest in the Century Peak View project by 2013.

The terms of the joint venture with ING and Aetos, including the rights of redemption referred to above were agreed after commercial negotiations between the parties on an arm’s length basis.

According to the valuation report by Savills Valuation and Professional Services Limited, an independent valuer, the market value in existing state as at August 31, 2009 for Phase I of Century Peak View was RMB674,300,000 and the market value in existing state as at August 31, 2009 for Phases II and III of Century Peak View was RMB2,024,000,000. For further information about the valuation, please refer to pages IV-13, IV-16, IV-126, IV-127, IV-128, IV-158 and IV-159 of “Appendix IV - Property Valuation”.

For further information about the above joint venture entities, please refer to the section headed “Appendix VII — Statutory and General Information — (D) Particulars relating to subsidiaries and our joint ventures — Joint ventures”.

The 2007 Term Loan and its full repayment

Juntion Development obtained the 2007 Term Loan in September 2007 provided by various banking institutions and affiliates of real estate developers. The 2007 Term Loan was subject to a variable rate of interest by reference to HIBOR and an applicable margin. The date of repayment is the earlier of September 21, 2009 and the applicable interest payment date (such interest payment date being the last day of any interest period for a duration of one month, two months, three months or six months as may be selected by Juntion Development from time to time or such other period as may be agreed between Juntion Development and the agent of the lenders) immediately following the [●] or if such applicable interest payment date falls on a date earlier than the fourteenth day after the [●], the date falling on the fourteenth day after the [●].

The proceeds of the 2007 Term Loan have been principally applied to pay up capital contributions to certain of our subsidiaries and as general working capital of our offshore subsidiaries. Security interests were created in favor of the lenders of the 2007 Term Loan, including charges over shares in the Company owned by Charm Talent and Precious Full and charges over shares of certain of our offshore subsidiaries. We started to pre-pay the 2007 Term Loan in the end of 2008. As of August 20, 2009, the 2007 Term Loan, together with all interests accrued was fully repaid. Accordingly, all security interests created as security for the 2007 Term Loan were duly released.

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The RMB Bonds

In May 2009, Chongqing Longhu Development issued the RMB Bonds by way of a public offering within the PRC and listing of the bonds on the Shanghai Stock Exchange. Particulars of the RMB Bonds are summarised below:

Total principal amount	:	RMB1.4 billion
Maturity date	:	May 5, 2016, subject to early redemption referred to below
Interest rate	:	6.7% per annum, being the average of the Shanghai Interbank Offered Rates for the five business days preceding the date of offer plus 4.85%. The interest rate is fixed at the above rate for the first five years of issue and is subject to a one-off upward adjustment of up to 100 basis points (inclusive) from May 5, 2014 at the election of the issuer
Early redemption	:	In the event of the issuer’s election of an upward adjustment to the interest rate, a holder of the bonds may elect to redeem all or part of his bonds
Use of proceeds	:	RMB1.12 billion was allocated to finance our development projects in Jade Town project as to RMB306 million, Chunsen Land project as to RMB410 million and Peace Hill County project as to RMB404 million and RMB280 million was allocated as general working capital
Security	:	A mortgage over the land use rights and real property ownership of Basement 3 to the 5th floor of the podium of Longhu West Paradise Walk owned by Chongqing Longhu Xijie was created to secure the obligations of Chongqing Longhu Development under the bonds

REORGANIZATION

Corporate Reorganization

Our Group underwent a reorganization in preparation for the [●] which involves the following:

1. *Incorporation of our Company*

On December 21, 2007, our Company was incorporated in the Cayman Islands as an exempted limited liability company with an authorized share capital of HK\$50,000 divided into 500,000 Shares of HK\$0.10 each, of which 600 Shares and 400 Shares were issued and fully paid up, to Charm Talent and Precious Full, respectively after the transfer of 1 subscriber share from Codan Trust Company (Cayman) Limited as the initial subscriber to Charm Talent, and the allotment and issue of 599 Shares and 400 Shares to Charm Talent and Precious Full, respectively. Charm Talent and Precious Full are companies incorporated in the BVI and collectively owned by Madam Wu and Mr. Cai, respectively.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

