

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

RELATIONSHIP WITH CONTROLLING SHAREHOLDER

Overview

Our Controlling Shareholder, Fantasia Holdings, is a limited liability company incorporated in the Cayman Islands and its shares have been listed on the main board of the Stock Exchange since 2009. Fantasia Group is a leading property developer and property related service provider in the PRC. As of December 31, 2013, the market capitalization of Fantasia Holdings was HK\$6,557.6 million (based on the issued share capital and closing price of Fantasia Holdings on December 31, 2013) and Fantasia Group's net assets were approximately RMB7,831.3 million. In 2013, Fantasia Group's revenue and net profit were approximately RMB7,279.8 million and RMB1,230.2 million, respectively.

Fantasia Group is principally engaged in (i) property development which involves the development and sale of properties in the PRC; (ii) property investment which involves the leasing of investment properties; (iii) property agency and related services; (iv) property operational services which involve the provision of property management and other related services; and (v) hotel operations which involve the provision of hotel accommodation, hotel management and related services, food and beverage sales and other ancillary services, in the PRC. The Retained Group is also engaged in the provision of credit services while our Group is not. Fantasia Holdings is owned as to 57.16% by Fantasia Pearl, 15.00% by TCL(HK) and 27.84% by the public as of the Latest Practicable Date.

Fantasia Group, through Shenzhen Colour Life Property Management, commenced the property management business in 2002. Its property management business primarily focused on the management of the residential communities and to a lesser extent also managed certain non-residential area ancillary to and inseparable from our residential communities such as commercial and office space and carparks. As a result of the expansion of the business of our Group, we became one of the leading property management companies in terms of the number of residential units managed in the PRC as of December 31, 2012. As of December 31, 2013, we had grown our coverage to 60 cities in the PRC where we were contracted to manage 436 residential communities and provide consultancy services to 179 residential communities.

In 2010, Fantasia Group began to explore opportunities in the property management business of pure commercial properties, as it believed that the economic growth in the PRC would lead to an increase in demand for commercial buildings and office spaces, which would in turn increase the demand for non-residential property management service. Although Shenzhen Colour Life Property Management had been managing some residential communities with ancillary non-residential area such as commercial and office space and carparks, given the different business models and objectives of non-residential property management as compared to the management of the residential communities (for further details please refer to the paragraph entitled "Business Delineation" in this section), and because Shenzhen Colour Life Property Management had determined to focus on the residential communities given its reputation in the residential property management market as well as its competitive strengths in providing property management community leasing, sales and other services to residents residing at and property owners of the residential communities, Fantasia Holdings established a separate commercial property management team focused on the management of pure commercial properties in late 2010 (the "**Relevant Time**"). Since then, Fantasia Holdings managed its property management business through separate and distinct property management brand names with Shenzhen Colour Life Property Management focusing on residential communities; and other property management teams focusing on the management of pure commercial properties.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

RELATIONSHIP AND STRATEGY

Relationship

Upon completion of the Global Offering, Fantasia Holdings will be interested in approximately 50.4% of our issued share capital. Accordingly, Fantasia Group will consolidate the financial results of our Group. While the interests of Fantasia Group may be different from our Shareholders (for further details, please see the section entitled “Risk Factors — Risks relating to the Global Offering — Our Controlling Shareholder has substantial control over the Company and its interests may not be aligned with the interests of the other Shareholders”), our Directors believe that the economic alignment in interests between the Retained Group and our Group that will result from Fantasia Holdings being the single largest shareholder of us following the completion of the Global Offering will mitigate the risk of the Retained Group acting in a way that may prejudice our Group and accordingly, the interests of our Shareholders.

Strategy

Following the Global Offering, the Retained Group will focus on operating property development business, property investment business, hotel management business as well as property management business targeting pure commercial properties. While both the Retained Group and our Group will engage in property management businesses, our Group will be restricted from providing property management services to pure commercial properties and will focus on the property management of residential communities which consist of ancillary non-residential area such as commercial and office space and carparks, whereas the Retained Group will focus on the property management of pure commercial properties such as office buildings, retail complexes, hotels and serviced apartments (the “**Retained Business**”). The Retained Business encompasses the provision of property management services to corporate enterprises and in particular small and medium enterprises (“**SMEs**”), retail property management services to owners or lessees of retail complexes and the management of hotels and serviced apartments.

15 pure commercial properties managed (or provided consultancy services to) by our Group

The table below sets forth the 15 pure commercial properties managed by our Group as of the Latest Practicable Date. Save for Fantasia Peanut Mall (花樣年•花生唐) which was developed by the Retained Group, the other seven pure commercial properties with the term of property management contracts started after the Relevant Time were managed by (or provided consultancy services to) the property management companies acquired by our Group after the Relevant Time. The property management companies were acquired by our Group because the majority of the property management portfolios of such property management companies consisted of residential communities and the pure commercial properties only represented a minority of their portfolios.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

a. *Property management contract^(Note 1) with a term commenced before the Relevant Time*

| No. | Project name | Location | Date of property management contract ^(Note 1) | Expiry date of the property management contract ^(Note 1) | Percentage of GFA of the project which is non-residential in nature |
|-----|---|----------|--|---|---|
| 1. | Seven Star Commercial Plaza (七星商業廣場) | Shenzhen | July 8, 2010 | See note (2) | 100.0% |
| 2. | International Cultural Building (國際文化大廈) | Shenzhen | September 30, 2007 | The earlier of the term set out in note (2) or September 30, 2017 | 100.0% |
| 3. | Xiangnian Plaza (香年廣場) ^(Note 3) | Shenzhen | October 10, 2007 | October 9, 2017 | 100.0% |
| 4. | Xinian Plaza (喜年中心) ^(Note 3) | Shenzhen | January 1, 2003 | January 1, 2018 | 100.0% |
| 5. | Caike Building (彩科大廈) | Shenzhen | January 1, 2008 | December 31, 2017 | 100.0% |
| 6. | Chuangjian Building (創建大廈) ^(Note 1) | Shenzhen | November 17, 2008 | March 1, 2015 | 100.0% |
| 7. | Eastern Sea Marriot Plaza (東海萬豪廣場) | Shenzhen | February 28, 2006 | The earlier of the term set out in note (2) or February 27, 2008. ^(Note 5) | 100.0% |

