
RELATIONSHIP WITH OUR FOUNDERS AND OUR CONTROLLING SHAREHOLDERS

OUR FOUNDERS AND OUR CONTROLLING SHAREHOLDERS

Madam Wu and Mr. Cai are the founders of our Group and are married to each other. Each of them have transferred their equity interests in our Group to, respectively, the Wu Family Trust and the Cai Family Trust, two separate discretionary trusts the beneficiaries of which are certain family members (hence associates) of, respectively, Madam Wu and Mr. Cai. HSBC International Trustee acts as the trustee of both trusts, and each of Madam Wu and Mr. Cai acts as the protector of the relevant trust. Prior to the establishment of the Wu Family Trust and the Cai Family Trust, Madam Wu and Mr. Cai held their beneficial interests in our Group through, respectively, Charm Talent and Precious Full. On June 11, 2008, Madam Wu transferred the entire issued share capital of Charm Talent to Silver Sea, a company incorporated in the BVI and wholly owned by HSBC International Trustee, and Mr. Cai transferred the entire issued share capital of Precious Full to Silverland, a company also incorporated in the BVI and wholly owned by HSBC International Trustee. The said transfers were made at nil consideration by way of gift, for the settlement of the Wu Family Trust and the Cai Family Trust respectively. Upon establishment of the said two trusts, Madam Wu and Mr. Cai ceased to be beneficially interested in the shareholding of our Group but they remain interested, through Chongqing Xuke, in 8.7% of the registered capital of Chongqing Longhu Development. As at the date of this document, Charm Talent is the registered holder of 2,343,591,600 Shares and Precious Full is the registered holder of 1,562,394,400 Shares.

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We believe that our Group is capable of carrying on its business independently of our Controlling Shareholders, our founders and their respective associates after the [●] for the following reasons:

- Management and investment decisions are made by our board of directors, management committee and investment decision committee (as the case may be), in each case, in a collective manner, and each of our board of directors, management committee and investment decision committee consists of management personnel with appropriate expertise and experience and each of our board or the afore-mentioned committees operates in accordance with our Articles of Association and terms of reference (in the case of the management committee and the investment decision committee) approved and adopted by the board of directors of Chongqing Longhu Development;
- There do not exist any continuing connected transactions between our Controlling Shareholders, founders and their respective associates and our Group which will be subject to the announcement and independent shareholders’ approval requirement under [●] upon the [●];
- None of our Controlling Shareholders, founders and their respective associates has any interest which competes with or is likely to compete with the business of our Group; and
- Charm Talent and Precious Full are holding companies and do not carry on any business other than holding the equity interests in our Company.

NON-COMPETITION DEED

We have entered into the Non-competition Deed dated November 1, 2009 with the Controlling Shareholders pursuant to which Madam Wu, Charm Talent and Silver Sea have jointly and severally undertaken, and Mr. Cai, Precious Full and Silverland have jointly and severally undertaken, not to compete with our Group.

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The Controlling Shareholders have undertaken with our Company (for itself and as trustee for the benefit of members of our Group) that they shall not, and shall use their best endeavours to procure that their respective associates (other than members of our Group and any member of the group of companies comprised of HSBC Holdings plc. and its subsidiaries from time to time, other than HSBC International Trustee acting solely in its capacity as trustee of the Wu Family Trust or the Cai Family Trust) (the “**Affiliates**”) will not, engage, invest, participate or be interested (economically or otherwise) in any Property Business during the period commencing on the [●] and ending on the earlier of:

- (i) the date when collectively the Controlling Shareholders, the Wu Family Trust and the Cai Family Trust, and, as the case may be, any of their Affiliates, cease to hold, or otherwise be interested in, beneficially in aggregate, whether directly or indirectly, 30% or more of the issued ordinary share capital of our Company;
- (ii) the date when the Shares cease to be [●]; or
- (iii) in relation to a particular Controlling Shareholder individually, the date when such Controlling Shareholder and all of his/her/its Affiliates cease to hold, or otherwise be interested in beneficially, whether directly or indirectly, any of the Shares (the “**Non-competition Period**”),

whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person) except:

- (a) in the case of Madam Wu and Mr. Cai, the existing Property Business held by Madam Wu, Mr. Cai and their respective Affiliates as disclosed in this document (See “Property Development Businesses and Investments Excluded from our Group” below). For the avoidance of doubt, to the extent Chongqing Xuke, Dujiangyan Qingcheng Co., Chengdu Tiancheng Investment Co., Ltd. or Madam Wu, Mr. Cai and any of their respective Affiliates, propose to change the use of the land in Yangjiang City already acquired by Yangjiang Hong Jing Real Estate Development Co., Ltd. or propose to acquire or are offered the right to acquire, any further land use rights in respect of the development project in Yangjiang City Guangdong province or land use rights of the site for which Dujiangyan Qingcheng Co. or Chengdu Tiancheng Investment Co., Ltd. is currently engaged in its primary land development as mentioned below in this section, such proposals would be regarded as a New Opportunity (as defined below) and should first be referred to the Company in accordance with the terms of the Non-competition Deed;
- (b) through their interests in our Group;

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- (c) 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 Property Business (a “**Competing Entity**”) where such investment or interest does not exceed 5% of the outstanding voting shares of such Competing Entity provided such investment or interest does not grant, nor does the relevant party and/or his Affiliates 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 (“**Passive Investments**”);
- (d) interests in properties in the PRC acquired and held solely for residential use (only in the case of Madam Wu and Mr. Cai and including the residential use of their family), or for investment purposes for so long as such interests do not involve any office or retail property development in the PRC and are not in competition with the business of our Group from time to time;
- (e) any Property Business which we have decided not to make an investment as approved in writing by a majority of all the independent non-executive directors of our Company; or
- (f) interests in properties situated outside of the PRC.

Each of Madam Wu, Mr. Cai, Charm Talent, Precious Full, Silver Sea and Silverland has undertaken with our Company (for itself and as trustee for the benefit of members of our Group) to procure that any investment or commercial opportunity relating to any Property Business (“**New Opportunity**”) that they or any of their respective Affiliates identify or propose or that is offered or presented to them by a third party, be first referred to the Company in accordance with the terms of the Non-competition Deed. The independent non-executive directors of the Company will determine whether to exercise the right to acquire the relevant land site in the event that the Group is offered the first right of refusal to acquire such site.

Under the Non-competition Deed, the obligations and liabilities of Madam Wu, Mr. Cai, Charm Talent, Precious Full, Silver Sea and Silverland are several, but the obligations and liabilities of Madam Wu, Charm Talent and Silver Sea are joint and several, and the obligations and liabilities of Mr. Cai, Precious Full and Silverland are also joint and several.

For the purpose of the Non-competition Deed, the term “**Property Business**” means the conducting of any one or more of the following business or investment activities in the PRC:

- (a) acquiring, holding, developing, transferring, disposing, leasing or otherwise dealing in, whether directly or indirectly, solely or jointly, land, real estate properties, or any property-related investments;
- (b) engaging in, directly or indirectly, solely or jointly, the business of property management;
- (c) engaging, having a right or in any way having an economic interest in, directly or indirectly, solely or jointly, the promotion or development of or investment in land or real estate properties or any property management business;

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- (d) acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, solely or jointly, any option, right or interest over any of the matters set out in paragraphs (a) to (c) above; or
- (e) acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, solely or jointly, any interest in (including, without limitation, shares of) any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in paragraphs (a) to (d) above.

In the event of any disagreement between any of the Covenantors and our Company as to whether or not any activity or proposed activity of any of the Covenantors constitutes a Property Business, the matter will be determined by the independent non-executive directors of our Company whose majority decision is final and binding.

Each of the Controlling Shareholders has also undertaken with our Company (for itself and as trustee for the benefit of members of our Group) that, during the Non-Competition Period, each of them:

- (a) will provide all information necessary for the annual review by the independent board committee of our Company for the enforcement of the undertakings contained in the Non-competition Deed by each of them;
- (b) will make an annual declaration on compliance with such undertakings in the annual reports of our Company; and
- (c) shall excuse themselves from, and abstain from voting and not be counted as quorum of, any meetings of shareholders and/or board of directors of our Company for consideration and approval of any matters referred to in the Non-competition Deed which have given or may give rise to conflicts of interest, whether actual or potential, of the relevant Controlling Shareholders.

We confirm that our independent non-executive directors will review, at least on an annual basis, the compliance with the undertakings in the Non-competition Deed by the Controlling Shareholders, including the right of first refusal regarding any New Opportunity given by them hereunder and we will disclose decisions of our independent non-executive directors either in our annual reports or by way of announcements. We also confirm that our directors, apart from the Controlling Shareholders, will make similar annual declarations on compliance in respect of their own undertakings on non-competition in our annual report.