2. *Transfer of the entire issued share capital of Juntion Development*

On June 11, 2008, Madam Wu and Mr. Cai transferred 1,200,000 shares and 800,000 shares of HK\$1 each in the share capital in Juntion Development, representing 60% and 40% of the total issued share capital in Juntion Development to Longfor Investment at a purchase consideration of HK\$1,920,693,053 and HK\$1,280,462,036, respectively. Such purchase considerations were determined based on the audited consolidated net asset value of Juntion Development as of December 31, 2007.

3. *Respective assignments of debt by Madam Wu and Mr. Cai to Charm Talent and Precious Full and subsequent assignments of debt by Charm Talent and Precious Full to our Company*

(a) Pursuant to two deeds of assignment both dated June 11, 2008, Madam Wu and Mr. Cai assigned to Charm Talent and Precious Full at face value the amounts of HK\$1,920,693,053 and HK\$1,280,462,036 due from Longfor Investment respectively thereto as purchase consideration payable by Longfor Investment for the purchase of the entire issued share capital of Juntion Development. Following such assignments, Longfor Investment was indebted to Charm Talent and Precious Full in the respective amounts of HK\$1,920,693,053 and HK\$1,280,462,036.

(b) Upon completion of the assignments referred to in sub-paragraph (a) above and pursuant to two deeds of assignment dated June 11, 2008, Charm Talent and Precious Full assigned to our Company at face value the same amounts of HK\$1,920,693,053 and HK\$1,280,462,036 due from Longfor Investment. Following such assignment, Longfor Investment was indebted to our Company a total of HK\$3,201,155,089 and our Company was in turn indebted to Charm Talent and Precious Full the amounts of HK\$1,920,693,053 and HK\$1,280,462,036, respectively.

4. *Allotment of shares by Longfor Investment to our Company*

Longfor Investment allotted and issued to our Company one share of US\$1, credited as fully paid, in settlement of the amounts due from Longfor Investment to our Company as referred to in paragraph 3(b) above.

5. *Capitalization of loan due from our Company to Charm Talent and Precious Full*

On June 11, 2008, our Company allotted and issued to Charm Talent and Precious Full 2,361,591,000 Shares and 1,574,394,000 Shares and at the direction of Charm Talent and Precious Full, to Fit All, 64,014,000 Shares, credited as fully paid, in full settlement of the respective amounts of HK\$1,920,693,053 and HK\$1,280,462,036 due from our Company to Charm Talent and Precious Full.

Trust settlements by Madam Wu and Mr. Cai

On June 11, 2008, Madam Wu and Mr. Cai transferred to Silver Sea and Silverland the entire issued share capital of, respectively, Charm Talent and Precious Full, for nil consideration for the settlement of, respectively, the Wu Family Trust and the Cai Family Trust with HSBC International Trustee acting as the trustee. The discretionary objects of the Wu Family Trust include certain family members of Madam Wu and the discretionary objects of the Cai Family Trust include certain family members of Mr. Cai. For implementation of the Pre-[●] Share Award Scheme adopted on July 31, 2009, Fit All was added as a discretionary object of the Wu Family Trust and the Cai Family Trust on July 31, 2009.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Pre-[●] Share Award Schemes