b. *Property management contract with a term commenced after the Relevant Time*

| No. | Project name | Location | Date of property management contract | Expiry date of the property management contract | Percentage of GFA of the project which is non-residential in nature |
|-----|---|----------|--------------------------------------|---|---|
| 1. | Zhongding Building (眾鼎大廈) | Guilin | November 1, 2010 | October 31, 2014 | 100.0% |
| 2. | Nanjing Customs Bureau (南京海關緝私局) | Nanjing | January 1, 2013 | December 31, 2013 ^(Note 5) | 100.0% |
| 3. | Software Development Building (軟件研發大樓) | Nanjing | December 1, 2012 | November 30, 2013 ^(Note 5) | 100.0% |
| 4. | Silicon Valley International (矽谷國際) | Huai'an | January 1, 2013 | See note (2) | 100.0% |
| 5. | Caizhi Plaza (財智廣場) | Ganzhou | April 11, 2012 | April 10, 2015 | 100.0% |
| 6. | World Sunshine Plaza (天地陽光廣場) | Xiamen | July 11, 2012 | See note (2) | 100.0% |
| 7. | Fantasia Peanut Mall (花樣年•花生唐) ^(Notes 3 and 4) | Nanjing | April 13, 2012 | See note (2) | 100.0% |
| 8. | Xi'an Outsourcing Building (西安外包大廈) and Huatian Communications Buildings (華天通信) | Xi'an | June 1, 2011 | May 31, 2014 ^(Note 5) | 100.0% |

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Notes:

- (1) The services provided to Chuangjian Building (創建大廈) is also under a consultancy service contract.
- (2) The property management contract will expire upon a new property management contract being entered by the owners' association.
- (3) The property being managed under the property management contract was developed by the Retained Group.
- (4) Fantasia Peanut Mall (花樣年•花生唐) was managed by our Group instead of the Retained Group because at the time when property management service was provided to this property, the Retained Group's property management business has not extended to Nanjing whilst our Group already had an established team in the area.
- (5) Although the term of the relevant property management contract has expired, our Group has continued to provide property management services to the relevant property because a new property management company has yet been appointed by the relevant owners' association or the owners.

Rationale for managing the pure commercial properties during the Track Record Period

As of the Latest Practicable Date, 15 pure commercial properties were being managed (or provided consultancy services to) by our Group instead of the Retained Group. The Retained Group commenced its commercial property management business in late 2010 and has only managed the properties developed by it since the Relevant Time. Among the 15 pure commercial properties, some of them were managed by our Group as the management contracts of these properties were entered into with us prior to the Relevant Time. The remaining properties were managed by our Group as the management of these properties were initiated by property management companies acquired by, and subsequently became, members of our Group. To eliminate the potential competition between our property management business and the Retained Business, our Group will transfer the management contracts (and the consultancy service contract in relation to Chuangjian Building) of the 15 pure commercial properties to the Retained Group prior to Listing.

Eight pure commercial properties managed by the Retained Group

Set out below are details of the eight pure commercial properties developed and managed by the Retained Group:

| No. | Project name | Location | Nature |
|-----|--|----------|---|
| 1. | Shenzhen Meinian Plaza (深圳美年廣場) | Shenzhen | Office, retail and hotel |
| 2. | Shenzhen Funian Plaza (深圳福年廣場) | Shenzhen | Office and serviced apartments |
| 3. | Chengdu Funian Plaza (成都福年廣場) | Chengdu | Retail and office |
| 4. | Tianjin Xiangnian Plaza (天津香年廣場) | Tianjin | Office |
| 5. | Chengdu Xinian Plaza (成都喜年廣場) | Chengdu | Office, serviced apartments, retail and hotel |
| 6. | Chengdu Meinian Plaza (成都美年廣場) | Chengdu | Office and retail |
| 7. | Chengdu Xiang Plaza (成都香年廣場) | Chengdu | Office, serviced apartments and retail |
| 8. | Chengdu Longnian International Centre (成都龍年國際中心) | Chengdu | Retail and office |

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

The following table sets forth key financials of the Retained Business during the Track Record Period:

| | Year ended December 31, | | |
|---------------------|-------------------------|---------|---------|
| | 2011 | 2012 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 47,192 | 63,768 | 83,482 |
| Net profit | 2,434 | 6,660 | 10,008 |
| Profit margin | 5.2% | 10.4% | 12.0% |

Rationale for non-inclusion of the eight pure commercial properties into our Group

Our property management business and the Retained Business are driven by different business models, strategies and objectives. Therefore, our Directors believe that it is not appropriate to include the Retained Business to our Group and the Retained Group currently has no intention to inject the Retained Business into our Group after the Global Offering. For further details, please refer to the paragraph entitled “— Business Delineation” in this section.

Further, injecting the Retained Business into our Group requires the consensus of our key management team who are also our Shareholders (the “**Management Shareholders**”) who beneficially owned approximately 28.8% of our Shares immediately prior to the Global Offering, and who had determined to principally focus on the provision of property management services to residential communities, given our reputation in the residential property management market as well as competitive strengths in providing property management and community leasing, sales and other services to residents residing at and property owners of the residential communities.