In considering whether to pursue this New Opportunity, our independent non-executive directors will take into account ordinary commercial considerations, such as the Company’s financial condition, management efficiency, operational performance, growth prospect and earning potentials of the relevant business and any other information at the relevant time with reference to the prevailing circumstances. Our independent non-executive directors will always act in the best interests of the Company and the Shareholders as a whole. They will review annually all the decisions taken in each quarter of the year in relation to whether to pursue the New Opportunity and disclose such decisions and the rationales in the Company’s annual report. The Controlling Shareholders and their respective associates will abstain from voting for or against the relevant resolutions and will not be counted as part of the quorum at the relevant Shareholders’ meeting.

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PROPERTY DEVELOPMENT BUSINESSES AND INVESTMENTS EXCLUDED FROM OUR GROUP

Madam Wu and Mr. Cai, through their associates, hold equity interests in the following three development proposals:

(1) **A proposed tourism and recreational development in Yangjiang City (陽江市), Guangdong province**

This is a development project proposed to be undertaken by a joint venture company, Yangjiang Hong Jing Real Estate Development Co., Ltd. (陽江弘景房地產開發有限公司), formed by Chongqing Xuke and an Independent Third Party. Chongqing Xuke and the Independent Third Party hold equity interests in 51% and 49% of the joint venture, respectively and Chongqing Xuke is entitled to nominate 2 out of a total of 3 directors of the joint venture company with the remaining 1 director to be nominated by the independent joint venture partner. As at the Latest Practicable Date, the joint venture has acquired land use rights of approximately 209,000 sq. m. As at the Latest Practicable Date, no plan has yet been formulated for the development of the site already acquired by the joint venture and therefore no revenue has yet been generated out of the project. As at June 30, 2009, the unaudited net asset value of Yangjiang Hong Jing Real Estate Development Co., Ltd. is approximately RMB189,000, representing approximately 0.003% of the audited consolidated net asset value of our Group as of the same date.

(2) **Primary land development of a site for tourism and recreational use in Dujiangyan City (都江堰市), Sichuan province**

Dujiangyan Qingcheng Co., a wholly owned subsidiary of Chongqing Xuke (and hence managed and controlled by Chongqing Xuke) and established on December 25, 2007, is currently engaged in the primary land development of a site of approximately 530,000 sq. m., which would be made available principally for tourism and recreational use, including but not limited to theme parks and sports and recreational facilities (actual use is subject to final determination of the relevant government authority). Since the land use rights for this site will be granted by way of public tender, auction and listing-for-bidding, it is unclear as to whether Dujiangyan Qingcheng Co. will be able to acquire any land use rights in respect of this site or when such land use rights can be acquired. The primary land development has not been commenced and Dujiangyan Qingcheng Co. was not in active operations as at the Latest Practicable Date, and therefore no revenue or profit has been generated out of it. As at June 30, 2009, the unaudited net asset value of Dujiangyan Qingcheng Co. amounts to approximately RMB59 million representing approximately 1.0% of the audited consolidated net asset value of our Group as of the same date.

(3) **Primary land development of a site for tourism and recreational use in Xinjin county (新津縣), Chengdu, Sichuan province**

Chengdu Tiancheng Investment Co., Ltd. (成都天城投資有限公司), a limited liability company owned by Chongqing Xuke as to 98% and Mr. Jiang Bin, a director of Chengdu Longhu Jinhua and Sichuan Longhu as to 2% and established on August 7, 2008, is currently engaged in the primary land development of a site of approximately 1,000,000 sq. m. which subject to final decision of the relevant government authority, is currently designated for tourism and recreational use, including the

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development of sports facilities. Same as the Dujiangyan project, the land use rights for this site will be granted by way of public tender, auction and listing-for-bidding, it is therefore unclear if Chengdu Tiancheng Investment Co., Ltd. will be able to acquire the land use rights of the site or the way how or when such land use rights can be obtained. Chengdu Tiancheng Investment Co., Ltd. has not commenced the primary land development and the company was not in active operations as at the Latest Practicable Date, and therefore no revenue or profit has been generated out of it. As at June 30, 2009, the unaudited net asset value of Chengdu Tiancheng Investment Co., Ltd. amounted to approximately RMB2 million representing approximately 0.03% of the audited consolidated net asset value of our Group as at the same date.

The afore-mentioned development projects can be delineated from the business carried on by the Group in the way that the relevant sites are proposed to be used for tourism and recreational development, including but not limited to theme parks and sports and recreational facilities, which is not within the current product range of our Group. In addition, we have no current intention to develop tourism and recreational property.

The above three proposed development projects are excluded from our Group for the reasons that:

- (a) they are both at the preliminary development stage;
- (b) the land usage of the site at Yangjiang is neither residential nor commercial; and
- (c) we have never been involved in any tourism and recreational development and we are therefore unfamiliar with the specific risks, if any, associated with such kind of development project.