In recognition of the contributions of certain employees of our Group and to incentivize them, we adopted two Pre-[●] Share Award Schemes on November 30, 2007 and July 31, 2009, respectively. Pursuant to the Pre-[●] Share Award Scheme adopted on November 30, 2007, at the direction of Charm Talent and Precious Full, our Company issued a total of 64,014,000 Shares (38,408,400 Shares in the case of Charm Talent and 25,605,600 Shares in the case of Precious Full), representing approximately 1.6% of the then issued share capital of our Company to Fit All for the benefit of a total of 121 employees of our Group. Pursuant to the Pre-[●] Share Award Scheme adopted on July 31, 2009, Charm Talent and Precious Full transferred to Fit All, as a discretionary object of each of the Wu Family Trust and the Cai Family Trust, a total of 30 million Shares (18 million Shares in the case of Charm Talent and 12 million Shares in the case of Precious Full) for the benefit of a total of 463 employees of our Group, of whom 34 employees had been awarded Shares under the Pre-[●] Share Award Scheme adopted on November 30, 2007. The vesting period for the Shares awarded under the Pre-[●] Share Award Schemes is either four or five years commencing from January 1, 2009 (in the case of the scheme adopted on November 30, 2007) and July 1, 2010 (in the case of the scheme adopted on July 31, 2009).

Fit All was incorporated by Madam Wu as a special purpose vehicle for holding the relevant Shares with the intention that such Shares are to be held on trust by a professional trustee for the benefit of the selected employees of our Group. On June 11, 2008, the Fit All Trust was established with HSBC (HK) Trustee acting as the trustee thereof and thereupon Madam Wu transferred the entire issued share capital of Fit All to HSBC (HK) Trustee. The total number of employees who are beneficiaries of the Fit All Trust is 550.

No further Shares will be transferred by Charm Talent or Precious Full and no new Shares will be issued by our Company for the purpose of the Pre-[●] Share Award Schemes. However, we intend to adopt another share award scheme or other similar incentive scheme after the [●]. Thereupon, we will comply with all applicable legal and regulatory requirements, including the Listing Rules, in respect of the adoption and implementation of such share award scheme or any incentive scheme(s) to be adopted.

Based on the valuation of an independent valuer, the weighted average fair value of the Shares awarded under the Pre-[●] Share Award Scheme adopted on November 30, 2007 is approximately RMB116.0 million which will be amortized on a straight line basis over a period of 4 or 5 years of the vesting period (as the case may be) and hence, there had been and will be an impact on our income statements for the financial years 2007 to 2012. The impacts for the two financial years ended December 31, 2007 and 2008 and the six months ended June 30, 2009 are RMB4 million, RMB47.6 million and RMB12.2 million, respectively. Based on the valuation of an independent valuer, the weighted average fair value of the Shares awarded under the Pre-[●] Share Award Scheme adopted on July 31, 2009 is approximately RMB71.3 million, which will be amortized on a straight line basis over a period of 4 years of the vesting period and hence, there will be impact on our income statements for the financial years 2009 to 2013. It is estimated that the overall impact of both Pre-[●] Share Award Schemes for the financial year ending December 31, 2009 will be approximately RMB38.3 million (as to RMB24.3 million for the scheme adopted on November 30, 2007 and as to RMB14 million for the scheme adopted on July 31, 2009).

Please refer to the section headed “Appendix VII — Pre-[●] Share Award Schemes” to this document for a summary of the principal terms of the Pre-[●] Share Award Schemes.

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Pre-[●] Option Scheme

In recognition of the contributions of our senior management personnel and to incentivize them, we have adopted the Pre-[●] Option Scheme pursuant to which options were granted to a total of six senior management personnel (including two executive directors) on November 30, 2007, which entitle the holders to subscribe for Shares representing 0.75% of our total issued Share capital immediately following completion of the [●] as enlarged by the number of Shares which may be allotted and issued pursuant to the full exercise of the subscription right attached to the Pre-[●] Options (taking no account of any option that may be granted under the Post-[●] Option Scheme or any Shares which may be allotted and issued upon the exercise of the [●]), at the exercise price of HK\$2.94 per Share and subject to the terms and conditions of the Pre-[●] Option Scheme. The Pre-[●] Options shall vest in equal portion on January 1, 2009, 2010, 2011 and 2012 and will become exercisable for a period following the respective vesting dates and ending on November 30, 2017.