Two distinct business platforms

Our Directors believe that the Retained Group and our Group will form two distinct platforms with a distinct business focus that can fully leverage on each other on a complementary basis to optimize growth for the mutual benefits of both groups. For example, pursuant to the right of first refusal undertakings under the Deed of Non-Competition, Fantasia Holdings undertakes that if the Retained Group intends to dispose of any part or all of the Retained Business, or any interest in the Retained Business to any third party, it shall first offer to us the right to acquire such business or interest. For further details, please refer to paragraph entitled “— Deed of Non-Competition — Right of First Refusal Undertakings” in this section.

Our Group has also established corporate governance measures to manage potential conflicts of interest. For further details, please refer to paragraph entitled “— Corporate Governance Measures” in this section.

BUSINESS DELINEATION

As of the Latest Practicable Date, the Retained Group managed eight pure commercial properties in the PRC developed by the Retained Group and our Group managed (or provided consultancy services to) 15 pure commercial properties in the PRC. Following the Global Offering, while both the Retained Group and our Group will engage in property management businesses, our Group will continue to focus on the property management of residential communities and currently has no intention to engage in the property management of pure commercial properties, whereas the Retained Group will continue to focus on the property management of pure commercial properties.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Our Directors are of the view that (i) the Retained Business and our property management business have different business models and objectives which require different management expertise, skills and resources; (ii) the Retained Business, which involves non-residential property management, is separate and distinct from our core business which includes residential property management services focusing on residential communities, engineering service and community leasing, sales and other services; and (iii) our residential property management business will not be in extreme competition with the Retained Business due to the difference in target clientele. As such, our Directors are of the view that it is in the best interests of our Company to concentrate our resources on the development and growth of our core business.

Set out below are details of the key differences between our property management business and the Retained Business:

| | <u>Our property management business</u> | <u>The Retained Business</u> |
|------------------------------|--|---|
| Business model | Our property management business focuses on residential communities which consist of ancillary non-residential area such as commercial and office space and carparks. | The Retained Business focuses on pure commercial properties such as office buildings, retail complexes, hotels and serviced apartments. |
| Property managed. | According to the “Planning and Construction of Urban Land Classification and Land Use Standards” (《城市用地分類與規劃建設用地標準》), “residential properties” primarily consist of residential properties that include ancillary non-residential area such as commercial and office space and carparks. | According to the “Planning and Construction of Urban Land Classification and Land Use Standards” (《城市用地分類與規劃建設用地標準》), “commercial properties” primarily consist of all types of commercial, business, entertainment and sports facilities but does not include ancillary facilities in residential communities. |
| Business objective | Provide a better and more convenient living environment to residents residing at and property owners of the residential communities. | Provide support to SMEs and lessees with comprehensive facilities to develop their businesses in a convenient commercial environment. |
| Target customers | Property owners’ associations, tenants and owners of the residential communities, and the majority of them are individuals and families in the capacity of residents residing at and property owners of the residential communities. | SMEs, property owners and lessees of pure commercial properties. |

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

| | Our property management business | The Retained Business |
|--|---|---|
| Services rendered and skillset | <p>We focus on providing residential property management services which consist of: (i) property management services such as security, cleaning, gardening, repair and maintenance provided to residential communities, which primarily consist of residential area with ancillary office space and car parks, and (ii) pre-sale services provided to property developers such as the maintenance of the pre-sale display units. In general, the skillset required for the property management of residential communities is more basic than those required for pure commercial properties.</p> | <p>The Retained Business focuses on providing property management services for pure commercial properties such as office buildings, retail complexes, hotels and serviced apartments.</p> <p>The Retained Business primarily consists of: (i) lease management for the pure commercial properties; (ii) optimizing the mix of different retail tenants in the non-residential property; (iii) provision of peripheral services to assist the customer's business development (such as arranging promotional events at the premises, providing administrative support and office supplies to office tenants); and (iv) arrange bookings for hotels and serviced apartments. All cleaning and maintenance work are outsourced to sub-contractors.</p> |
| Key business partners | <p>Our major business partners are local vendors for the provision of goods and services in connection with our property management services with an aim to improve the residents' living quality.</p> | <p>The major business partners are office supplies providers, event organizers and sub-contractors that provide cleaning and maintenance services.</p> |

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

In addition to the above, there are differences in the residential and pure commercial properties markets and the management of such properties such as legal and regulatory differences in the PRC. Details are set out below:

| Requirements | Residential properties | Pure commercial properties |
|-------------------------------------|--|--|
| Layout, design and facilities | The layout, building design and facilities required under the PRC laws for residential communities and pure commercial properties are different. Property management of residential communities target to serve the needs of an integrated community with low turnover rate of tenants and visitor flow. | Property management for commercial properties purports to provide a convenient and comfortable environment with a focus to cater large visitor flow. The requirements for the design and facilities aim to provide business efficacy for commercial users. In particular, fire safety management and facilities for residential and commercial properties have their own specific requirements under PRC laws. |
| Property usage | The services rendered mainly focus on improving the living environment of the residents, and such services aim to satisfy the basic needs of the residents. | The property management services to be provided to them will often be driven by the needs of the tenants for the purpose of furthering the business opportunities and/or the value of the commercial activity undertaken by the tenants. |
| Property management fee | According to the “Measures on the Charges of Property Management Enterprise”《物業服務收費管理辦法》, the fees charged by property management services shall be based on both the guidance prices of the PRC government and market-regulated prices with reference to the nature and features of properties of various kinds. The specific pricing principles shall be determined by the competent price administration departments and property administration departments of the relevant PRC government authorities in each province, autonomous region and municipality directly under the central government. | Property management fees charged are also regulated by the “Measures on the Charges of Property Management Enterprise”《物業服務收費管理辦法》. However, the property management fee charged for commercial properties are usually higher. |

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

In light of the above differences, property management services is tailored and customized to accommodate the differences in the property involved and thus the property management of residential communities and pure commercial properties requires different expertise and resources (such as sub-contractors including their skillset). During the Track Record Period and up to the Latest Practicable Date, there was no overlap of sub-contractors between our Group and the Retained Group. Given that our business in residential property management is entirely different from the Retained Business and the expertise required in the two businesses are different, the skillset in managing commercial properties may not be easily transferable to residential property management companies and vice versa.

INDEPENDENCE OF OUR GROUP FROM THE RETAINED GROUP

Overlapping Business

(A) *Eight pure commercial properties managed by the Retained Group*

As of the Latest Practicable Date, the Retained Business consisted of the management of eight pure commercial properties in the PRC developed by the Retained Group with a total GFA of 1,353,722 sq.m. In 2011, 2012 and 2013, the revenue attributable to the Retained Business represented approximately 0.9%, 1.1% and 1.2% of the Retained Group's total revenue, respectively. In 2011, 2012 and 2013, profit attributable to the Retained Business represented approximately 0.2%, 0.8% and 0.9% of the Retained Group's total profit, respectively. In light of the above, our Directors are of the view that the revenue and profit contributed by the Retained Business to the Retained Group is not substantial.

(B) *15 pure commercial properties managed (or provided consultancy services to) by our Group*

As of the Latest Practicable Date, our Group managed (or provided consultancy services to) 15 pure commercial properties in the PRC with a total GFA of 739,101 sq.m. In 2011, 2012 and 2013, the revenue attributable to the 15 pure commercial properties represented approximately 18.6%, 16.9% and 11.3% of our Group's total revenue, respectively. In 2011, 2012 and 2013, profit attributable to the 15 pure commercial properties represented approximately 0.5%, 0.5% and 1.2% of our Group's total net profit from continuing operations, respectively. In light of the above, our Directors are of the view that the total net profit from continuing operations contributed by the 15 pure commercial properties to our Group is not substantial.

To eliminate the potential competition between our property management business and the Retained Business, we have reached agreements with all relevant parties to transfer all our rights, obligations and related responsibilities under the management contracts (and the consultancy service contract in relation to Chuangjian Building) of the 15 pure commercial properties to the Retained Group prior to Listing by entering into tripartite transfer agreements. Such tripartite transfer agreements have the effect of superseding the previous property management agreements thereby limiting the liabilities of our Group under the previous agreements after the date as agreed by the relevant parties. Given the tripartite transfer agreements will be entered into for transferring all the rights and obligations and the related responsibilities under the management contracts of the 15 pure commercial properties to the Retained Group in accordance with the relevant laws and regulations prior to Listing, our PRC legal advisor is of the view that the possibility of us incurring any compensation or penalty is remote.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

(C) Commercial and retail properties within the residential communities managed by us

We manage certain commercial and retail properties located within the residential communities. For example, premises situated on the first and/or the second floor of a residential building designated as retail shops are managed by us. These commercial and retail properties form an integral part of the residential communities and it is not feasible for us to transfer the management of such commercial and retail properties within the residential communities to the Retained Group or other third parties given the restriction under the relevant PRC laws and regulations. In light of the above, our Directors are of the view that the management of such commercial and retail properties within the residential communities by us is consistent with our Group's business focus.

In 2011, 2012 and 2013, the revenue attributable to such portions of the properties represented 0.6%, 0.6% and 1.9% of our Group's total revenue, respectively. In 2011, 2012 and 2013, profit attributable to such portions of properties represented approximately 1.1%, 0.8% and 2.1% of our Group's total net profit from continuing operations, respectively.

Taking into account the above considerations, our Directors believe that the overlapping business will not result in material adverse impact to our Group's operations or financial results.

According to paragraph 3.3.2 of the Code for Classification of Urban Land Use and Planning Standards of Development Land, residential properties include both the residential properties and the ancillary facilities within that specific property, such as retail and office buildings. In addition, according to paragraph 6.0.2 of the Code of Urban Residential Areas Planning and Design, residential areas shall include ancillary facilities which shall be planned, constructed and commenced into operation simultaneously with the residential properties within such areas. According to paragraph 3.0.2.2 of Code of Urban Residential Areas Planning and Design, based on different sizes of population in the residential areas, residential areas shall consist of 50% to 80% of its total site areas being used for residential purposes, and the specific percentage of the areas for each community shall be approved by the competent local planning authorities. Given the above, it is evident that the PRC government recognizes the need of having ancillary facilities in residential properties.

To the best of our Directors' knowledge and in compliance with the above PRC standards, majority of the residential properties in the PRC have ancillary non-residential facilities within the communities.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Below is a table showing our Group's portfolio on properties managed in terms of the percentage GFA of the residential and non-residential in nature as of December 31, 2013:

| Percentage of GFA which is for residential use | No. of properties under management or consultancy service arrangements | % of the total number of properties under management or consultancy service arrangements | Cumulative % of the total number of properties under management or consultancy service arrangements | Remarks |
|--|--|--|---|-------------------------------|
| 90% or above | 485 | 77.0% | 77.0% | residential communities |
| 80% to less than 90% | 74 | 11.7% | 88.7% | residential communities |
| 75% to less than 80% | 20 | 3.2% | 91.9% | residential communities |
| 70% to less than 75% | 15 | 2.4% | 94.3% | residential communities |
| 65% to less than 70% | 7 | 1.1% | 95.4% | residential communities |
| 20% to less than 65% | 14 | 2.2% | 97.6% | residential communities |
| 0% | 15 | 2.4% | 100.0% | 15 pure commercial properties |
| Total:..... | 630 | | | |

Business delineation scheme post completion of Global Offering and potential competition

Consistent with our Group's past business strategy, our Group will continue to focus on acquiring property management companies or bidding for property management contracts where majority of the portfolio consists of residential communities. As a corporate governance measure, we will establish a management team to be headed by Mr. Zhou Qinwei, our Executive Director and chief financial officer, to oversee our future acquisitions and to ensure that our future acquisitions will be conducted in compliance with the the following manner. To the extent such acquisition targets also manage pure commercial properties, we will perform due diligence to evaluate the feasibility and practicality of the disposal of the management contracts for such pure commercial properties from a commercial and regulatory perspective and if the disposal is determined to be technically difficult or unlikely feasible, we will not proceed with such acquisition. Where the disposal is determined to be feasible, our Group will ensure that a condition precedent of the acquisition will be in place such that the management contracts of the pure commercial properties will be disposed prior to the completion of such acquisition. In the event that we are required to pay a deposit to the buyer before completion after negotiation with the relevant seller, our Group will also ensure to include a clause in the sale and purchase

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

agreement that the seller must return the deposit to us if the condition precedent is not satisfied. The escrow arrangement is expected to be set out in the sale and purchase agreement in order to ensure the certainty for us to get back the deposit in case the conditions precedent cannot be fulfilled by the relevant seller. Additionally, in order to facilitate the sale and purchase agreement can be completed within a reasonable timeframe, we intend to set out the long-stop date for satisfying the conditions precedent to be within six months from the date of the sale and purchase agreement. However, the determination of the long-stop date is subject to various factors including but not limited to the complication of the transaction and the number of pure commercial properties required to be disposed, thus the long-stop date is determined on a case-by-case basis. We believe there are ample acquisition opportunities in the market, and therefore our ability to continue to expand our property management portfolio will not be materially adversely affected.

As for the Retained Group, it will only acquire property management companies or bid for property management contracts where the business portfolios are purely commercial in nature, which includes serviced apartments, office buildings, and retail properties such as retail complexes. To the extent such acquisition targets also manage residential communities, the Retained Group will perform due diligence to evaluate the feasibility and practicality of the disposal of the management contracts for such residential communities from a commercial and regulatory perspective and if the disposal is determined to be technically difficult or unlikely feasible, the Retained Group will not proceed with such acquisition. Where the disposal is determined to be feasible, the Retained Group will ensure that a condition precedent of the acquisition will be in place such that the management contracts of the residential communities will be disposed prior to the completion of such acquisition. In the event that the Retained Group is required to pay a deposit to the buyer before completion after negotiation with the relevant seller, the Retained Group will also ensure to include a clause in the sale and purchase agreement that the seller must return the deposit to them if the condition precedent is not satisfied. The escrow arrangement is expected to be set out in the sale and purchase agreement in order to ensure the certainty for the Retained Group to get back the deposit in case the conditions precedent cannot be fulfilled by the relevant seller. Additionally, in order to facilitate the sale and purchase agreement can be completed within a reasonable timeframe, the Retained Group intends to set out the long-stop date for satisfying the conditions precedent to be within six months from the date of the sale and purchase agreement. However, the determination of the long-stop date is subject to various factors including but not limited to the complication of the transaction and the number of residential communities required to be disposed, thus the long-stop date is determined on a case-by-case basis. The Retained Group's investment management department will oversee its future acquisitions and to ensure that its future acquisitions will be conducted in compliance with the above.

In disposing the management contracts, the Retained Group and us must comply with the PRC Contract Law (《中華人民共和國合同法》) and the explanations of the PRC Contract Law. The PRC Contract Law and the explanations of the PRC Contract Law provide that contracts may be terminated by mutual agreement or in accordance with the terms in the relevant contracts.

The above business delineation scheme was adopted with a view to: (i) solidify our Group's positioning as a residential property management company; and (ii) provide a clear delineation of business and minimize potential competition between the Retained Group and our Group. The classification of the properties will be made based on the designated usage prescribed by the completion general layout plan (竣工總平面圖), a document approved by the relevant PRC government authority which cannot be amended arbitrarily by any third party without obtaining the prior approval of the relevant PRC government authority.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Based on the size of each of the residential property market and commercial property market, our Directors are of the view that each market can accommodate different types of property management business and minimize the potential competition.

According to National Bureau of Statistics of China, there were 4,863.5 million sq.m. and 787.4 million sq.m. of residential properties in terms of GFA under construction and completed annually in the PRC, respectively, in 2013, representing a CAGR of 16.9% and 7.7%, respectively, from 2008. As of December 31, 2013, the residential communities our Group managed and provided consultancy services to occupied an aggregate contracted GFA of approximately 63.3 million sq.m. and 28.2 million sq.m., respectively.

Separately, according to National Bureau of Statistics of China, there were 806.3 million sq.m. and 108.5 million sq.m. of commercial properties in terms of GFA under construction and completed annually in the PRC, respectively, in 2013, representing a CAGR of 21.5% and 11.1%, respectively, from 2008. As of the Latest Practicable Date, the eight pure commercial properties managed by the Retained Group occupied an aggregate contracted GFA of approximately 1.4 million sq.m. Taking into account the relative size of the residential communities managed by our Group, by comparing to the overall market, and by comparing the relative size of the pure commercial properties managed by the Retained Group to the overall market, each of the markets is relatively large and can accommodate the two different types of property management business pursued by our Group and the Retained Group. Therefore, our Directors are of the view that there is minimal potential competition (if any) between our Group's residential property management business and the Retained Business.

In addition, as mentioned above, both the residential and commercial property markets in the PRC have demonstrated growth in the past few years supporting the growth of the residential and commercial property management industry. Also, as demonstrated by our Group's past external acquisitions, our Group has started to place increased emphasis on selectively pursuing acquisition opportunities for regional property management companies which focus on management of residential communities. Our Directors are of the view that substantial amount of resources and management focus are required to develop the expertise in order to capture business opportunities in each of the residential and commercial property management businesses in the PRC. As such, our Group will continue to focus on the residential property management market in order to maximize the ability to capture the potential opportunities for our Group. Our Directors believe this is in the best interests of our Group's current and future shareholders.

Given the above, our Directors are of the view that there is minimal potential competition between our residential property management business and the Retained Business.

Independent Business Operations

The business operations of our Group are carried out separately from the business operation of the Retained Group. Our Group also has its own teams of sub-contractors and suppliers, which are independent from those of the Retained Group. In addition, the technical, finance, information technology and human resources departments and other administrative support of our Group are separate and delineated from those of the Retained Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

The Retained Group has adopted a tendering process in selecting service providers for the pre-delivery property management services including (i) the provision of on-site security, cleaning and other related services as well as customer services to be provided to the property sales centre of the Retained Group, such as concierge services, customer car parking guidance at the pre-sale stage; and (ii) the provision of operations and management services at the pre-delivery stage for the unsold portion of the property developments (the “**Pre-delivery Property Management Services**”) and the engineering services including but not limited to installation and fitting of power systems, energy-saving lights and other related services (the “**Engineering Services**,” together with the Pre-delivery Property Management Services, the “**Continuing Connected Transactions**”) according to its own internal control guidelines.

Under the Temporary Measures on the Tendering and Bidding for Initial Property Management Services (《前期物業管理招標投標管理暫行辦法》) (Jian Zhu Fang 2003 No. 130), property developers in the PRC are required to conduct the tendering and bidding process for the selection of service providers for the provision of initial property management services (such as security, cleaning, repair and maintenance) prior to the engagement of a property management company by the property owners or the owners’ association in relation to a property development that consists of solely residential properties or both residential properties and pure commercial properties located in the same property management areas (the “**Initial Property Management Services**”). The relevant PRC laws and regulations require property developers to establish a bid evaluation committee in selecting a property management company for Initial Property Management Services in the tendering process. The bid evaluation committee shall consist of an odd number of five or more members with both representatives from the property developer issuing the tender and property management experts. At least two thirds of the members of the bid evaluation committee shall be property management experts who are not representatives of the property developer issuing the tender. The property management experts shall be selected on a random basis from a list of experts compiled by the local real estate administrative department. In cases where there are less than three bidders or the property development is of minor scale, upon the approval of the competent real estate administration department of PRC government of the district and county in the locality of the property development, the property developer may engage a property management company directly through a contract. As confirmed by the Retained Group, the tendering and bidding process adopted by the Retained Group in relation to the selection of service providers for Initial Property Management Services is in compliance with the PRC laws and regulations applicable to the Retained Group. For further details, please refer to the section entitled “Laws and Regulations relating to the Industry – Legal Supervision Over the Property Management Sector in the PRC — Appointment of the Property Management Enterprise.” It is not mandatory under the PRC laws for the Retained Group to conduct tendering process for the Engineering Services.

Our Group does not unduly rely on the Retained Group on the following grounds:

- (a) for the post-delivery property management services for properties developed by the Retained Group, the owners’ associations or the owners of such properties are entitled to conduct their own evaluation process and make the decision on selection of the property management service provider. The Retained Group does not have any role in such evaluation and selection process.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

- (b) for the Continuing Connected Transactions, the Retained Group conducts a tendering process for the selection of service providers in accordance with its internal policy and, where applicable, the relevant PRC laws and regulations. It has, in the past, selected and engaged service providers other than our Group based on their terms of service as compared to those offered by our Group. From the Retained Group's perspective, our Group functions as an independent profit centre and does not enjoy any preferential treatment. From our Group's perspective, the Retained Group is one of its potential clients and it has to compete against other service providers. In addition, with the growth of our Group, the contribution to our Group by these services to the Retained Group is expected to decline.

Having considered the above, the Directors are of the view that our Group does not unduly rely on the Retained Group in relation to its operations and we will be able to operate independently from Fantasia Holdings and its associates (other than our Group) upon Listing.

Financial Independence

As of December 31, 2013, our Group had a net balance of RMB29.3 million, which was non-trade in nature, due to various fellow subsidiaries of the Retained Group. Please refer to Note 43(b) to the Accountants' Report as set out in Appendix I to this prospectus for further details. All balances which are non-trade in nature between our Group and our related parties will be settled prior to the Listing. Further, during the Track Record Period, the Retained Group has provided a guarantee to our Group in relation to a bank loan of RMB40 million which was released when the loan was repaid in full on February 28, 2012. Save as aforesaid, our Group does not currently, and is not expected in the future to, rely on Fantasia Holdings for financial support.

Although our Group has entered into the Continuing Connected Transactions with certain members of the Retained Group, which will continue to be in effect after the Listing, the revenue generated from such connected transactions was not substantial as compared with the total revenue of our Group. The revenue generated from the connected transactions as disclosed in the section entitled "Connected Transactions" represented approximately 17.7%, 21.1% and 12.2% of our Group's total revenue in 2011, 2012 and 2013, respectively. The profit generated from such transactions represented approximately 11.6%, 10.7% and 4.3% of the Group's total net profits for continuing operations in 2011, 2012 and 2013, respectively. For further details of the Continuing Connected Transactions between us and the Retained Group, please refer to the section entitled "Connected Transactions."

Based on the foregoing, we believe that our Group will be able to finance its own operations and function independently without reliance on the Retained Group upon the Listing. Furthermore, none of the debts or loans of the Group will be guaranteed by any connected person of the Group upon the Listing.

Management Independence

Our Group will function independently from the Retained Group in terms of its mode of operation and management upon the Listing. Further details regarding the members of the Board and members of the senior management of our Company are listed in the section entitled "Directors, Senior Management and Employees" of this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

The daily operations of our Group are principally managed by our Executive Directors, namely Mr. Tang Xuebin (唐學斌), Mr. Dong Dong (董東) and Mr. Zhou Qinwei (周勤偉), and other members of the senior management of our Group. Mr. Pan Jun (潘軍) and Mr. Lam Kam Tong (林錦堂) as Non-executive Directors will focus on the overall strategic planning of our Company and will not be involved in the day-to-day operations of our Group.

The three Independent Non-executive Directors appointed by our Company are different from the independent non-executive directors of Fantasia Holdings.

At the subsidiary level of our Group, Mr. Pan Jun (潘軍) and Mr. Lam Kam Tong (林錦堂) are also directors of certain of our subsidiaries and their role at our Group is administrative in nature and they do not participate in the day-to-day management of these subsidiaries.

Given that only two out of nine of the Directors are members of the board of directors of Fantasia Holdings, and none of them are involved in the day-to-day management of our Group, and there is no overlap among the other senior management members of our Group and the Retained Group, our Directors are of the view that our Group does not rely on the Fantasia Group in terms of management and the day-to-day operation and hence the management functions of the Group can be conducted independently of the Retained Group. Notwithstanding the above, on issues that involve our Company and Fantasia Holdings where Mr. Pan Jun (潘軍) or Mr. Lam Kam (林錦堂) Tong may have actual or potential conflicts of interests, each of them will refer the matter to the Independent Non-executive Directors and abstain from voting on the relevant Board resolutions in compliance with the Articles of Association.

Accordingly, our Group does not rely on the Retained Group in terms of management. Besides the aforementioned common directorship, the day-to-day operation and management functions of the Group have been independent of the Retained Group since its establishment.

Administrative Independence

All the essential administrative functions of our Group are handled at the head office of our Company with its own team of staff members independent from the Retained Group. Our Company will lease its office premises from an independent third party and the office will be situated at a location different from that of Fantasia Holdings immediately after Listing. All essential administrative functions of our Group have been and will be carried out without the support of the Retained Group.

POTENTIAL CONFLICTS OF INTEREST

The fact that both the Retained Group and our Group will engage in the property management business might give rise to potential conflicts of interest between the Retained Group and our Group. Our Directors believe that the potential conflict of interest arising from the operations of the Retained Group and our Group can be sufficiently reduced by the following mitigating measures:

- (i) Fantasia Holdings has entered into the Deed of Non-Competition in favor of our Company; and
- (ii) the Deed of Non-Competition encompasses a right of first refusal mechanism in favor of our Group.

For further details, please refer to the paragraph entitled “Deed of Non-Competition” in this section.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

DEED OF NON-COMPETITION

Non-Competition Undertakings

In order to eliminate any potential competition with us, Fantasia Holdings, our Controlling Shareholder has undertaken to us in the Deed of Non-Competition that, during the period commencing from the Listing Date and until the earlier of (i) the date on which our Shares cease to be listed on the Stock Exchange; or (ii) the date on which Fantasia Holdings cease to hold, whether directly or indirectly, 30% or more of our Shares (the “**Non-Competition Period**”):

- (i) the Retained Group will not engage in any business involving the following activities:
 - property management focusing on residential communities;
 - engineering services primarily including (i) equipment installation services, (ii) repair and maintenance services and (iii) automation and other equipment upgrade services through our equipment leasing; or
 - community leasing, sales and other services targeting residents residing at and property owners of the residential communities primarily including (i) common area rental assistance, (ii) purchase assistance and (iii) residential and retail units rental and sales assistance.
- (ii) in relation to the residential communities developed by the Retained Group, the Retained Group will not participate in the property management of such properties but will select property management companies through a tendering process in which our Group will be invited to participate; and
- (iii) if the Retained Group has identified or is offered any project or new business opportunities to engage in or acquire a company engaging in property management for residential communities, it shall provide us (subject to such confidentiality requirements as may be applicable) all information and documents possessed by it in respect of such project or new business opportunity in relation to property management of residential communities to enable us to evaluate the merits of the same.

The business opportunity shall be reviewed by our Executive Directors, who shall make their recommendation to our Independent Non-executive Directors, on whether or not to take up the business opportunity in relation to property management of residential communities referred to us under the terms of the Deed of Non-Competition after the Retained Group notifies our Company of such business opportunity in writing. Our Independent Non-executive Directors will be responsible for deciding whether or not to take up a business opportunity referred to us within one month under the terms of the Deed of Non-Competition.

Our Company is of the view that the one-month period for our Independent Non-executive Directors to consider whether our Company shall pursue such business opportunity is reasonable: on one hand, it allows sufficient time for our Executive Directors to make their recommendation to our Independent Non-executive Directors and for our Independent Non-executive Directors to review the information relating to the business opportunity and (where necessary) to employ, at our Company’s cost, an independent financial advisor as they consider necessary to advise our Independent Non-executive Directors on the business opportunity. Such one-month period is the reasonable period which could minimize the time for the Retained Group to offer the business opportunity to any other Independent Third Parties.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Under the above proposed arrangement, our Company's management team will undertake a passive role and the decision as to whether or not our Company will take up the business opportunity rests solely with our Independent Non-executive Directors. We consider that the above implementation plan will ensure a high degree of effectiveness in terms of decision making under the Deed of Non-Competition.

Right of First Refusal Undertakings

Apart from the above non-competition undertakings, Fantasia Holdings has also undertaken to us in the Deed of Non-Competition that, during the Non-Competition Period, if the Retained Group intends to dispose of any part or all the Retained Business, or any interest in the Retained Business to any third party, it shall first offer to us the right to acquire such business or interest and the Retained Group may only proceed with such disposal to any third party, on terms not more favorable than those offered to us, following the rejection of such offer by us (the "**Right of First Refusal**"). In deciding whether to exercise the right, our Directors will consider various factors including the purchase price, the benefits that it will bring to our Group as well as whether we have adequate management and resources to manage and operate the business operations of such business. Our Independent Non-executive Directors shall decide whether or not to exercise the right within one-month after the Retained Group notifies our Company of such business opportunity in writing.

Our Company is of the view that the one-month period for our Independent Non-executive Directors to consider whether our Company shall pursue such business or interest is reasonable. Further, all the interested Directors who are also directors of Fantasia Holdings shall abstain from voting when considering whether to accept or reject such option. If necessary, our Board shall also be entitled to engage separate professional party to provide legal and/or financial advice to it in connection with the exercise of the option.

The grant of the Right of First Refusal by Fantasia Holdings to us pursuant to Deed of Non-Competition would constitute a connected transaction under Rule 14A.68 of the Listing Rules. As only a nominal sum of RMB1 was paid to Fantasia Holdings for such grant, none of the percentage ratios under Chapter 14 of the Listing Rules (where applicable) will have exceeded the de minimis threshold of 0.1%. Accordingly, such grant of the Right of First Refusal is exempt from all reporting, announcement and independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

The exercise of the Right of First Refusal after the Listing would constitute a connected transaction under the Listing Rules. In addition, pursuant to Rule 14A.70(3), the non-exercise of the Right of First Refusal will be treated as if the option was exercised and would constitute a connected transaction. As required by Chapter 14A of the Listing Rules, we will comply with the relevant reporting, announcement and/or independent Shareholders' approval requirements concerning the connected transaction constituted by the exercise of the Right of First Refusal. We will also make an appropriate announcement if a decision not to exercise the Right of First Refusal is made, or if the Right of First Refusal lapses without being exercised, and will comply with other relevant reporting and/or independent shareholders' approval requirements concerning the connected transaction constituted by the non-exercise of the Right of First Refusal.

The Deed of Non-Competition also provides that:

- our Independent Non-executive Directors will review, at least on an annual basis, the compliance with the Deed of Non-Competition by Fantasia Holdings;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

- Fantasia Holdings has undertaken to us that it will, and will procure its subsidiaries to use its best endeavors to provide all information necessary for the annual review by the Independent Non-executive Directors for the enforcement of the Deed of Non-Competition;
- we will disclose the review by the Independent Non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual report; and
- Fantasia Holdings will make an annual declaration in our annual report on the compliance with the Deed of Non-Competition in accordance with the principle of voluntary disclosure in the corporate governance report.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflicts of interests arising from the possible competing business of our Group and the Retained Group and to safeguard the interest of the Shareholders:

- a. our Independent Non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-Competition by Fantasia Holdings;
- b. our Company will disclose decisions on matters reviewed by our Independent Non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition by our Group and the Retained Group in the annual reports of our Company;
- c. our Directors will comply with our Articles of Association which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested;
- d. pursuant to the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules (the “**CG Code**”), our Directors, including the Independent Non-executive Directors, will be entitled to seek independent professional advice from external parties in appropriate circumstances at our Company’s cost;
- e. all connected transactions between our Company and our connected persons will be subject to annual review by our Independent Non-executive Directors as well as the auditors of our Company;
- f. our compliance department will be responsible for ensuring that the existing business portfolios will be consistent with our business scope and we will not acquire property management companies or bid for property management contracts for pure commercial properties;
- g. in respect of the business opportunity referred to us by the Retained Group under the Deed of Non-Competition, our Independent Non-executive Directors will review all information and documents provided by it in respect of the same;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

- h. our Directors will ensure that any material conflict or potential conflict of interests involving Fantasia Holdings will be reported to our Independent Non-executive Directors as soon as practicable when such conflict or potential conflict is discovered and a board meeting will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities;
- i. our Company has appointed a compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to directors' duties and internal control;
- j. in September 2013, we established a compliance department headed by Mr. Zhou Qinwei, our Executive Director, to conduct a review on the effectiveness of such internal control measures on an half-yearly basis to ensure due compliance of the Deed of Non-Competition; and
- k. furthermore, our Company will disclose the basis of any decision made by the Company relating to compliance and enforcement of the Deed of Non-Competition in our annual reports and/or by way of an announcement.

Our Company will comply with the CG Code which sets out principles of good corporate governance in relation to, among others, Directors, the chairman and chief executive officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Company will state in its interim and annual reports whether we have complied with the CG Code, and will provide details of, and reasons for, any deviation from it in the corporate governance report which will be included in our annual report. Our Directors and the Joint Sponsors have reviewed the above corporate governance measures and believe that the above measures will enable our Group to operate independently from the Retained Group and adequately manage any potential competition which may arise between our Group and the Retained Group following the Listing.