Given that the above development projects were undertaken by Madam Wu and Mr. Cai as founders and Controlling Shareholders of our Group through Chongqing Xuke, Dujiangyan Qingcheng Co. and Chengdu Tiancheng Investment Co., Ltd. in the first place for the same reasons as stated above, our Company is of the view that such development projects do not constitute competition to the Group, and that any future competition arising out of such development projects will be subject to the terms of the Non-competition Deed. Therefore, it has been decided that Chongqing Xuke, Dujiangyan Qingcheng Co. and Chengdu Tiancheng Investment Co., Ltd. will continue to undertake their respective projects.

In light of the current scale of our operations, we are of the view that we are capable of carrying on our business independently of the excluded business referred to above. We have no current plan to acquire the interests of Madam Wu and Mr. Cai in the above proposed development projects, but we will review the position from time to time. Madam Wu and Mr. Cai have both confirmed to us that they will comply with, and will procure their respective Affiliates to comply with, their respective obligations under the Non-competition Deed as regards their interests in the above projects. As of the Latest Practicable Date, our directors confirm that none of our Controlling Shareholders, directors or their respective associates holds any property interests in the PRC which compete, may compete or are likely to compete, directly or indirectly, with our property business.

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Madam Wu is the sole director of Chongqing Xuke; Madam Wu, Mr. Cai and Ms. Fan Qi are directors of Dujiangyan Qingcheng Co.; and Mr. Cai, Ms. Fan Qi and the 2% shareholder of Chengdu Tiancheng Investment Co., Ltd. are the directors of Chengdu Tiancheng Investment Co., Ltd. The senior management of Chongqing Xuke, Dujiangyan Qingcheng Co. and Chengdu Tiancheng Investment Co., Ltd. are independent of the Group. Despite the common directorships, we are of the view that the aforesaid companies are capable of functioning independently and the interests of our minority shareholders are safeguarded on the basis that:

- (i) Chongqing Xuke, Dujiangyan Qingcheng Co. and Chengdu Tiancheng Investment Co., Ltd. are not in active operations as at the Latest Practicable Date and their business interests and development plans referred to above are at a very preliminary stage, therefore the directors of Chongqing Xuke, Dujiangyan Qingcheng Co. and Chengdu Tiancheng Investment Co., Ltd. are not required to devote substantial time and effort in managing the companies;
- (ii) our Group operates under the leadership and management of the management team at our Company level as well as the local project company level and does not rely on any individual director for operations; and
- (iii) our directors, including the said common directors, are subject to fiduciary or other duties to our Company under common law, the laws of the Cayman Islands and the articles of association of the Company, which together provide sufficient protection to the minority shareholders.

In the event that each of Chongqing Xuke, Dujiangyan Qingcheng Co. or Chengdu Tiancheng Investment Co., Ltd. commences operations in the future, Madam Wu will participate as a non-executive director of Chongqing Xuke or each of Madam Wu and Ms. Fan Qi will participate as a non-executive director of Dujiangyan Qingcheng Co. or Ms. Fan Qi will participate as a non-executive director of Chengdu Tiancheng Investment Co., Ltd. (as the case may be). In addition to the above, Madam Wu and Mr. Cai also hold interests in certain residential properties with an aggregate GFA of approximately 2,638 sq.m. in the PRC for self occupation purposes. The size of the residential properties held by Madam Wu and Mr. Cai is insignificant relative to the scale of business of our Group and these properties are being occupied by them and their families for residential use. On this basis, our directors consider that the holding of such property interests by our Controlling Shareholders does not constitute competition against our Group.

FINANCIAL ASSISTANCE FROM OUR GROUP TO DUJIANGYAN QINGCHENG CO.

Dujiangyan Qingcheng Co. obtained a bank loan facility in the principal amount of RMB100 million in the PRC in June 2009 for future business operations. At the request of the bank lender, each of Chongqing Longhu Development and Chengdu Longhu Jinhua provided a guarantee on June 30, 2009 as security of the loan facility. Neither Chongqing Longhu Development nor Chengdu Longhu Jinhua has charged Dujiangyan Qingcheng Co. for any guarantee fee or its equivalent. Pursuant to a subsequent agreement between Chongqing Longhu Development and Chengdu Longhu Jinhua and the bank, such guarantee will be released automatically on the Listing Date.

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RELATED PARTY TRANSACTIONS

The details of the significant related party transactions which we carried out during the Track Record Period are set out in the section headed “Appendix I — Accountants’ Report” in this document. Our directors consider that these transactions were carried out in the ordinary and usual course of business and on normal commercial terms.