The Pre-[●] Options were transferred to Long Faith on June 11, 2008. Long Faith was incorporated by Madam Wu as a special purpose vehicle for holding the Pre-[●] Options with the intention that such options are to be held on trust by a professional trustee for the benefit of the senior management personnel concerned. On the same day, the Long Faith Trust was established as a discretionary trust with HSBC (HK) Trustee acting as the trustee thereof and thereupon Madam Wu transferred the entire issued share capital of Long Faith to HSBC (HK) Trustee. As at the date of this document, Long Faith, whose registered office is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, the British Virgin Islands, is the registered holder of all the Pre-[●] Options.

The Pre-[●] Options are the only options granted under the Pre-[●] Option Scheme and no further options will be granted thereunder after the [●]. If all the Pre-[●] Options are exercised in full, the public shareholders of our Shares under the [●] (assuming the [●] is not exercised) may experience share ownership dilution from 20% to 19.85%, whereby their percentage ownership of our Shares issued and outstanding will decrease.

Any exercise of the options to be granted under the Pre-[●] Option Scheme will result in a dilution in the earnings per Share and net asset value per Share. Assuming that all the Pre-[●] Options are exercised in full, the estimated earnings per Share in 2009 will be diluted from RMB 47.02 to RMB 47.01. Under the IFRS, the costs of the Pre-[●] Options have been charged to our income statement for the year ended 2007 by reference to the fair value at the date at which such options were granted.

Based on the valuation of an independent valuer, the fair value of our Pre-[●] Options as at November 30, 2007 is approximately RMB33.9 million. Our Pre-[●] Options will be amortized on a straight line basis over a period of 4 years of vesting period and hence, there had been and will be an impact on our income statements for the financial years 2007 to 2011. The impacts for the two financial years ended December 31, 2007 and 2008 are approximately RMB1.0 million and RMB12.5 million respectively. The impacts for the three financial years ending December 31, 2009, 2010 and 2011 are expected to be approximately RMB12.5 million, RMB5.5 million and RMB2.4 million, respectively.

Please refer to the section headed “Appendix VII — Pre-[●] Option Scheme” to this document for a summary of the principal terms of the Pre-[●] Option Scheme.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

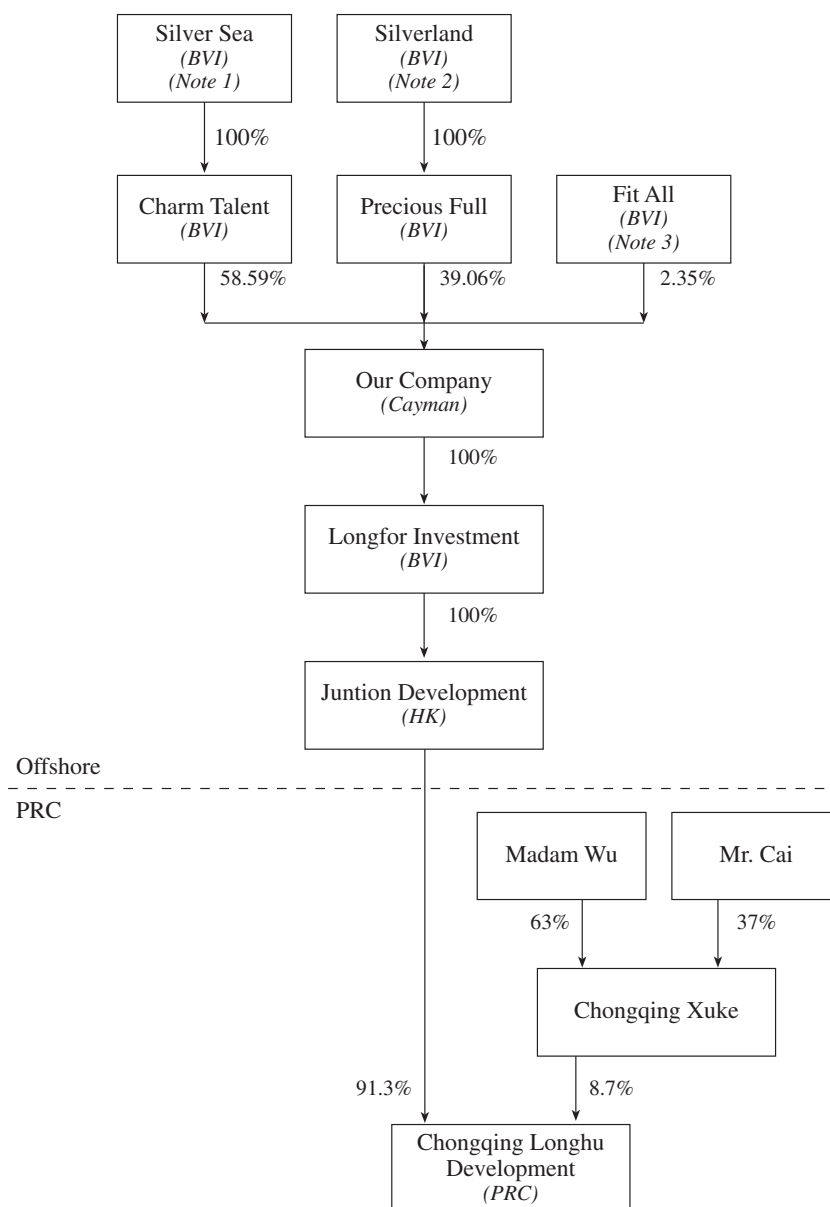
Post-[●] Option Scheme

We have adopted the Post-[●] Option Scheme. The Post-[●] Option Scheme provides for the grant of options to subscribe for our Shares to our senior management personnel including our directors, and full-time employees that meet criteria set by us from time to time. The principal terms of the Post-[●] Option Scheme are summarised in the section headed “Appendix VII — Post-[●] Option Scheme” to this document.

SHAREHOLDING AND CORPORATE STRUCTURE

Shareholding structure of our Group

The following chart depicts the structure of our Group following completion of the Reorganization, the trust settlements by Madam Wu and Mr. Cai, and the adoption and implementation of the Pre-[●] Share Award Schemes:



HISTORY, REORGANIZATION AND GROUP STRUCTURE

Notes:

1. The entire share capital of Silver Sea is wholly-owned by HSBC International Trustee as the trustee of the Wu Family Trust. The Wu Family Trust is a discretionary trust set up by Madam Wu as settlor and protector and HSBC International Trustee as trustee on June 11, 2008. The beneficiary objects of the Wu Family Trust include certain family members of Madam Wu and Fit All. Madam Wu (as founder of the Wu Family Trust), Mr. Cai (as the spouse of Madam Wu), Silver Sea and HSBC International Trustee are taken to be interested in the 2,343,591,600 Shares held by Charm Talent immediately upon completion of the [●] pursuant to Part XV of the SFO.
2. The entire share capital of Silverland is wholly-owned by HSBC International Trustee as the trustee of the Cai Family Trust. The Cai Family Trust is a discretionary trust set up by Mr. Cai as settlor and protector and HSBC International Trustee as trustee on June 11, 2008. The beneficiary objects of the Cai Family Trust include certain family members of Mr. Cai and Fit All. Mr. Cai (as founder of the Cai Family Trust), Madam Wu (as the spouse of Mr. Cai), Silverland and HSBC International Trustee are taken to be interested in the 1,562,394,400 Shares held by Precious Full immediately upon completion of the [●] pursuant to Part XV of the SFO.
3. The entire share capital of Fit All is wholly-owned by HSBC (HK) Trustee as the trustee of the Fit All Trust. The Fit All Trust was set up on June 11, 2008 with HSBC (HK) Trustee acting as the trustee thereof. The beneficiary objects of the Fit All Trust are 550 selected employees of our Group (including four executive directors) as participants of the Pre-[●] Share Award Scheme. As of the Latest Practicable Date, a total of 15,792,125 Shares awarded under the Pre-[●] Award Scheme adopted on November 30, 2007 had been vested in the relevant employees under the scheme and held on trust by Fit All.

HISTORY, REORGANIZATION AND GROUP STRUCTURE

Corporate structure of our Group

The following diagram illustrates our corporate group structure:

