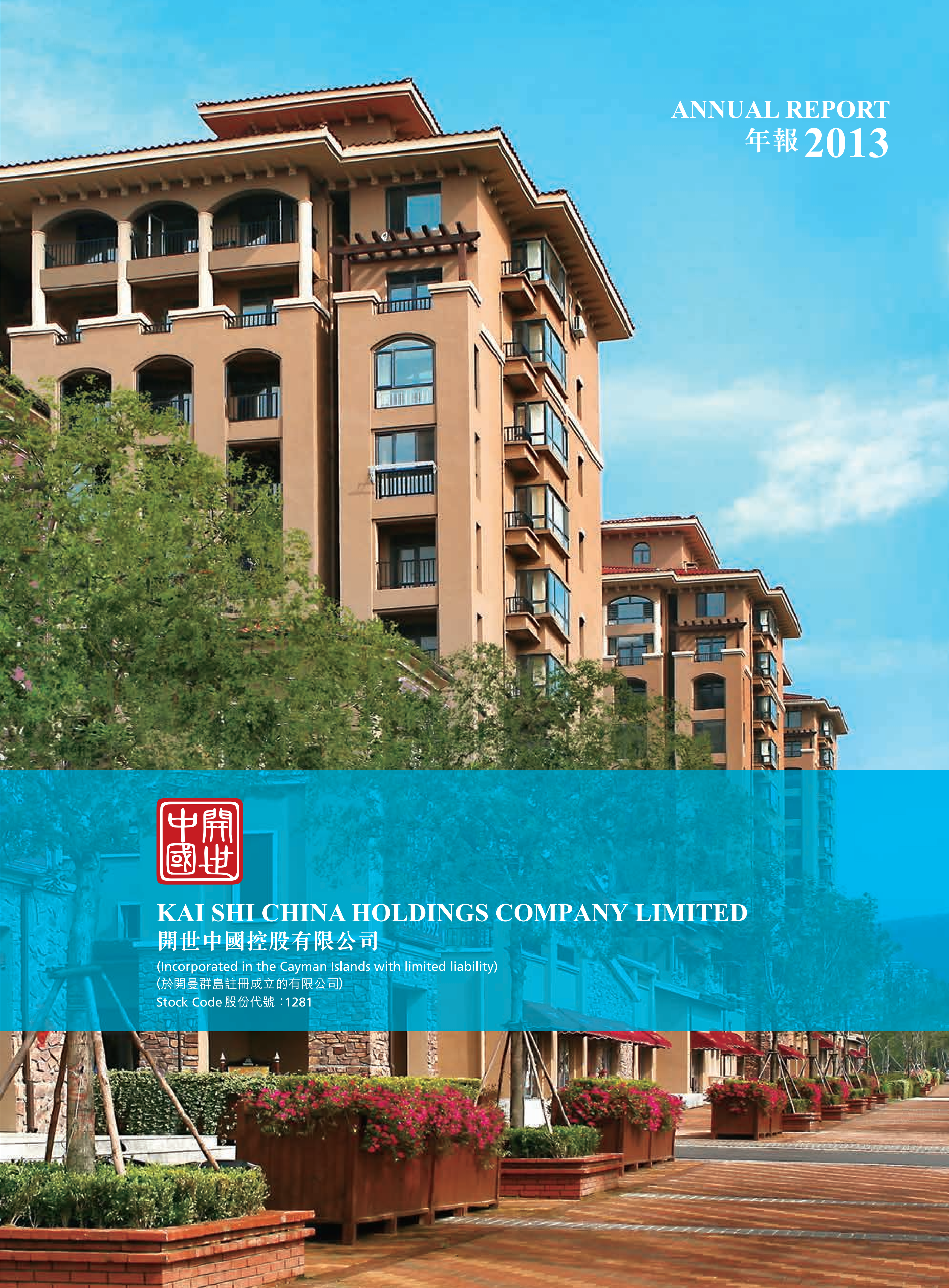


ANNUAL REPORT
年報 2013

KAI SHI CHINA HOLDINGS COMPANY LIMITED
開世中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)
Stock Code 股份代號：1281

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Kai Chenglian
(Chairman and Chief Executive Officer)
Ms. Jiang Shuxia
Mr. Kai Xiaojiang
Ms. Han Liping

Independent Non-executive Directors

Ms. Yang Jing
Mr. Li Fook Wing
Ms. Sun Huijun

AUDIT COMMITTEE

Ms. Sun Huijun *(Chairlady)*
Mr. Li Fook Wing
Ms. Yang Jing

REMUNERATION COMMITTEE

Ms. Yang Jing *(Chairlady)*
Mr. Li Fook Wing
Ms. Jiang Shuxia

NOMINATION COMMITTEE

Mr. Kai Chenglian *(Chairman)*
Ms. Yang Jing
Ms. Sun Huijun

AUTHORISED REPRESENTATIVES

Mr. Kai Chenglian
Ms. Jiang Shuxia

COMPANY SECRETARY

Ms. Mok Ming Wai *(FCIS, FCS)*

LEGAL ADVISORS

As to Hong Kong law:
Loong & Yeung
Suites 2001–2005
20th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC law:
King & Wood PRC Lawyers
28/F, Land Mark
4028 Jintian Road
Futian District
Shenzhen
PRC

AUDITOR

KPMG
Certified Public Accountants
8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

COMPLIANCE ADVISOR

China Investment Securities International Capital Limited
63/F, Bank of China Tower
1 Garden Road
Central
Hong Kong

REGISTERED OFFICE

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

CORPORATE INFORMATION (CONTINUED)

HEADQUARTERS IN THE PRC

No. 191 Changjiang Road
Lvshunkou District
Dalian
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office E, 10th Floor
China Overseas Building
No. 139 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Lvshunkou District Branch)
No. 137 Nine-three Road
Lvshunkou District
Dalian
PRC

China CITIC Bank (Dalian Branch)
No. 29 Renmin Road
Dalian
PRC

COMPANY'S WEBSITE

www.kaishichina.com

STOCK CODE

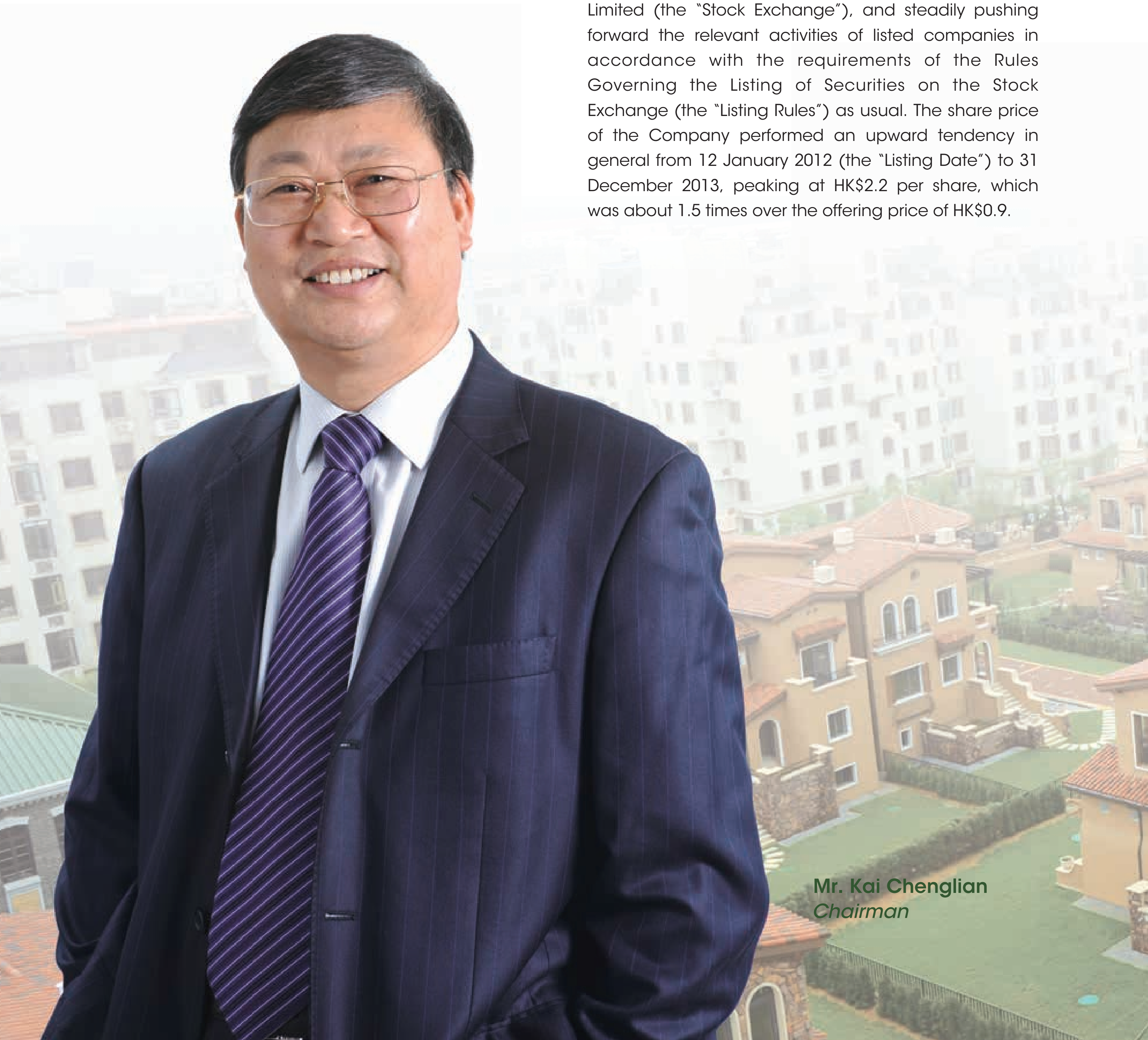
1281 (Main Board of The Stock Exchange of Hong Kong Limited)

CHAIRMAN'S STATEMENT

Dear Shareholders,

I, on behalf of the board (the "Board") of directors (the "Directors") of Kai Shi China Holdings Company Limited ("Kai Shi China" or the "Company"), hereby present the audited annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 (the "Year").

Generally, the Group has been operating well in 2013, the second year since the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and steadily pushing forward the relevant activities of listed companies in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as usual. The share price of the Company performed an upward tendency in general from 12 January 2012 (the "Listing Date") to 31 December 2013, peaking at HK$2.2 per share, which was about 1.5 times over the offering price of HK$0.9.



Mr. Kai Chenglian
Chairman

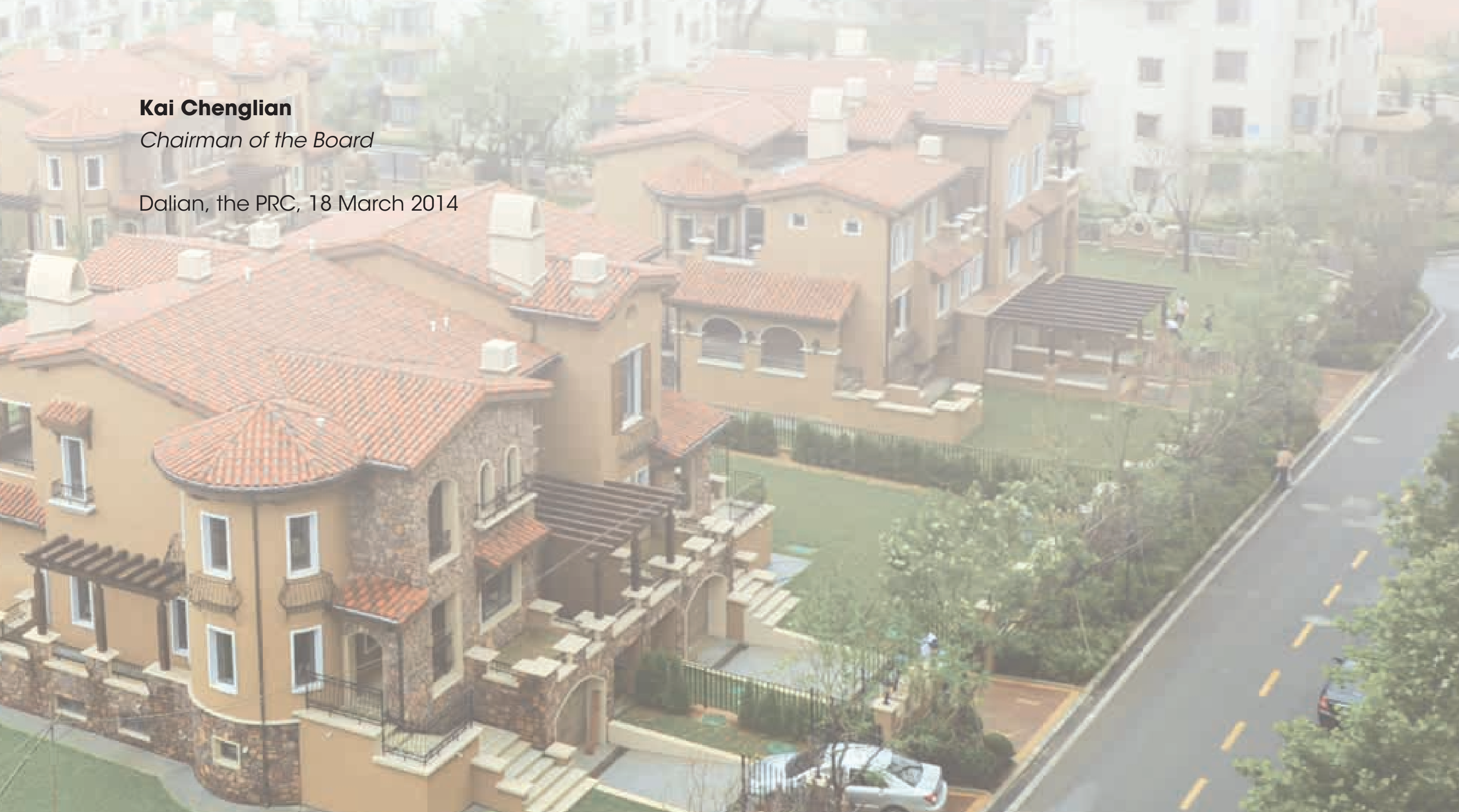
CHAIRMAN'S STATEMENT (CONTINUED)

At the beginning of 2013, with the sales volume and price in the real estate sales market of different cities coming to two extremes, the PRC government implemented different control policies according to different city scales. Firstly, overall control over first-tier cities was tightened; greater control was also exerted over second-tier cities with new measures promulgated during the same period; while only moderate adjustments were made in third or fourth-tier cities when appropriate. After the National People's Congress and Chinese People's Political Consultative Conference (the "Two Meetings"), the new government focuses on the construction of social housing to better the long-term housing system and promotion of anti-corruption. Under such economic environment and policies, the sales of high-end and residential properties experienced a slow growth. Accordingly, the sales of such properties of the Company were affected. In response to this trend, the Group actively adjusted its sales strategies, including the adjustment of product structure and construction of the commercial street, so as to keep up with the construction schedule and get ready for the forthcoming peak season in the real estate industry. Among the completed projects of the Group, more potential customers will be attracted to the Kai Shi Xi Jun project area with comprehensive of ancillary facilities. The brand recognition of the project will also improve gradually and thus foster further sales activities.

In 2014, the macro-economic development of the PRC will adhere to the keynote of steady growth in order to maintain reasonable economic growth while carrying out the full scale in-depth reform and continue to implement a pro-active fiscal policy and prudent monetary policy. The Group is confident towards the prospect of its property development business given the urbanisation approach of the PRC government and the actual estimation of the sustainable growth of the market demand. We will strive to grasp these opportunities to enhance our competitiveness and brand recognition in Dalian Lvshunkou, so as to obtain greater economic and social benefits from the governmental policies of opening up and accelerating the economic development of Dalian Lvshunkou. I, on behalf of the Board, would like to take this opportunity to express my utmost gratitude to all shareholders, customers, investors, business partners and communities for their trust and support, as well as board members, management and employees for their commitment and dedication, thanks to whom, our businesses manage to maintain steady growth. I believe that with your consistent support, the Group will be able to further expand our business in Dalian Lvshunkou and other areas in the PRC, creating more wealth and value for its shareholders and customers.

Kai Chenglian
Chairman of the Board

Dalian, the PRC, 18 March 2014



REPORT OF DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the Year.

USE OF PROCEEDS FROM IPO

Trading of shares in the Company on the Main Board of the Stock Exchange commenced on 12 January 2012 and the Group raised net proceeds of approximately RMB81.0 million from the initial public offering. Up to and including 31 December 2013, the Group had applied approximately RMB8.0 million of the proceeds for general corporate and working capital purposes, approximately RMB8.0 million of the proceeds for the development of Kai Shi Xi Jun and approximately RMB19.2 million as pre-payment for acquisition of land in Beihaijiedao, which is in line with the intended use of the proceeds as disclosed in the prospectus of the Company dated 30 December 2011 (the "Prospectus"). The Group had also applied approximately RMB16.5 million for acquisition of land in Airport Economic Zone in Tianjin and the existing plant erected thereon, which is in line with the change in use of IPO proceeds as disclosed in the announcement of the Company dated 25 April 2013.

The details of use of proceeds from IPO as at 31 December 2013 were as follows:

Purpose disclosed in the Prospectus *(Note 1)* **and subsequent changes**	**Amount allocated as provided in the Prospectus** *(Note 1)* **and subsequent re-allocation** *(Note 2)* **RMB'000 (approximately)**	**Amount utilised up to 31 December 2013 RMB'000 (approximately)**
Acquisition of land in Beihaijiedao and Airport Economic Zone and the existing plant erected thereon *(Note 2)*	64,800 (equivalent to 80% of The net proceeds) *(Note 2)*	35,700 *(Note 2)*
Development of Kai Shi Xi Jun	8,100 (equivalent to 10% of The net proceeds)	8,000
General working capital	8,100 (equivalent to 10% of The net proceeds)	8,000

Notes:

(1) The detailed proposed application of the net proceeds of the share offer was set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated on 30 December 2011 (the "Prospectus").

REPORT OF DIRECTORS (CONTINUED)

(2) *As mentioned in Prospectus, 80% of the net proceeds from the share offer was earmarked for the acquisition of land in Beihaijiedao that is near to Kai Shi Xi Jun for the future development of real estate residential project and as the headquarters of the Group. It was expected that 40% of the total estimated net proceeds will be used by the first quarter of 2012 and the remaining 40% will be used by July 2012. Due to the uncertainty of the PRC government's policies regarding the property market and there is no concrete timetable for the land bid, auction and listing from the relevant government authority of Dalian Lvshunkou, the Directors made certain adjustments for the use of the IPO Proceeds and reallocated approximately 26% of the acquisition proceeds (the "Acquisition Proceeds") from the acquisition of land in Beihaijiedao to acquire an identified land situate at Industrial lot 04-23-2 in Airport Economic Zone and the existing plant erected thereon by Tianjin Lion Window & Door Co., Ltd. (the "Lion Tianjin"), a wholly-owned subsidiary of the Company as its production plant for processing and producing windows and doors. The remaining balance of the Acquisition Proceeds will continue to be placed into a bank savings account of the Group pending the identifying of a suitable piece of land in the vicinity of Kai Shi Xi Jun. For details, please see the announcement of the Company dated 25 April 2013.*

Subsequent to the above announcement, Lion Tianjin acquired a piece of land with a site area of 21,810 square meters ("sq.m.") and plant with a total gross floor area (the "GFA") of 3,703.70 sq.m., upon the payment of the entire consideration of approximately RMB16.5 million at the end of June 2013, the land and the plant had been delivered to Lion Tianjin and then its preparatory work for operation had been conducted gradually.

As to the remaining balance of the Acquisition Proceeds, as at 31 December 2013, an aggregate prepayments of approximately RMB19.2 million was paid to Land Resources Bureau of Dalian Lvshunkou for the land acquisition of two plots of land respectively located in Beihaijiedao with a site area of approximately 27,941 sq.m. and 45,519 sq.m. Such prepayments are refundable if the Group did not purchase such plots of land during final tender, auction and listing procedure.

CHANGE OF COMPLIANCE ADVISER

The Company and China Merchants Securities (HK) Co., Limited have mutually agreed to terminate the compliance adviser's agreement dated 11 January 2012 with effect from 1 October 2013 due to cost consideration.

China Investment Securities International Capital Limited has been appointed as the new compliance adviser to the Company as required pursuant to Rule 3A.19 of the Listing Rules.

Details of the change of compliance adviser are set out in the announcement of the Company dated 30 September 2013.

PRINCIPAL ACTIVITIES

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 15 to the audited consolidated financial statements in this annual report.

RESULTS

The results of the Group for the Year are set out in the consolidated statement of profit or loss on page 49 of this annual report.

REPORT OF DIRECTORS (CONTINUED)

AMENDMENT TO THE TERMS OF REFERENCE OF NOMINATION COMMITTEE

The terms of reference of the nomination committee of the Company was amended on 16 August 2013 to include the review of the Company's board diversity policy and the progress on achieving the objectives set for implementing the said policy as one of its duty.

SUBSEQUENT EVENTS

Change of Address of Hong Kong Branch Share Registrar and Transfer Office

The Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, will change its address from 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 13 to the audited consolidated financial statements in this annual report.

INTEREST-BEARING BANK LOANS

Details of interest-bearing bank loans of the Group as at 31 December 2013 are set out in note 24 to the audited consolidated financial statements in this annual report.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and the Prospectus, is set out on page 112 of this annual report. These highlights do not form part of the audited consolidated financial statements in this annual report.

SHARE CAPITAL

Details of the movements in the Company's issued share capital during the Year are set out in note 30 to the audited consolidated financial statements in this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands where the Company was incorporated, which would oblige the Company to offer new Shares on a pro rata basis to existing shareholders.

REPORT OF DIRECTORS (CONTINUED)

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Group during the Year are set out in note 30 to the audited consolidated financial statements and in the consolidated statement of changes in equity respectively in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company had no reserve available for distribution.

CHARITY DONATIONS

The charity donations made by the Group during the Year was nil (2012: nil).

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Group carried out the following continuing connected transactions (other than continuing connected transactions that are exempt under Rule 14A.33 of the Listing Rules) during the Year:

I. Leases

(a) Mudhouse Wine Lease Agreement

Reference is made to the Prospectus in relation to the two lease agreements and the supplemental agreement on 1 December 2009, 1 January 2011 and 28 November 2011 (the "Previous Mudhouse Lease Agreements") entered into between Dalian Kai Shi Property Company Limited (大連市開世地產有限公司) ("Dalian Kai Shi") and Mudhouse Wine (Dalian) Corporation Limited (泥房子酒業(大連)有限公司) ("Mudhouse Wine") of a portion of basement level 2 of Kai Shi Jia Nian Phase I, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC with a GFA of 915 sq.m. (the "Property").

Pursuant to the Previous Mudhouse Lease Agreements, Dalian Kai Shi as lessor, agreed to lease the Property to Mudhouse Wine, as leasee to store wines and other goods for a term of up to 31 December 2013.

On 24 December 2013, Dalian Kai Shi as lessor and Mudhouse Wine as lessee entered into a agreement (the "Mudhouse Lease Agreement") pursuant to which the Group agreed to lease the Property at an annual rental amount of RMB338,000 for Mudhouse Wine to store wines and other goods for a term from 1 January 2014 to 31 December 2016.

REPORT OF DIRECTORS (CONTINUED)

(b) Gangwan Lease Agreement

Reference is made to the Prospectus in relation to the lease agreement and a supplemental agreement (the "Previous Gangwan Property Management Agreements") entered into between Dalian Kai Shi and Tianjin Gangwan Property Management Company Limited (Dalian branch) (天津市港灣物業管理有限公司大連分公司) ("Gangwan Property Management") on 8 April 2011 and 28 November 2011, respectively, both in relation to 961 underground carparking spaces and garages with the GFA of 42,707 sq.m at Kai Shi Jia Nian Phase I, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC (the "Carparking Spaces").

Pursuant to the Previous Gangwan Property Management Agreements, Dalian Kai Shi as lessor, agreed to lease the Carparking Spaces to Gangwan Property Management as leasee to operate, manage and sub-let the Carparking Spaces for a term of up to 31 December 2013.

On 24 December 2013, Dalian Kai Shi as lessor, and Gangwan Property Management as leasee, entered into an agreement (the "Gangwan Lease Agreement"), pursuant to which the Group agreed to lease the Carparking Spaces at an annual rental amount of RMB3,000,000 for Gangwan Property Management to operate, manage and sub-let the Carparking Spaces for a term from 1 January 2014 to 31 December 2014.

(c) Beihai Lease Agreement

On 24 December 2013, Dalian Kai Shi as lessor, entered into a lease agreement with Beihai Sunshine (Dalian) Corporation (北海陽光(大連)有限公司) ("Beihai Sunshine") as tenant, pursuant to which the Group agreed to lease an area with the GFA of 927.5 sq.m. at Level 4 of the composite building of Kai Shi Jia Nian Phase I, Changjiang Road, Lvshunkou District, Dalian City, Liaoning Province, the PRC for a term of three years commencing from 1 January 2014 and ending on 31 December 2016 at a yearly rental of RMB343,200 for Beihai Sunshine to use as office (the "Beihai Lease"). The rental is payable half-yearly and Beihai Sunshine is responsible for the related utility charges. Upon the expiry of the Beihai Lease, Beihai Sunshine will have the option to renew the lease upon the terms and new rental to be agreed between the parties.

(d) Lion Tianjin Lease

On 1 June 2007, Tianjin Lion Window & Door Co., Ltd. (萊恩(天津)門窗有限公司) ("Lion Tianjin") entered into a lease agreement with Tianjin Da Zhong, pursuant to which Lion Tianjin leased from Tianjin Da Zhong the production premises with a total floor area of 5,452.83 sq.m., at no cost ("Lion Tianjin Lease").

Subsequently, Tianjin Da Zhong and Lion Tianjin entered into a lease agreement supplemental to the Lion Tianjin Lease, pursuant to which it was agreed between the parties that commencing from 1 January 2011, Lion Tianjin shall pay yearly rental of RMB720,000, which has been recognised as rental expenses for the year ended 31 December 2011 and for the year ended 31 December 2012 in full. The lease was extended on 1 June 2012 and will expire on 31 May 2015.

The terms of the Lion Tianjin Supplemental Lease are mainly to change the rental from nil consideration to RMB720,000 per annum and that if the production facilities of Lion Tianjin are required to be re-located as a result of, among others, recovery of the land by the People's Liberation Army (Tianjin Office) or the termination of the lease due to, inter alia, the change of land user, Tianjin Da Zhong shall bear all the direct and indirect economic loss suffered by Lion Tianjin.

REPORT OF DIRECTORS (CONTINUED)

II. Beihai Agreements

On 11 December 2012, Dalian Kai Shi Construction and Engineering Co., Ltd (大連市開世建設工程有限公司) ("Kai Shi Construction & Engineering", formerly known as Dalian Kai Shi Earthwork Engineering Co., Ltd (大連市開世土石方工程有限公司)), a subsidiary of the Group, and Beihai Sunshine entered into agreements for eight projects in connection with the provision of the works by Kai Shi Construction & Engineering to Beihai Sunshine with an aggregate contracted sum of RMB12,601,395.

On 17 May 2012, Lion Tianjin and Beihai Sunshine entered into the agreement in connection with the provision of doors and windows by Lion Tianjin to Beihai Sunshine for a construction project, namely Shimenshan Hotel Project with the cap amount of RMB2,600,000.

Implications under the Listing Rules

As each of Mudhouse Wine, Gangwan Property Management and Beihai Sunshine is an associate of Mr. Kai Chenglian, who is an executive Director, the chairman of the Board, chief executive officer and a controlling shareholder of the Company and the sole shareholder and director of Yi Ming Jia Lin Holdings Company Limited ("Yi Ming Jia Lin"), a controlling shareholder of the Company, each of Mudhouse Wine, Gangwan Property Management and Beihai Sunshine is a connected person of the Company for the purpose of the Listing Rules. In addition, as Tianjin Da Zhong is wholly-owned by Mr. Kai Chenglian and is therefore also a connected person for the purpose of the Listing Rules.

As each of the applicable percentage ratios for the above leases referred to in the paragraph "Connected Transactions and Continuing Connected Transactions — I. Leases", in aggregate, was over 0.1% but less than 5%, the aforesaid agreements were subject to reporting, announcement and annual review requirements only but exempt from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

For the Beihai Agreements referred to in the paragraph "Connected Transactions and Continuing Connected Transactions — II. Beihai Agreements" above, as each of the applicable percentage ratios (other than the profits ratio) for the transactions contemplated under the Agreements was, in aggregate, over 0.1% but less than 5%, the Beihai Agreements were subject to the reporting, announcement and annual review requirements only but exempt from the independent shareholders' approval requirement pursuant to Rule 14A.32 of the Listing Rules.

The transaction amount and cap amount of the above continuing connected transactions for the Year are as follows:

Continuing connected transactions	**Cap amount for the year ended 31 December 2013**	**Transaction amount for the year ended 31 December 2013**
Leases	RMB2,986,000	RMB2,986,000
Providing earthwork engineering service from Kai Shi Construction & Engineering to Beihai Sunshine	RMB12,601,395*	RMB12,569,196*
Sales of doors and windows from Lion Tianjin to Beihai Sunshine	RMB2,600,000*	RMB2,513,000*

* *These amounts represent cumulative transaction amounts as of 31 December 2013.*

REPORT OF DIRECTORS (CONTINUED)

For further details of the continuing connected transactions stated above, please refer to the section headed "Connected Transactions" in the Prospectus and the Group's announcements dated 17 May 2012, 11 December 2012 and 24 December 2013.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has confirmed to the Board on matters stated in Rule 14A.38 of the Listing Rules in relation to the above continuing connected transactions.

Save as the transactions disclosed above and the property management transaction between the Group and Gangwan Property Management as disclosed in note 33 to the audited consolidated financial statements, the Directors consider that those material related party transactions disclosed in note 33 to the audited consolidated financial statements in this annual report did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 43% of the total sales for the Year and sales to the largest customer included therein amounted to 14% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for approximately 41% of the total purchase for the Year and purchase from the Group's largest supplier included therein amounted to 20% of the total purchase for the Year.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers.

DIRECTORS

The Directors during the Year and up to the date of this annual report are as follows:

Executive Directors

Mr. Kai Chenglian (開成連) *(Chairman)*
Mr. Kai Xiaojiang (開曉江)
Ms. Jiang Shuxia (姜淑霞)
Ms. Han Liping (韓麗萍)

Independent non-executive Directors

Ms. Yang Jing (楊靜)
Mr. Li Fook Wing (李福榮)
Ms. Sun Huijun (孫惠君)

REPORT OF DIRECTORS (CONTINUED)

In accordance with article 108(a) of the Company's articles of association, at the forthcoming annual general meeting to be held on 18 June 2014, each of Mr. Li Fook Wing, Ms. Yang Jing and Ms. Sun Huijun will retire from office of Director, and being eligible, has offered himself/herself for re-election as Director. At the forthcoming annual general meeting, ordinary resolutions will be proposed to re-elect Mr. Li Fook Wing, Ms. Yang Jing and Ms. Sun Huijun as independent non-executive Directors.

The Company has received a written confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with Rule 3.13 of the Listing Rules. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND OTHER SENIOR MANAGEMENT

The biographical details of the Directors and other senior management are disclosed in the section headed "Directors and Senior Management" on pages 22 to 24 in this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company for an initial term of three years with effect from 22 November 2011 and may be terminated by either party by giving at least three months' written notice.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the Year.

REMUNERATION OF THE DIRECTORS

Details of the remuneration of the Directors of the Company are set out in note 7 to the audited consolidated financial statements in this annual report.

EMOLUMENT POLICY

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. The remunerations of the Directors are determined with reference to the economic situation, the market condition, the responsibilities and duties assumed by each Director as well as their individual performance.

The Company has adopted a pre-IPO share option scheme on 24 June 2011 (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") on 22 November 2011 as incentive to Directors and eligible employees, details of the schemes are set out in the paragraph headed "Share Option Schemes" below.

REPORT OF DIRECTORS (CONTINUED)

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in note 7 to the audited consolidated financial statements and in the section headed "Connected Transactions and Continuing Connected Transactions" in this annual report, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group subsisted at the end of the Year or at any time during the Year to which the Company, its holding company, or any of its subsidiaries was a party.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2013, none of the Directors or any of their respective associates had any interest in a business which competes or likely to compete, either directly or indirectly, with the business of the Group.

COMPLIANCE OF NON-COMPETITION UNDERTAKINGS

The Board has established a committee (the "Committee") comprising all the independent non-executive Directors which was delegated with the authority to review, on an annual basis, the compliance with the non-competition undertakings (the "Non-competition Undertakings") given by Yi Ming Jia Lin and Mr. Kai Chenglian in a deed of non-competition entered into by Yi Ming Jia Lin and Mr. Kai Chenglian on 6 December 2011 in favour of the Group (the "Deed").

The Committee was not aware of any non-compliance of the Non-competition Undertakings given by Yi Ming Jia Lin and Mr. Kai Chenglian since the date of the Deed and up to the date of this annual report. Details of the Non-competition Undertakings have been set out in the section headed "Relationship with Our Controlling Shareholders" of the Prospectus. The Company has received a written confirmation from each of Yi Ming Jia Lin and Mr. Kai Chenglian in respect of its/his compliance with the terms of the Deed from the date of the Deed up to the date of this annual report.

SHARE OPTION SCHEMES

(A) Pre-IPO Share Option Scheme

1. Summary of terms

   The purpose of the pre-IPO share option scheme is to recognise the contribution to the Group by certain executive directors and employees of the members of the Group. The principal terms of the Pre-IPO Share Option Scheme, approved by written resolutions of the sole shareholder of the Company passed on 24 June 2011, are substantially the same as the terms of the share option scheme of the Company (as set out below) except for the following:

   (a) the purpose of the Pre-IPO Share Option Scheme is to aid the Company in retaining key and senior employees of the Group;

   (b) the total number of Shares subject to the Pre-IPO Share Option Scheme is 13,900,000;

   (c) the subscription price for the Shares under the Pre-IPO Share Option Scheme equals to 80% of the offer price of HK$0.90 of the Shares (i.e. equals to HK$0.72);

REPORT OF DIRECTORS (CONTINUED)

(d) All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:

Maximum number of Shares under the option exercisable	Period for exercise of the relevant option
20% of the option granted	at any time on or after the date falling on the first anniversary of the Listing Date to the date immediately before the fifth anniversary of the Listing Date
20% of the option granted	at any time on or after the date falling on the second anniversary of the Listing Date to the date immediately before the fifth anniversary of the Listing Date
20% of the option granted	at any time on or after the date falling on the third anniversary of the Listing Date to the date immediately before the fifth anniversary of the Listing Date
the remaining 40% of the option granted	on the date immediately before the fifth anniversary of the Listing Date

All the options granted under the Pre-IPO Share Option Scheme will not be exercisable prior to the first anniversary of the Listing Date. Outstanding and unexercised options at the end of each vesting period may be rolled over to the next vesting period and exercisable during the option period;

(e) the option granted under the Pre-IPO Share Option Scheme is subject to the satisfactory appraisal by the Board of the relevant grantee's performance at the end of each financial year during the option period. The relevant Director is required to abstain from making the appraisal if he/she is the relevant grantee. If the Board resolves that the performance of the relevant grantee is unsatisfactory in any particular year, the maximum percentage option exercisable for the next financial year shall lapse automatically and not be exercisable; and

(f) the Pre-IPO Share Option Scheme was only in force during the period from 24 June 2011 to 23 December 2011, and no further options are to be granted thereunder but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in full force and effect to the exercise of any options granted.

Application had been made to, and approval was granted by, the Listing Committee of the Stock Exchange for the listing of and permission to deal in the 13,900,000 Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme.

REPORT OF DIRECTORS (CONTINUED)

2. Outstanding pre-IPO share options granted

Set out below are details of the outstanding options granted under the Pre-IPO Share Option Scheme adopted by the Company on 24 June 2011 as at 31 December 2013:

	Number of Share options						
Name of grantee	**Outstanding as at 1 January 2013**	**Granted during the year**	**Exercises during the year**	**Cancelled during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2013**	**Exercise price HK$**
Directors							
Mr. Kai Chenglian	5,000,000	—	(340,000)	—	—	4,660,000	0.72
Ms. Jiang Shuxia	1,500,000	—	(300,000)	—	—	1,200,000	0.72
Mr. Kai Xiaojiang	1,500,000	—	(300,000)	—	—	1,200,000	0.72
Ms. Han Liping	1,500,000	—	(300,000)	—	—	1,200,000	0.72
Employees	4,200,000	—	(760,000)	—	(400,000)	3,040,000	0.72
Total	13,700,000	—	(2,000,000)	—	(400,000)	11,300,000	

(B) Share Option Scheme

The Company adopted a Share Option Scheme on 22 November 2011.

1. Purpose

The purpose of the Share Option Scheme is to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group.

2. Participants

The Board are authorised, at their absolute discretion and subject to the terms of the Share Option Scheme, to grant options to subscribe the Shares of the Company to, inter alia, any employees (full-time and part-time), directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group.

3. Total number of Shares available for issue under the Share Option Scheme

The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed 10% of the issued share capital of the Company as at the Listing Date (i.e. a total of 60,000,000 Shares).

4. Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue.

REPORT OF DIRECTORS (CONTINUED)

5. Period within which the Shares must be taken up under an option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

6. Minimum period for which an option must be held before it can be exercised

The Board may in its absolute discretion set a minimum period for which an option must be held and performance targets that must be achieved before an option can be exercised.

7. Time of acceptance and the amount payable on acceptance of the option

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

8. Basis of determining the subscription price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

9. Life of the Share Option Scheme

The Share Option Scheme became unconditional on the Listing Date and shall be valid and effective for a period of ten years commencing on 22 November 2011, subject to the early termination provisions contained in the Share Option Scheme.

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme does not exceed 10% of the shares in issue on the Listing Date. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the Shares in issue at the time.

As at 31 December 2013, no option under the Share Option Scheme has been granted by the Company.

REPORT OF DIRECTORS (CONTINUED)

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS AND THE CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31 December 2013, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they are taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(i) Long position in the Shares

Name of Director	Capacity/Nature of interest	Number of Shares held	Approximate percentage of shareholding
Mr. Kai Chenglian	Interest in controlled corporation *(Note 1)*	450,000,000	74.75%
	Beneficial owner	340,000	0.06%
	Interest of spouse *(Note 2)*	260,000	0.04%
Ms. Jiang Shuxia	Beneficial owner	300,000	0.05%
Mr. Kai Xiaojiang	Beneficial owner	300,000	0.05%
Ms. Han Liping	Beneficial owner	300,000	0.05%

Notes:

1. *Mr. Kai Chenglian owns the entire issued share capital of Yi Ming Jia Lin, which owns 74.75% shareholding in the Company. Therefore, Mr. Kai Chenglian is deemed or taken to be interested in all the Shares which are beneficially owned by Yi Ming Jia Lin for the purpose of the SFO. Mr. Kai Chenglian is the sole director of Yi Ming Jia Lin.*

2. *Ms. Hu Shicui owns 260,000 Shares. Mr. Kai Chenglian is the spouse of Ms. Hu Shicui. Therefore Mr. Kai Chenglian is deemed or taken to be interested in all the Shares which are interested by Ms. Hu Shicui for the purpose of the SFO.*

(ii) Long Position in the Shares of Associated Corporation

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of shareholding
Mr. Kai Chenglian	Yi Ming Jia Lin	Beneficial owner	10,000	100%

REPORT OF DIRECTORS (CONTINUED)

(iii) Long Position in the Underlying Shares

Name of Director	Capacity/Nature of interest	Number of underlying Shares held *(Note 1)*	Approximate percentage of shareholding
Mr. Kai Chenglian	Beneficial owner	4,660,000	0.77%
	Interest of spouse *(Note 2)*	1,040,000	0.17%
Ms. Jiang Shuxia	Beneficial owner	1,200,000	0.20%
Mr. Kai Xiaojiang	Beneficial owner	1,200,000	0.20%
Ms. Han Liping	Beneficial owner	1,200,000	0.20%

Notes:

(1) These represented the underlying Shares under the options granted to each of the above Directors under the Pre-IPO Share Option Scheme adopted by the Company on 24 June 2011 (the "Pre-IPO Share Option Scheme").

(2) Mr. Kai Chenglian is the spouse of Ms. Hu Shicui. Therefore, Mr. Kai Chenglian is deemed or taken to be interested in all the underlying Shares which are interested by Ms. Hu Shicui for the purpose of the SFO.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executive of the Company had any interests or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF THE SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2013, according to the register of substantial shareholders maintained under section 336 of the SFO and so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company as disclosed above) had interests or short positions in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(i) Long Position in the Shares

Name	Capacity/Nature of interest	Number of Shares held	Approximate percentage of shareholding
Yi Ming Jia Lin	Beneficial owner *(Note 1)*	450,000,000	74.75%
Ms. Hu Shicui	Interest of Spouse *(Note 2)*	450,340,000	74.81%
	Beneficial owner	260,000	0.04%

Notes:

(1) Yi Ming Jia Lin is wholly and beneficially owned by Mr. Kai Chenglian.

(2) Ms. Hu Shicui is the spouse of Mr. Kai Chenglian. Therefore, Ms. Hu Shicui is deemed or taken to be interested in all the Shares which are interested by Mr. Kai Chenglian for the purpose of the SFO.

(ii) Long Position in the Underlying Shares

Name	Capacity/Nature of interest	Number of Underlying Shares held	Approximate percentage of shareholding
Ms. Hu Shicui	Beneficial owner	1,040,000	0.17%
	Interest of spouse *(Note)*	4,660,000	0.77%

Note:

Ms. Hu Shicui is the spouse of Mr. Kai Chenglian. Therefore, Ms. Hu Shicui is deemed or taken to be interested in all the underlying Shares which are interested by Mr. Kai Chenglian for the purpose of the SFO.

Save as disclosed above, and as at 31 December 2013, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

REPORT OF DIRECTORS (CONTINUED)

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee"), comprising the three independent non-executive Directors, has reviewed the Group's consolidated financial statements for the Year together with the management and the external auditor. The Audit Committee is of the opinion that such statements have complied with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE

Principal information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 25 to 35 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained sufficient public float since the Listing Date as required under the Listing Rules.

AUDITOR

The consolidated financial statements for the Year were audited by KPMG. KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

CLOSURE OF THE REGISTER OF MEMBERS

For 2014 Annual General Meeting

The register of members of the Company will be closed from 16 June 2014 to 18 June 2014, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the forthcoming annual general meeting to be held on 18 June 2014. All transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 13 June 2014.

By Order of the Board

Kai Chenglian
Chairman

Dalian, the PRC, 18 March 2014

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Kai Chenglian (開成連), aged 59, is the founder, chief executive officer, chairman of the Board and the chairman of nomination committee of the Company (the "Nomination Committee"). He was appointed as the Director on 4 January 2011 and redesignated as the executive Director on 22 November 2011. Mr. Kai Chenglian established the business of the Group in 2004. He is the father of Mr. Kai Xiaojiang, one of the executive Directors. Since the establishment of the Group's business in 2004, Mr. Kai Chenglian has played a significant part in the substantial growth of the business of the Group and is primarily responsible for overall corporate strategies, planning, management and business development of the Group. Mr. Kai Chenglian has over 14 years experience in real estate development. In 1996, he joined Tianjin Da Zhong, which primarily participated in real estate development in Tianjin, the PRC, and became its chairman and president in 1999. Mr. Kai Chenglian obtained a certificate from Tianjin University of Finance and Economics certifying his completion of the postgraduate programme of continuing education on finance and taxation, which is equivalent to a postgraduate qualification, in July 1998. He also received a Chinese Career Manager Certificate for the profession of Real Estate Business and Management from Chinese Career Manager Coalition in October 2007. Before joining the Group, Mr. Kai Chenglian has been the cadre members of the local tax bureau of Tianjin. Mr. Kai is the director of Yi Ming Jia Lin which holds approximately 74.75% shareholding in the Company.

Ms. Jiang Shuxia (姜淑霞), aged 35, was appointed as the Director on 24 June 2011 and redesignated as the executive Director on 22 November 2011. She is also a member of the remuneration committee of the Company (the "Remuneration Committee"). She is the chief operation officer of the Group and is mainly responsible for the daily operation and management. Ms. Jiang was appointed as the chairlady and the legal representative of Lion Tianjin in March 2012. She had been the chief operation management supervisor of Tianjin Da Zhong Group since 2008 to June 2011 and was responsible for its daily operation and management. From 2004 to 2008, Ms. Jiang was the deputy head of the assets department of an infrastructure investment company in Tianjin, the PRC, primarily in charge of the assets management and operation management of the company and its subsidiary. Ms. Jiang was the administrative secretary of Infrastructure and Ancillary Facilities Office of Tianjin, the PRC, and was in charge of the daily administrative works. She has been admitted as a member of Tianjin City Science Research Department (天津市科學研究院) since October 2002.

Mr. Kai Xiaojiang (開曉江), aged 33, was appointed as the Director on 24 June 2011 and redesignated as the executive Director on 22 November 2011 and he is the Development General Manager of the Group. Mr. Kai Xiaojiang is Mr. Kai Chenglian's son. Mr. Kai Xiaojiang is certified as an assistance engineer by Tianjin Municipal Labor and Social Security Bureau in 2009 and is primarily responsible for the management of development projects in Lvshunkou District, an administrative district in Dalian City of Liaoning Province, the PRC and business development of Lion Tianjin. Mr. Kai Xiaojiang joined Lion Tianjin in 2008 as its director and had been the chairman of Lion Tianjin until March 2012. Before joining the Group, Mr. Kai Xiaojiang worked in the real estate development department of an infrastructure and equipment investment company in Tianjin, the PRC, and was mainly responsible for undertaking procedures in connection with property development at preliminary stages. From 2008 to May 2011, Mr. Kai Xiaojiang was a director of Tianjin Datian Construction Engineering Company Limited (天津市大天建築工程有限公司) ("Tianjin Datian"), and Mudhouse Wine, which was once the connected person prior to the disposal of his mother's (Ms. Hu Shichui) and his equity interest in it to an independent third party on 4 May 2011 and is currently an independent third party. He obtained a degree of Master of Arts in Business Studies from University of Edinburgh in 2005 and obtained a Master degree in Management Science from University of York in November 2006.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Ms. Han Liping (韓麗萍), aged 35, was appointed as the Director on 24 June 2011 and redesignated as the executive Director on 22 November 2011. Ms. Han is the chief financial officer and is primarily responsible for matters in relation to finance of the Group. Ms. Han had been working as various positions at PricewaterhouseCoopers (Dalian Branch) and Deloitte Touche Tohmatsu (Dalian Branch) from July 2001 to May 2010, and as the manager of the audit department of Tianjin Da Zhong since May 2010. She was Tianjin Da Zhong's director and the chief financial officer since January 2011 to 24 June 2011. Ms. Han has obtained a bachelor's degree with a major in CPA Specialisation (註冊會計師專門化) from Dongbei University of Finance and Economics in July 2001 and has passed the examination (securities basic knowledge, securities underwriting and issue and security analysis) held by the Securities Association of China. Ms. Han is also a member of Liaoning Provincial Institute of Certified Public Accountants since August 2003.

Independent Non-executive Directors

Ms. Yang Jing (楊靜), aged 52, joined the Company as an independent non-executive Director on 22 November 2011. She is also the chairlady of the Remuneration Committee and a member of the Nomination Committee and audit committee of the Company (the "Audit Committee"). Ms. Yang has approximately 20 years of experience in auditing and financial management. She had been working in the accounting department of various tobacco and wine companies since 1980 till 2002. Since 2003, Ms. Yang has been working as an investigator of a tobacco company in relation to PRC laws and regulations. Ms. Yang received a certificate from China University of Political Science and Law with a major in Law in 2003.

Mr. Li Fook Wing (李福榮), aged 34, joined the Company as an independent non-executive Director on 22 November 2011. He is also a member of the Audit Committee and Remuneration Committee. Mr. Li has approximately 4 years of experience in the financial and securities field. Mr. Li is now a director of a private company. He worked in HSBC Group from 5 June 2006 to 16 August 2010 and his last position held with the HSBC Group was management manager of quality service management. Before that, he worked as an associate in SAVILLS PLC from July 2002 to June 2005 and was responsible for providing agency service to corporate and individual investors for real estate investment. Mr. Li has obtained his degree in Economics and Finance from the University of Hong Kong in December 2002.

Ms. Sun Huijun (孫惠君), aged 35, joined the Company as an independent non-executive Director on 22 November 2011. She is also the chairlady of the Audit Committee and a member of the Nomination Committee. Ms. Sun has approximately 6 years of experience in accounting and auditing works. She is a certified public accountant in the PRC and has completed the ACCA examinations in 2007. She joined Dalian Ruihua Accounting Firm (大連瑞華會計師事務所) in 2004 and was its legal representative from 2005 to 2006. Ms. Sun has also been the audit manager of Dalian Ruihua Accounting Firm since she joined it and is now a partner of the firm. Ms. Sun has obtained her degree in CPA Specialisation (註冊會計師專門化) from Dongbei University of Finance and Economics in July 2001.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT

Mr. Meng Jianjun (孟建軍), aged 42, joined the Company as the project manager in 2006 and Mr. Meng was appointed as the vice-general manager of Dalian Kai Shi on 1 February 2011. Mr. Meng is responsible for managing the real estate development of the Group and has been certified as an engineer since November 2006. He has been working in a couple of construction companies as a project engineer and participated in the construction of real estate projects in Dalian, for which he was mainly responsible for the overall supervision of the projects (including the progress, safety, and quality) and coordinate parties involved in each project. Mr. Meng obtained a diploma in housing and property management from Dalian University of Technology in 2001. In 2012, he was appointed as the general manager of Kai Shi Construction & Engineering.

Mr. Li Yong (李勇), aged 38, has been appointed as the general manager, of Lion Tianjin in October 2005. Mr. Li is certified as an assistance engineer by Tianjin Municipal Human Resources and Social Security Bureau and is primarily responsible for the daily operation management of Lion Tianjin. Before joining the Group, Mr. Li was the general manager of Gangwan Property Management and he held the position of administrative office manager of Tianjin Da Zhong Construction Development Company Limited (天津市大眾建設開發有限公司) from August 2000 to May 2002. For both positions, he was mainly responsible for the overall daily management and operation of the respective company. Before that, he worked in the engineering department of Tianjin Datian, which was once the connected person prior to the disposal of Mr. Kai Xiaojiang's and his mother's (Ms. Hu Shichui) equity interest in it to an independent third party on 4 May 2011 and is currently an independent third party.

Ms. Ning Xiuting (寧秀亭), aged 51, has been appointed as the manager of the Financial Department of Dalian Kai Shi since 2007. Ms. Ning is certified as an accountant in China and has more than 20 years in accounting. Ms. Ning had been a Financial Manager in Tianjin Da Zhong between 1997 to 2007. Before joining the Group, Ms. Ning worked as an accountant in various private companies in the PRC. Ms. Ning received her college degree from Tianjin University of Finance and Economics (formerly known as Tianjin College of Finance and Economics) in 1989.

CORPORATE GOVERNANCE REPORT

The Board of the Directors of the Company is pleased to present this corporate governance report in the annual report of the Company for the Year.

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has adopted code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Save for the deviation disclosed in this report, the Company has complied with the code provisions as set out in the CG Code during the Year. The Directors recognize the importance of incorporating the elements of good corporate governance in the management structures and internal control procedures of the Company so as to achieve effective accountability to the shareholders as a whole. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code. Set out below is detailed discussion of the corporate governance practices adopted and observed by the Company for the Year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made of all the Directors and each of the Directors has confirmed that he/she has complied with the Model Code for the Year.

During the Year, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company in respect of their dealings in the Company's securities.

BOARD OF DIRECTORS

(i) Composition of the Board of Directors

The Board currently consists of seven Directors with a combination of four executive Directors and three independent non-executive Directors. As at the date of this annual report, the composition of the Board is as follows:

Executive Directors

Mr. Kai Chenglian (開成連) *(chairman and chief executive officer)*
Mr. Kai Xiaojiang (開曉江)
Ms. Jiang Shuxia (姜淑霞)
Ms. Han Liping (韓麗萍)

Independent non-executive Directors

Ms. Yang Jing (楊靜)
Mr. Li Fook Wing (李福榮)
Ms. Sun Huijun (孫惠君)

CORPORATE GOVERNANCE REPORT (CONTINUED)

Mr. Kai Xiaojiang, one of the executive Directors of the Company, is the son of Mr. Kai Chenglian, who is the chairman, chief executive officer and executive Director of the Company. Save as disclosed above, there is no other relationship among members of the Board.

The Board is the core of the corporate governance structure of the Company. It is responsible for giving guidance to and reviewing the efficiency of the management. The Board is fully aware of its prime responsibilities to the Company and its duties to protect and enhance long-term shareholders' value. The executive Directors, with the assistance from the senior management, form the core management team of the Company. The executive Directors have the overall responsibility for formulating the business strategies and development plan of the Company and the Group and the senior management is responsible for supervising and executing the plans of the Group. The biographical details of all Directors are set out in pages 22 to 24 of this annual report.

The Company has arranged appropriate liability insurance to indemnify the Group's Directors for their liabilities arising out of corporate activities. The insurance coverage will be reviewed on an annual basis.

(ii) Functions of the Board

The principal functions of the Board is to (i) convene general meetings and report the Board's work at general meetings; (ii) implement the resolutions passed by the shareholders in general meetings; (iii) consider and approve strategies, financial objectives, annual budget, investment proposals of the Group; (iv) formulate the proposals for profit distributions; (v) assume the responsibilities of corporate governance of the Group; and (vi) exercise other powers, functions and duties conferred by the shareholders in general meetings.

(iii) Board Meeting and Attendance Record

The Company will adopt the practice of holding board meetings regularly, at least four times a year, and at approximately quarterly intervals. The Directors can attend meetings in person or by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such meeting shall constitute presence in person at such meetings in accordance with article 133 of the Company's articles of association. Generally, at least 14 days notice will be given for the regular Board meetings by the Company. The Directors will receive details of agenda items at least 3 days before each regular Board meeting to ensure that the Directors are able to make informed decisions regarding the matters to be discussed in the meetings. All Directors will also be provided with sufficient resources to perform their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. All minutes of Board meetings will be recorded in sufficient detail, including matters considered and decisions reached by the Board.

During the Year, seven Board meetings and one general meeting (2013 AGM) were held. The 2013 AGM were held on 28 June 2013.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The following is the attendance record of the Board meetings and general meeting:

	Attendance/Eligible to attend	
	Board Meeting	**General Meeting**
Executive Directors		
Mr. Kai Chenglian (開成連) *(chairman and chief executive officer)*	7/7	1/1
Mr. Kai Xiaojiang (開曉江)	7/7	1/1
Ms. Jiang Shuxia (姜淑霞)	7/7	1/1
Ms. Han Liping (韓麗萍)	7/7	1/1
Independent non-executive Directors		
Ms. Yang Jing (楊靜)	7/7	1/1
Mr. Li Fook Wing (李福榮)	7/7	1/1
Ms. Sun Huijun (孫惠君)	7/7	1/1

APPOINTMENT AND RE-ELECTION OF THE DIRECTORS

Each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 22 November 2011 subject to termination and may be terminated by not less than three months' written notice served by either party on the other and in certain circumstances, terms and conditions as stipulated in the relevant service contracts.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

In compliance with the code provision in A.4.2 of the CG Code, all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. By virtue of article 112 of the articles of association of the Company, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the shareholders in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In compliance with the code provision in A.4.2 of the CG Code, all Directors are subject to retirement by rotation at least once every three years. Furthermore, pursuant to the article 108(a) of the articles of association of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office.

Mr. Li Fook Wing, Ms. Yang Jing and Ms. Sun Huijun will retire from office as Directors at the forthcoming annual general meeting, and being eligible, offer themselves for re-election.

CORPORATE GOVERNANCE REPORT (CONTINUED)

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year of 2013, all Directors participated in continuous professional development to develop and refresh their knowledge and skills. The Company's external lawyers have facilitated directors' training by the provision of presentations, briefings and materials for the Directors primarily relating to the roles, functions and duties of a listed company director. Mr. Kai Chenglian, Mr. Kai Xiaojiang, Ms. Jiang Shuxia, Ms. Han Liping, Ms. Yang Jing, Mr. Li Fook Wing and Ms. Sun Huijun all received this training. The Company Secretary from time to time updates and provides written training material relating to the roles, functions and duties of a director and all the aforesaid Directors study such materials and they are asked to submit a signed training record to the Company on annual basis.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

According to the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. According to the current organization structure of the Company, Mr. Kai Chenglian is both the chairman of the Board and the chief executive of the Company.

In view of Mr. Kai Chenglian's extensive experience in the real estate development business and his role as the Company's founder, the Board considers that vesting both the roles of chairman and chief executive in Mr. Kai is beneficial to the business prospects and management of the Company. Notwithstanding the above, the Board will review the current structure of the Company from time to time. When at the appropriate time and if candidate with suitable leadership, knowledge and experience can be identified within or outside the Group, the Company may make necessary changes and arrangements.

INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive Directors. The Board considers that all independent non-executive Directors have appropriate and sufficient industry, professional qualifications, or accounting or related financial management expertise to carry out their duties so as to protect the interests of shareholders of the Company. Under Rule 3.10A of the Listing Rules, listed issuers are required to appoint independent non-executive directors representing at least one-third of the Board. The Company has three independent non-executive Directors currently representing more than one-third of the Board and therefore the Company has complied with Rule 3.10A.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Prior to their respective appointment, each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence in accordance with Rule 3.13 of the Listing Rules. The Board considers that all independent non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

During the year, the Chairman of the Company held a meeting with the non-executive directors (the independent non-executive Directors) without the executive Director's presence on 18 December 2013.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") of the Company.

As regards the CG code provision requiring directors to disclose the number and nature of the offices held in public companies and organizations and other significant commitments as well as their identity and the time involved to the issuer, Directors have agreed to disclose their commitments to the Company in a timely manner.

DELEGATION BY THE BOARD

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management system, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The functions and duties conferred on the Board include convening shareholders' meetings and reporting on the work of the Board to the shareholders at shareholders' meetings as may be required by applicable laws, implementing resolutions passed at shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions as well as exercising other powers, functions and duties as conferred on it by the Company's articles of association and applicable laws. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibility are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of the Directors and their corporate governance duties include:

(a) to develop, review and implement the Company's policy and practices on corporate governance and make recommendation to the board;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and

(f) to develop, review and monitor the implementation of the shareholders' communication policy to ensure its effectiveness, and make recommendation to the Board where appropriate to enhance shareholders' relationship with the Company.

During the Year, the Board had reviewed and discussed the above-mentioned corporate governance policy and practices, including training and continuous professional development of Directors and senior management, compliance with laws and regulatory regulations, the Company's compliance with the CG Code and the relevant disclosures in the Corporate Governance Report.

Pursuant to the code provision A.5.6 of the CG Code, listed issuers are required to adopt a board diversity policy. The Board has adopted the board diversity policy in August 2013 and summary of the board diversity policy is set out below:

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board. The Nomination Committee will monitor the implementation of this policy and will from time to time review this policy to ensure the effectiveness of this policy.

CORPORATE GOVERNANCE REPORT (CONTINUED)

AUDIT COMMITTEE

The Audit Committee was established on 22 November 2011. At present, the Audit Committee consists of three members, all of the members are independent non-executive Directors, namely Ms. Sun Huijun, Mr. Li Fook Wing and Ms. Yang Jing. Ms. Sun Huijun is currently the chairlady of the Audit Committee. The Audit Committee shall meet at least twice a year with the Company's external auditors regarding the review of the Company's financial report and accounts.

The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and removal of auditor, review and supervise the financial reporting process and the internal control procedures of the Group. The Audit Committee has reviewed the Group's consolidated financial statements for the Year.

The written terms of reference of the Audit Committee adopted by the Board are in line with the provisions of the CG Code and are available on the websites of the Company and the Stock Exchange.

During the Year, the Audit Committee has held 2 meetings on 22 March 2013 and 16 August 2013, respectively, at which the members of the Audit Committee have reviewed and discussed with the auditor of the Company on the Group's consolidated financial statements for the year ended 31 December 2012 and the six months ended 31 June 2013 respectively. The Audit Committee is of the opinion that such statements have complied with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosure have been made.

The following is the attendance record of the Audit Committee meetings:

	Attended/ Eligible to attend
Ms. Sun Huijun (孫惠君) *(chairlady)*	2/2
Mr. Li Fook Wing (李福榮)	2/2
Ms. Yang Jing (楊靜)	2/2

REMUNERATION COMMITTEE

The Remuneration Committee was established on 22 November 2011. At present, the Remuneration Committee consists of three members, namely Ms. Yang Jing, Mr. Li Fook Wing and Ms. Jiang Shuxia, the majority of which are independent non-executive Directors and one of the member is an executive Director. Ms. Yang Jing is currently the chairlady of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration of the Directors and senior management and determine on behalf of the Board regarding specific remuneration packages and conditions of employment for the Directors and senior management.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Remuneration Committee shall meet at least once every year to discuss remuneration related matters. No Director is allowed to be involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration Committee adopted by the Board are in line with the provisions of the CG Code and are available on the websites of the Company and the Stock Exchange.

During the Year, the Remuneration Committee has held one meeting on 22 March 2013, at which the members of the Remuneration Committee discussed and made recommendation to the Board regarding the remuneration policy on the Directors and senior managements for the year 2013.

The following is the attendance record of the Remuneration Committee meeting:

	Attended/ Eligible to attend
Ms. Yang Jing (楊靜) *(chairlady)*	1/1
Mr. Li Fook Wing (李福榮)	1/1
Ms. Jiang Shuxia (姜淑霞)	1/1

NOMINATION COMMITTEE

The Nomination Committee was established on 22 November 2011. At present, the Nomination Committee consists of three members, namely Mr. Kai Chenglian, Ms. Yang Jing and Ms. Sun Huijun, the majority of which are independent non-executive Directors and one of the member is an executive Director. Mr. Kai Chenglian is currently the chairman of the Nomination Committee.

The primary duty of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board and senior management and to ensure that the candidates to be nominated as Directors are experienced, high calibre individuals.

The Nomination Committee shall meet at least once every year for reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive Directors of the Company and other related matters.

The written terms of reference of the Nomination Committee adopted by the Board are in line with the provisions of the CG Code and are available on the websites of the Company and the Stock Exchange.

During the Year, the Nomination Committee has held one meeting on 22 March 2013, at which the members of the Nomination Committee discussed and made recommendation to the Board regarding the re-election of Directors at the 2013 AGM, and assessed the independence of each of the independent non-executive Directors pursuant to rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The following is the attendance record of the Nomination Committee meeting:

	Attended/ Eligible to attend
Mr. Kai Chenglian (開成連) *(chairman)*	1/1
Ms. Yang Jing (楊靜)	1/1
Ms. Sun Huijun (孫惠君)	1/1

For the year, remuneration of senior management of the Group, other than Directors as disclosed in note 7 to the financial statements, is within the following band for each person:

	Number of Individuals
RMB200,000 to RMB300,000	3

AUDITOR'S REMUNERATION AND REPORTING RESPONSIBILITIES

During the Year, the remuneration paid or payable to the Company's independent auditor, KPMG, in respect of their audit and non-audit services were as follows:

Type of Services	RMB'000
Audit services for 2013	1,390
Non-audit services (Taxation service)	29
Total	1,419

The statement of the Company's independent auditor regarding their reporting responsibilities on the consolidated financial statements of the Group for the Year is set out in the section headed "Independent Auditor's Report" in this annual report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

DIRECTOR'S RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Group's financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flows in accordance with the disclosure requirements of the Listing Rules, Hong Kong Companies Ordinance and applicable accounting standard. The Company deploys appropriate and sufficient resources to prepare audited accounts. In preparing the financial statements for the Year, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. With effect from 1 April 2012, the Company provides all members of the Board with monthly updates on the Company's performance, position and prospects.

INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board to review the Company's system of internal control for effectiveness. The Board will conduct periodic reviews on the progress of the improvements to, and endeavor to enhance, the internal control measures of the Group.

The Company established the internal audit function which plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit function are reviewing the financial condition and internal control of the Company and conducting comprehensive audits of the Group on a regular basis.

The Board annually reviews the internal control system, in particular, considers the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board considers that the internal control system is effective and adequate for the Group as a whole. The Board further considers that there was no issue relating to the material controls, including financial, operational and compliance controls and risk management functions of the Group.

COMPANY SECRETARY

The Company engages Ms. Mok Ming Wai, director of KCS Hong Kong Limited, as its company secretary.

In compliance with Rule 3.29 of the Listing Rules, Ms. Mok. has undertaken no less than 15 hours of relevant professional training during the Year.

INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognizes the importance of maintaining clear, timely and effective communication with the shareholders and the investors. The Board also recognizes that effective communication with the investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of financial reports, announcements, circulars and other corporate communications on the websites of the Stock Exchange and the Company. The Company's website (www.kaishichina.com) has been set up as a means to provide information of the Company to

CORPORATE GOVERNANCE REPORT (CONTINUED)

the shareholders and potential investors and to communicate with them directly and effectively. Shareholders are welcomed to make enquiry to the Board or make request for the Company's information to the extent such information is publicly available.

The Board shall maintain an on-going dialogue with shareholders and the investment community. Shareholders are also encouraged to attend the annual general meetings and other general meetings that may be convened by the Company, for which notices will be served for an adequate period in accordance with the Listing Rules and articles of association of the Company. The Directors will be available to answer shareholders' questions at the general meetings.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each issue at shareholder meetings, including the election of individual directors.

At any general meetings, a resolution put to vote of the meeting shall be decided by way of a poll except where a show of hands is allowed under the Listing Rules and the results of voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively pursuant to the Listing Rules. At the 2013 AGM, all resolutions including the approval of the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2012, were passed by poll by the shareholders of the Company.

Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Company's Articles and Association. According to Article 64 of the Articles of Association of the Company, extraordinary general meetings shall also be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition.

As regards proposing a person for election as a director, Article 113 of the Articles of Association of the Company stipulates that no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office. The period for lodgment of the notices required under this Article will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days. The procedures for shareholders of the Company to propose a person for election as a director are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could email their enquiries to investment@kaishichina.com.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the Year, there is no significant change in constitutional documents of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal activities of the Group are property development, sale of doors and windows and earthwork engineering business.

At the beginning of 2013 (the "Year"), with the sales volume and price in the real estate sales market of different cities coming to two extremes, the PRC government implemented different control policies according to different city scales. Firstly, overall control over first-tier cities was tightened, greater control was also exerted over second-tier cities with new measures promulgated during the same period, while only moderate adjustments were made in third or fourth-tier cities when appropriate. After the National People's Congress and Chinese People's Political Consultative Conference (the "Two Meetings"), the new government focuses on the construction of social housing to improve the long-term housing system. Under such economic environment and policies, the sales of high-end and residential properties experienced a slow growth. Accordingly, the sales of such properties of the Company were affected. In response to this trend, the Group actively adjusted its sales strategies, including the adjustment of product structure and construction of the commercial street, so as to keep up with the construction schedule and get ready for the forthcoming peak season in the real estate industry. Among the finished construction projects of the Group, more potential customers will be attracted to the Kai Shi Xi Jun project area as its ancillary facilities become more comprehensive. The brand recognition of the project will also improve gradually and thus foster further sales activities.

During the year ended 31 December 2013, Kai Shi Construction & Engineering developed its business rapidly. More professional qualifications were obtained gradually, details of which are set out in the paragraph headed "Earthwork Engineering" below.

REAL ESTATE DEVELOPMENT BUSINESS

Property projects overview

Kai Shi Jia Nian Phase I (completed property)

Kai Shi Jia Nian Phase I occupies a site area of approximately 97,318 square meters ("sq.m.") and has an aggregate gross floor area (the "GFA") of approximately 155,186 sq.m. It mainly comprises 13 blocks of low-rise apartments, 5 blocks of mid-rise apartments, 2 blocks of high-rise apartments, a 2-storey basement comprising 796 underground carparking spaces and 191 underground garages, a canteen and warehouses, and 1 four-storey composite building for office or commercial use. Construction of Phase I was composed of two parts, with Part I (which comprises mainly low-rise apartments) commenced in September 2007 and completed in October 2008. Part II (which comprises mainly mid-rise and high-rise apartments) commenced in June 2007 and completed in December 2009.

As at 31 December 2013, the presale/sold GFA was approximately 98.9% of the total GFA of Kai Shi Jia Nian Phase I.

Kai Shi Jia Nian Phase II (completed property)

Kai Shi Jia Nian Phase II occupies a site area of approximately 61,866 sq.m. and has an aggregate GFA of approximately 84,042 sq.m. It comprises several residential parts, namely (i) Lucca's Noble Villa (盧卡藝墅) which mainly includes upscale properties such as 2 blocks of low-rise structures, 22 blocks of townhouses, a kindergarten, 10 blocks of two-family house, a single-family house and a western food restaurant; and (ii) Scenery (景緻) which mainly includes 4 mid-rise apartments, underground carparking spaces and garages of approximately 9,723 sq.m.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

and 4 blocks of multi-storey composite buildings which are intended for commercial/retail use. Construction of Kai Shi Jia Nian Phase II was completed in September 2011. For residential portion, the Group started the presales by the end of 2010, and for non-residential portion, the Group first started the pre-sales in August 2011. During the Year, the average selling price of the sold properties in Kai Shi Jia Nian Phase II was approximately RMB14,812 per sq.m.

As at 31 December 2013, the pre-sale/sold GFA was approximately 69.7% of the total GFA of Kai Shi Jia Nian Phase II.

Kai Shi Jia Nian (investment properties)

As at 31 December 2013, the market value of Group's investment properties including approximately 47,084 sq.m.(Note 1) of Kai Shi Jia Nian Phase I and approximately 2,714 sq.m.(Note 2) of Kai Shi Jia Nian Phase II totally amounted to approximately RMB226.8 million based on an appraisal report 31 December 2013 prepared by Grant Sherman Appraisal Limited.

Notes:

1. *The GFA of approximately 47,084 sq.m. mainly includes portion of Level 1, Level 3 and 4 of the composite building, the carparking spaces on basement levels 1 and 2 and portion of basement level 2 of Kai Shi Jia Nian Phase I.*

2. *The GFA of approximately 2,714 sq.m. is comprised mainly of various retail units and a kindergarten.*

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Kai Shi Xi Jun (property under development)

Kai Shi Xi Jun project occupies a total site area of approximately 155,438 sq.m. and has an aggregate GFA of approximately 158,238 sq.m. It was planned to be developed for 3 phases. Kai Shi Xi Jun Phase I occupies a site area of approximately 47,042 sq.m. and has an aggregate GFA of appropriately 22,879 sq.m. It mainly includes 28 blocks of two-family houses and 6 blocks of house apartments. The construction of Kai Shi Xi Jun Phase I started in the first half of 2012. The Group obtained Kai Shi Xi Jun Phase I's pre-sales permit certificate of all 34 blocks of residential properties in mid August of 2012. As at 31 December 2013, the construction of all 34 blocks of residential properties was completed and began to deliver to house owner on 30 June 2013. In 2013, the Group has positioned Kai Shi Xi Jun as a "Green・Leisure・Healthy・Resort" (綠色・休閒・養生・度假) project. In addition, a series of auxiliary projects around Kai Shi Xi Jun including composite buildings, municipal projects and hot spring resort hotel etc. are just under construction, which is expected to have an active impact on the sales of Kai Shi Xi Jun in the future. For instance, the hot spring resort hotel, in the vicinity of Kai Shi Xi Jun project, has been put into operation in the second half of 2013, which has gradually attracted potential clients to this area and increases the popularity of the project step by step. The sample room of Kai Shi Xi Jun will be completed in the first half of 2014. Accordingly, the Group plans to gradually launch more sales activities in the future with further improved business atmosphere nearby.

Kai Shi Xi Jun Phase II occupies a site area of approximately 63,665 sq.m. and has an aggregate GFA of appropriately 51,098 sq.m. It mainly includes composite buildings, small scale high-rise structures, house apartments, two-family houses and townhouses. The construction of Kai Shi Xi Jun Phase II commenced in late 2012. As at 31 December 2013, the construction of 1 ancillary composite building, 1 block of townhouses and 5 blocks of two-family houses has been completed. The construction of other properties of Kai Shi Xi Jun Phase II is to be commenced subject to the market condition and construction permits progress granted by the government.

Kai Shi Xi Jun Phase III occupies a site area of approximately 44,731 sq.m. and has an aggregate GFA of appropriately 84,261 sq.m. It mainly includes high-rise structures, composite buildings and underground garages. In view of the market conditions, the Group is considering the adjustments of the types of the properties which will possibly promote the sales of Kai Shi Xi Jun project and the Company planned to commence construction of Kai Shi Xi Jun Phase III after 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For more details of major properties information of the Group, please refer to the information below:

The Group's property portfolio summary — major properties under development

Locations	Projects	Residential/ non-residential	Property types	Intended/ actual use	Total site area (sq.m.)	Planned GFA (sq.m.)	Actual saleable GFA (sq.m.)	Actual/ estimated completion date for construction	Group's interest (%)
Tongfu Road, Lijiagou, Beihai Street, Lvshunkou District, Dalian	Kai Shi Xi Jun (開世熙郡)				108,396	135,359			
	Phase II	Residential	House apartments, two-family houses, townhouses and small scale high-rise structures	Sales	63,665	49,143	*(Note 1)*	*(Note 2)*	100%
		Non-residential	A block of two-storey composite building	Sales		1,955			100%
	Phase III	Residential	Small scale high-rise and high-rise structures	Sales	44,731	76,213	*(Note 1)*	after 2014	100%
		Non-residential	Basement level 1 a block of three-storey composite building	Underground garages held for administration purposes		8,048	*(Note 1)*		100%

The group's property portfolio summary — major completed properties held for sale

Locations	Projects	Residential/ non-residential	Gross floor area (sq.m.)	Actual completion date for construction	Group's interest (%)
Yingchun Street/ Changjiang Road, Lvshunkou District, Dalian	Kai Shi Jia Nian (開世嘉年) Phase I — High-rise, mid-rise and low-rise apartments	Residential	1,160	October 2008 *(Note 3)*	100%
	Kai Shi Jia Nian (開世嘉年) Phase II — Mid-rise and low-rise structures, townhouses, two-family houses, detached villa	Residential	11,234	September 2011	100%
	Kai Shi Jia Nian (開世嘉年) Phase II — Basement level 1 of Kai Shi Jia Nian Phase II and restaurant	Non-residential	15,557	September 2011	100%
Tongfu Road, Lijiagou, Beihai Street, Lvshunkou District, Dalian	Kai Shi Xi Jun (開世熙郡) Phase I	Residential	22,252	in first half of 2013	100%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's property portfolio summary — major properties held for investment

Locations	Projects	Stage of completion	Approximate gross floor area (sq.m.)	Group's interest (%)
Yingchun Street/ Changjiang Road, Lvshunkou District, Dalian	Kai Shi Jia Nian (開世嘉年) Phase I — Office	Completed	2,037	100%
	Kai Shi Jia Nian (開世嘉年) Phase I — Underground car parking spaces and garages	Completed	45,047	100%
	Kai Shi Jia Nian (開世嘉年) Phase II — Four blocks of multi-storey composite buildings and a kindergarten	Completed	2,714	100%

Notes:

(1) *The saleable GFA of 1 ancillary composite building, 1 block of townhouses and 5 block of two-family houses is approximately 4,564 sq.m. according to the sale permit obtained in September 2013.*

(2) *The construction of 1 ancillary composite building, 1 block of townhouses and 5 block of two-family houses has been completed by the end of 2013. The construction of other properties of Phase II is to be commenced subject to the market condition and construction permits progress granted by the government.*

(3) *Part I of Kai Shi Jia Nian Phase I mainly comprises low-rise apartments and Part II mainly comprises mid-rise and high-rise apartments.*

EARTHWORK ENGINEERING

Kai Shi Construction & Engineering, an indirectly wholly-owned subsidiary of the Group, is principally engaged in foundation and site formation.

In 2013, as a series of auxiliary projects in Lvshunkou Beihai Jiedao were under construction, Kai Shi Construction & Engineering acquired new contracts and developed its business rapidly in 2013. Apart from previous qualification for earthwork engineering (土石方工程專業資質), Kai Shi Construction & Engineering had obtained another four qualifications step by step, namely, the qualification as general contractor of housing construction projects (房屋建築施工總承包資質), the qualification as general contractor of municipal public projects (市政公用工程施工總承包資質), the qualification as professional contractor of electromechanical equipment installation (機電設備安裝專業承包資質) and qualification as professional contractor of construction waterproofing (建築防水工程專業承包資質). To supplement the registered capital of Kai Shi Construction & Engineering, Dalian Kai Shi Property Co,. Limited ("大連市開世地產有限公司" or "Dalian Kai Shi") had injected RMB3.0 million into Kai Shi Construction & Engineering in the second half of 2013, increasing its registered capital to RMB6.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

DOORS AND WINDOWS BUSINESS

For the Year, the recognised revenue generated from the doors and windows business amounted to approximately RMB29.2 million. In addition, preparatory work for the operation of the plant which is located in Tianjin Port Free Trade Zone (天津空港經濟區) was conducted step by step in 2013.

MARKET OUTLOOK

Circumstances in the wider economic and regulatory environment are ever changing, but opportunities always remain. The Group's confidence in the future of its real estate development business is based on a realistic assessment of PRC's urbanisation guided by the PRC government and the sustainable growth in demand of the market. The Group will closely monitor the changes in various marketing factors and actively adjust sales strategies, including modifying products structure and building commercial street in 2014, to secure a favorable position under the current macroeconomic environment. In March 2014, Dalian Kai Shi, being an indirectly wholly-owned subsidiary of the Company, has entered into a framework agreement with Dalian City Lvshunkou District People's Government Beihai Street Office (大連市旅順口區人民政府北海街道辦事處) and Dalian Urban-Rural Integration Construction and Development Fund Management Company Limited (大連城鄉一體化建設發展基金管理有限公司) with a view to develop properties characterised by five core industries, including health care and pension, tourism, spa resort, ecological agriculture and commercial real estate, in Lvshunkou District, PRC. The Group will also actively seek opportunities for business expansion so as to maximise value for our shareholders and customers.

FINANCIAL ANALYSIS

Turnover

The turnover of the Group represented revenue generated from the proceeds, net of business tax and other sales related taxes, from the sales of properties, sales of doors and windows, earthwork engineering business and rental income. The revenue of the Group in 2013 amounted to approximately RMB100.9 million, of which the revenue generated from sales of properties, sales of doors and windows, sales from earthwork engineering business and rental income were approximately RMB36.1 million, RMB29.2 million, RMB31.9 million and RMB3.7 million, respectively. The revenue of the Group for the Year of approximately RMB100.9 million represented a slight decline of approximately 4.5% from approximately RMB105.7 million in the corresponding period in 2012. The decrease was mainly attributable to our real estate development business. For details, please see the paragraph below headed "Real Estate Development Business"

Real Estate Development Business

The revenue generated from the real estate development business of the Group decreased by approximately 53.5% to approximately RMB36.1 million for the Year from approximately RMB77.6 million in the corresponding period 2012. The decrease was primarily due to the following:

(i) The influence of macroeconomic environment continued.
At the beginning of 2013, with the sales volume and price in the real estate sales market of different cities coming to two extremes, the PRC government implemented different control policies according to different city scales. Firstly, overall control over first-tier cities was tightened, greater control was also exerted over second-tier cities with new measures promulgated during the same period, while only moderate adjustments were made in third or fourth-tier cities when appropriate. After the Two Meetings, the new government focuses on the construction of social housing to better the long-term housing system and promotion of anti-corruption.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Under such economic environment and policies, the sales of high-end and residential properties experienced a slow growth. And sales of the company for this type of properties are impacted accordingly. To face this trend, the Group actively adjusted sales strategies including modifying products structure and building commercial street, by which, expect to attract more customers in the real estate market.

(ii) The implementation of the Group' s sales strategy according to the product position and overall environment. For Kai Shi Xi Jun Project, in the first half of 2013, the Group has positioned Kai Shi Xi Jun as a "Green • Leisure • Healthy • Resort" (綠色・休閒・養生・度假) project. In addition, a series of auxiliary projects around Kai Shi Xi Jun including composite buildings, municipal projects and hot spring resort hotel etc. are just under construction, which is expected to have a positive impact on the sales of Kai Shi Xi Jun in the future. For instance, the hot spring resort hotel, in the vicinity of Kai Shi Xi Jun project, has been put into operation in the second half of 2013, which has gradually attracted potential clients to this area and increases the popularity of the project step by step. Accordingly the Group continued adjusting the pace of sales promotion in 2013 and plan to gradually launch more sales activities in 2014 with further improved business atmosphere nearby.

Earthwork Engineering Business

The revenue generated from earthwork engineering business amounted to approximately RMB31.9 million for the Year, representing an increase of approximately 869.8% over the corresponding period in 2012. Kai Shi Construction & Engineering commenced its operation in late 2012. As a series of auxiliary projects in Beihai were under construction, Kai Shi Construction & Engineering acquired new contacts and developed its business rapidly in 2013. The revenue of Kai Shi Construction & Engineering for the Year was mainly from works under the agreements as detailed in the announcement of the Company dated 11 December 2012 and new agreements in connection with Beihai municipal deputy projects (市政代建項目).

Doors and Windows Business

The revenue generated from the doors and windows processing business of the Group increased by approximately 30.4% to approximately RMB29.2 million for the Year from approximately RMB22.4 as compared to the corresponding period in 2012. The increase was primary due to more sales contracts were obtained in 2013 than 2012.

Gross Profit and Gross Profit Margin

The gross profit of the Group decreased by approximately RMB16.7 million, or 31.1%, to approximately RMB37.0 million for the Year from approximately RMB53.7 million in 2012, and the gross profit ratio of the Group decreased to approximately 36.7% for the Year from approximately 50.8% for the corresponding period in 2012, which was primarily due to a change in the sales mix. The sales of earth engineering business and real estate development business cover the total sales by 31.6% and 35.8% in 2013 respectively. Comparatively, such proportion in 2012 was 73.4% and 3.1%, respectively. Therefore, the earthwork engineering business, which has a lower profit margin ratio than real estate development business, increased greatly in 2013, and the gross profit margin and gross profit margin ratio decreased as a result.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Selling and distribution expenses

The selling and distribution expenses of the Group decreased by approximately RMB4.7 million, or 30.3%, to approximately RMB10.8 million for the Year from approximately RMB15.5 million in 2012. The decrease was primarily due to the following reasons:

(i) Commission fee is calculated in proportion to the revenue from sales of properties in 2013. Commission fee paid to properties sales agent decreased by approximately RMB0.6 million, or 54.5%, from approximately RMB1.1 million in 2012 to approximately RMB0.5 million for the Year, which was almost in line with the decrease in revenue;

(ii) In 2013, the Group adjusted the pace of sales promotion according to the product position and overall environment. As a result, the advertising and marketing expenses and its related expenses decreased by approximately RMB3.0 million in total.

Administrative expenses

The administrative expenses of the Group decreased by approximately RMB3.3 million, or 13.8%, to approximately RMB20.6 million for the Year from approximately RMB23.9 million in for the corresponding period in 2012. The decrease was primarily due to the following:

(i) the overall control on relevant expenses including travelling expenses, entertainment expenses and office expenses, etc. after listing activities has come to end; and

(ii) the decrease in professional services fees after the Group's initial public offering.

Net finance costs

The finance expense and the finance income of the Group amounted to approximately RMB3.5 million and approximately RMB0.4 million for the Year, respectively. The finance expense mainly represents the interests incurred for bank loans which was obtained by Lion Tianjin and Kai Shi Construction & Engineering in 2013.

Increase of fair value of investment properties

The fair value gain decreased by approximately RMB25.4 million to approximately RMB13.3 million for the Year from approximately RMB38.7 million in 2012. In 2012, the GFA of approximately 49,206 sq.m. was recognised as investment properties of the Group, and the fair value gain increased by approximately RMB38.7 million. In 2013, additional GFA of 592 sq.m. was recognised as investment properties of the Group in 2013, and the fair value gain increased by approximately RMB13.3 million with the increase of investment properties portfolio and the rise of market price of the Group's investment properties.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Income tax

The tax expenses in 2013 primarily included PRC corporate income tax payable and land value added taxes for the properties sold and delivered. The income tax expenses decreased by approximately RMB12.9 million, or 57.2%, to approximately RMB9.6 million for the Year from approximately RMB22.5 million for the corresponding period in 2012 which is mainly in line with the decrease in sales and profit before tax.

Liquidity, Financial and Capital Resources

Cash position

Cash and cash equivalents of the Group as at 31 December 2013 were approximately RMB39.1 million, representing a decrease of approximately RMB49.2 million as compared with approximately RMB88.3 million as at 31 December 2012. The decrease was primarily attributable to the cash payment for Kai Shi Xi Jun project, payment for acquisition of land and buildings and repayments for bank loans outweighed the cash received from the properties sold (namely Kai Shi Jia Nian Phase I and Phase II) and proceeds from new bank loans and cash inflows from the controlling shareholder of the Group.

Total current assets and liquidity ratio

The total current assets of the Group as at 31 December 2013 were approximately RMB660.2 million, representing an increase of approximately RMB12.1 million, or approximately 1.9%, over approximately RMB648.1 million as at 31 December 2012. The increase was mainly due to the increase in inventories, the trade and other receivables and completed properties held for sale by approximately RMB2.6 million, approximately RMB42.0 million and approximately RMB184.9 million, respectively, partially net off the decrease of cash and cash equivalents and properties under development by approximately RMB49.2 million and RMB168.4 million, respectively. Furthermore, the liquidity ratio (total current assets/total current liabilities) reduced from approximately 1.28 as at 31 December 2012 to approximately 1.24 as at 31 December 2013. The decrease was mainly in that the amount due to Directors, shareholders and related parties increased by approximately RMB131.7 million, partially net off the decrease of short term bank loans of approximately RMB81.1 million. As a result, the increase of the total current liabilities by approximately RMB26.7 million outweighed the increase of current assets by approximately RMB12.1 million.

Borrowings and pledged assets

Bank loans of our Group as at 31 December 2013 were approximately RMB118.9 million, of which approximately RMB40.0 million will be due in April 2014, approximately RMB40.0 million will be due in August 2014, approximately RMB15.0 million will be due in October 2014 and approximately RMB23.9 million will be due in November 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gearing ratio

The following table sets out the calculation of the gearing ratio of the Group as at the date indicated:

	31 December 2013 RMB'000	31 December 2012 RMB'000
Bank loans	**118,886**	200,000
Less: Cash and cash equivalents	**(39,104)**	(88,297)
Net debt	**79,782**	111,703
Total equity	**330,137**	320,787
Total capital	**409,919**	432,490
Gearing ratio	**19.5%**	25.8%

The decrease in the gearing ratio of the Group of 19.5% as at 31 December 2013 from 25.8% as at 31 December 2012 was primarily due to the Group's decrease in bank loans amounting to approximately RMB81.1 million.

Interest rate risk

The Group's interest rate risk arises primarily from its bank loans, which expose the Group to interest rate risk. The bank loans bear interest ranging from 1.21% to 7.20% per annum for the Year (2012: 6.14% to 6.98% per annum).

Exchange risk

As the Group's principal activities are carried out in the PRC, the Group's transactions are mainly denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The Group currently does not have a policy on foreign currency risk as it had minimal transactions denominated in foreign currencies in the Year and the impact of foreign currency risk on the Group's operation is minimal.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Contingent Liabilities

As at 31 December 2013, the Group did not have any material or contingent liabilities.

Employees

As at 31 December 2013, the Group had 162 employees in various operating units located in the PRC. The total remuneration of the employees of the Group was approximately RMB12,456,000 during the year ended 31 December 2013. In order to attract and retain high-caliber employees to ensure smooth operation and cater for the Group's constant expansion, the Group offer competitive remuneration packages, with reference to market conditions and individual qualifications and experience. The Group may also grant share options under the Share Option Scheme adopted by the Company on 22 November 2011 (details of which are set out in the paragraph headed "Share Option Scheme" in Appendix VII "Statutory and General Information" of the prospectus of the Company dated 30 December 2011). Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in the Share Option Scheme organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Share Option Scheme at the rate of 18% and 20% of the eligible employees. The Group has no other material obligation for the payment of pension benefits associated with the Share Option Scheme beyond the annual contributions described above.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Kai Shi China Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kai Shi China Holdings Company Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 49 to 111, which comprise the consolidated and Company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	*4*	**100,908**	105,703
Cost of sales		**(63,889)**	(52,040)
Gross profit		**37,019**	53,663
Selling and distribution expenses		**(10,763)**	(15,470)
Administrative expenses		**(20,643)**	(23,905)
Profit from operations before changes in fair value of investment properties		**5,613**	14,288
Increase in fair value of investment properties	*14(b)(ii)*	**10,501**	2,880
Fair value gain upon transfer of completed properties held for sale to investment properties	*14(b)(ii)*	**2,835**	35,866
Profit from operations after changes in fair value of investment properties		**18,949**	53,034
Finance income		**405**	541
Finance costs	*5(a)*	**(3,452)**	(70)
Profit before taxation	*5*	**15,902**	53,505
Income tax	*6(a)*	**(9,612)**	(22,464)
Profit for the year		**6,290**	31,041
Attributable to:			
Equity shareholders of the Company		**6,290**	31,041
Profit for the year		**6,290**	31,041
Earnings per share	*11*		
Basic earnings per share (RMB)		**0.01**	0.05
Diluted earnings per share (RMB)		**0.01**	0.05

The notes on pages 56 to 111 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 30(c)(viii).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013 (Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 RMB'000
Profit for the year		**6,290**	31,041
Other comprehensive income for the year (after tax and reclassification adjustments):			
Item that will not be reclassified to profit or loss:			
Surplus on revaluation upon transfer of property, plant and equipment to investment properties		**2,229**	—
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements — of overseas subsidiaries		**(1,767)**	—
Other comprehensive income for the year	*10*	**462**	—
Total comprehensive income for the year		**6,752**	31,041
Attributable to:			
Equity shareholders of the Company		**6,752**	31,041
Total comprehensive income for the year		**6,752**	31,041

The notes on pages 56 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013 (Expressed in Renminbi)

		At 31 December	
	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Lease prepayments	12	6,485	—
Property, plant and equipment	13	18,381	10,564
Investment properties	14	226,800	209,730
Total non-current assets		251,666	220,294
Current assets			
Lease prepayments	12	154	—
Properties under development	16	160,915	329,310
Completed properties held for sale	17	345,276	160,388
Inventories	18	23,598	20,957
Trade and other receivables, deposits and prepayments	19	66,171	24,183
Deposit in an escrow account	21	—	25,000
Cash and cash equivalents	22	39,104	88,297
Pledged deposit	23	25,000	—
Total current assets		660,218	648,135
Total assets		911,884	868,429
Current liabilities			
Bank loans	24	118,886	200,000
Receipts in advance	25	21,908	20,603
Trade and other payables	26	260,321	151,607
Current taxation	29(a)	130,266	132,461
Total current liabilities		531,381	504,671
Net current assets		128,837	143,464
Total assets less current liabilities		380,503	363,758

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2013 (Expressed in Renminbi)

		At 31 December	
		2013	2012
	Note	**RMB'000**	RMB'000
Non-current liabilities			
Deferred tax liabilities	*29(b)*	**50,366**	42,971
Total non-current liabilities		**50,366**	42,971
Net assets		**330,137**	320,787
Equity			
Share capital	*30(b)*	**4,900**	4,884
Reserves		**325,237**	315,903
Total equity attributable to equity shareholders of the Company		**330,137**	320,787
Total equity		**330,137**	320,787

Approved and authorised for issue by the board of directors on 18 March 2014.

Kai Chenglian
Director

Han Liping
Director

The notes on pages 56 to 111 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2013 (Expressed in Renminbi)

		At 31 December	
	Note	**2013 RMB'000**	2012 RMB'000
Non-current assets			
Investment in a subsidiary	*15*	**—**	—
Total non-current assets		**—**	—
Current assets			
Trade and other receivables	*19*	**132,543**	111,433
Cash and cash equivalents	*22*	**554**	2,655
Total current assets		**133,097**	114,088
Total assets		**133,097**	114,088
Current liabilities			
Bank loans	*24*	**23,886**	—
Trade and other payables	*26*	**26,001**	25,997
Total current liabilities		**49,887**	25,997
Net current assets		**83,210**	88,091
Total assets less current liabilities		**83,210**	88,091
Net assets		**83,210**	88,091
Equity			
Share capital	*30(a)*	**4,900**	4,884
Reserves	*30(a)*	**78,310**	83,207
Total Equity		**83,210**	88,091

Approved and authorised for issue by the board of directors on 18 March 2014.

Kai Chenglian
Director

Han Liping
Director

The notes on pages 56 to 111 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013 (Expressed in Renminbi)

		Attributable to equity shareholders of the Company					
		Share capital	**Share premium**	**Statutory reserve**	**Share-based compensation reserve**	**Retained profits**	**Total**
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2012		—	—	19,315	1,540	169,203	190,058
Changes in equity for 2012:							
Profit for the year		—	—	—	—	31,041	31,041
Total comprehensive income		—	—	—	—	31,041	31,041
Issue of shares, net of listing expenses	*30(b)(ii)*	1,221	95,475	—	—	—	96,696
Capitalisation issue	*30(b)(ii)*	3,663	(3,663)	—	—	—	—
Equity settled share-based transactions	*30(c)(iii)*	—	—	—	2,992	—	2,992
Appropriation to statutory reserve	*30(c)(ii)*	—	—	1,094	—	(1,094)	—
Balance at 31 December 2012		4,884	91,812	20,409	4,532	199,150	320,787

		Attributable to shareholders of the Company							
		Share capital	**Share premium**	**Statutory reserve**	**Share-based compensation reserve**	**Exchange reserve**	**Property revaluation reserve**	**Retained profits**	**Total**
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013		**4,884**	**91,812**	**20,409**	**4,532**	**—**	**—**	**199,150**	**320,787**
Changes in equity for 2013:									
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**6,290**	**6,290**
Other comprehensive income		**—**	**—**	**—**	**—**	**(1,767)**	**2,229**	**—**	**462**
Total comprehensive income		**—**	**—**	**—**	**—**	**(1,767)**	**2,229**	**6,290**	**6,752**
Shares issued for exercise of share options	*30(b)(ii)*	**16**	**2,277**	**—**	**(1,150)**	**—**	**—**	**—**	**1,143**
Forfeiture of share options	*28*	**—**	**—**	**—**	**(146)**	**—**	**—**	**146**	**—**
Equity settled share-based transactions	*30(c)(iii)*	**—**	**—**	**—**	**1,455**	**—**	**—**	**—**	**1,455**
Appropriation to statutory reserves	*30(c)(ii)*	**—**	**—**	**604**	**—**	**—**	**—**	**(604)**	**—**
Balance at 31 December 2013		**4,900**	**94,089**	**21,013**	**4,691**	**(1,767)**	**2,229**	**204,982**	**330,137**

The notes on pages 56 to 111 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013 (Expressed in Renminbi)

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000
Operating activities			
Cash used in operations	*22(b)*	**(63,523)**	(88,904)
Income tax paid		**(5,155)**	(29,994)
Net cash used in operating activities		**(68,678)**	(118,898)
Investing activities			
Payment for acquisition of leasehold land and buildings and other property, plant and equipment		**(17,549)**	(2,088)
Net cash used in investing activities		**(17,549)**	(2,088)
Financing activities			
Issue of new shares, by public offering, net of listing expense		**—**	93,532
Proceeds from shares issued under share option scheme		**1,143**	—
Proceeds from new bank loans		**118,886**	—
Repayment of bank loans		**(200,000)**	—
Interest received		**405**	363
Advances from related parties		**169,020**	57,742
Repayment of advances from related parties		**(36,893)**	(44,855)
Interest paid		**(15,159)**	(14,033)
Net cash generated from financing activities		**37,402**	92,749
Net decrease in cash and cash equivalents		**(48,825)**	(28,237)
Cash and cash equivalents at 1 January		**88,297**	116,534
Effect of foreign exchange rate changes		**(368)**	—
Cash and cash equivalents at 31 December	*22(a)*	**39,104**	88,297

The notes on pages 56 to 111 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

Kai Shi China Holdings Company Limited (the "Company") was incorporated in the Cayman Islands on 4 January 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 January 2012 of Hong Kong Limited. The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except earnings per share data. RMB is the functional currency and the reporting currency for the Company's subsidiaries established in the People's Republic of China ("the PRC").

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that investment properties are stated at their fair value as explained in the accounting policies set out in note 1(e).

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and the major sources of estimation uncertainty are discussed in note 2.

The directors are of the opinion that, after careful consideration of liquidity requirement and cash flow forecasts of the Group, and taking account of the effect of the bank facilities secured recently with a commercial bank in the PRC and the financial support from the Group's Controlling Shareholder, it is appropriate to prepare the consolidated financial statements on a going concern basis. The directors have concluded that the Group would have sufficient working capital to finance its operations in the next 12 months and remain as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Change in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 13, *Fair value measurement*
- Amendments to IFRS 7 — *Disclosures — Offsetting financial assets and financial liabilities*

Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in Note 14. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to IFRS 7 — Disclosures — Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)).

(e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (note 1(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(iv).

When the property is completed property held for sale that is being transferred to investment property, the gain or loss on revaluation, based on the assets carrying amount at the date of transfer, is recognised in profit or loss. When the property previously was held for own use, the property should be accounted for as property, plant and equipment up to the date of its change in use. Any difference at the date of the change in use between the carrying amount of the property and its fair value is recognised in property revaluation reserve within equity until the retirement or disposal of the property (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)). Construction in progress represents property, plant and equipment under construction and equipment pending installation and is stated at cost less impairment losses (see note 1(h)).

The cost of self-constructed items of property, plant and equipment include the cost of materials, direct labour and an appropriate proportion of borrowing costs (see note 1(u)).

Construction in progress is transferred to property, plant and equipment when it is ready for its intended use. No depreciation is provided against construction in progress.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	20 years
Plant and machinery	5–10years
Motor vehicles	5–10years
Furniture, fixtures and equipment	3–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as investment properties (see note 1(e)) or property under development or held for development for sale (see note 1(i)).

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other current receivables and other financial assets that are stated at cost or amortised cost are reviewed at each end of reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

(i) Impairment of trade and other receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding asset directly, expect for impairment losses recognised in respect of trade receivables included within trade and other receivables, deposits and prepayments, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each end of reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— Property, plant and equipment;

— Lease prepayments; and

— Investment in a subsidiary in the Company's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

— Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 1(u)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

— Completed properties held for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories

Inventories in respect of doors and windows for resale are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 1(s)(iii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade and other receivables, deposits and prepayments". Amounts received before the related work is performed are presented as "receipts in advance".

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share-based compensation reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(e), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group and the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue arising from the sale of properties is recognised when the significant risks and rewards of ownership of the property have been transferred to the buyers. The Group considers that the significant risks and rewards of ownership are transferred when the properties are completed and delivered to the buyers, and receive all the payment from buyers or collection of receivables are reasonably assured.

Revenue from sales of properties excludes business tax or other sales related taxes and is after deduction of any trade discounts, if any. Deposits and instalments received on properties sold prior to date of revenue recognition are included in the statement of financial position under receipts in advance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

(ii) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added taxes or other sales taxes and is after deduction of any trade discounts.

(iii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a construction contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare that asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from subsidiaries in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considered that if it is probable that the profits of the subsidiary in the PRC will not be distributed in the foreseeable future, then no withholding taxes should be provided.

(ii) Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after their completion, whereas, the properties are accounted for as investment properties under construction if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale, while the properties held to earn rentals and/or for capital appreciation are transferred to investment properties.

For a transfer from inventories to investment property, the transfer shall be made when, and only when, where is a change in use, evidenced by commencement of an operation lease to another party. The transfer from inventories to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(b) Sources of estimation uncertainty

Notes 14, 28 and 31 contain information about the assumptions and their risk factors relating to valuation of investment property, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Construction contracts

As explained in policy notes 1(k) and 1(s)(iii) revenue and profit recognition on an incompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 19 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Impairments

As explained in note 1(i), the Group's land held for future development, properties under development and completed properties held for sale are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the subject property, the Group makes estimates of the selling price, the costs of completion in case for properties under development, and the costs to be incurred in selling the properties.

If there is an increase in costs to completion or a decrease in net sales value, provision for properties held for future development, property under development for sale, and completed properties held for sale, may be resulted. Such provision requires the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

Given the volatility of the PRC property market and the unique nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the end of the reporting period. Any increase or decrease in the provision would affect profit or loss in future years.

(iii) Provision for Land Appreciation Tax

As explained in note 6(b), the Group has estimated and provided for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated. Significant judgment is required in determining the level of provision, as the calculation of which depends on the ultimate tax determination. Given the uncertainties of the calculation basis of LAT as interpreted by the local tax bureau, the actual outcomes may be higher or lower than those estimated at the end of the reporting period. Any increase or decrease in the actual outcomes/estimates will impact the income tax provision in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Property development;

— Provision of earthwork engineering service; and

— Sales of doors and windows;

No geographic information is shown as substantially all assets, liabilities, turnover and profit from the operations of the Group are derived from activities in the PRC.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets. Segment liabilities include current liabilities and bank borrowings and deferred taxation managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "profit after tax".

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

	Property development RMB'000	Provision of earthwork engineering service RMB'000	Sales of door and windows RMB'000	Total RMB'000
For the year ended 31 December 2013				
Reportable segment revenue	**39,795**	**31,867**	**29,246**	**100,908**
Reportable segment (loss)/profit	**(432)**	**6,129**	**455**	**6,152**
Interest income from bank deposits	**184**	**15**	**206**	**405**
Interest expense	**(38)**	**(1,422)**	**(1,341)**	**(2,801)**
Depreciation and amortisation for the year	**(2,209)**	**(380)**	**(303)**	**(2,892)**
Reportable segment assets	**879,547**	**208,362**	**188,903**	**1,276,812**
Reportable segment liabilities	**518,704**	**197,064**	**158,707**	**874,475**
For the year ended 31 December 2012				
Reportable segment revenue	80,016	3,286	22,401	105,703
Reportable segment profit	29,159	926	757	30,842
Interest income from bank deposits	356	1	6	363
Interest expense	—	—	—	—
Depreciation and amortisation for the year	(1,818)	(369)	(219)	(2,406)
Reportable segment assets	898,719	5,177	146,438	1,050,334
Reportable segment liabilities	556,786	2,411	116,697	675,894

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

3 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2013 RMB'000	2012 RMB'000
Revenue		
Reportable segment revenue	100,908	105,703
Less: Elimination of inter-segment revenue	—	—
Consolidated turnover	100,908	105,703
Profit		
Reportable segment profit	6,152	30,842
Less: Elimination of inter-segment profits	138	199
Consolidated profit after tax	6,290	31,041
Assets		
Reportable segment assets	1,276,812	1,050,334
Less: elimination of inter-segment transactions	(364,928)	(181,905)
Consolidated total assets	911,884	868,429
Liabilities		
Reportable segment liabilities	874,475	675,894
Less: elimination of inter-segment transactions	(292,728)	(128,252)
Consolidated liabilities	581,747	547,642

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

4 TURNOVER

The principal activities of the Group are property development, provision of earthwork engineering service and sale of doors and windows. The amount of each significant category of revenue recognised in turnover during the years ended 31 December 2013 and 2012 is as follows:

	2013 **RMB'000**	2012 RMB'000
Sales of properties	**36,121**	77,577
Provision of earthwork engineering service	**31,867**	3,286
Sales of doors and windows	**29,246**	22,401
Rental income	**3,674**	2,439
	100,908	105,703

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2013 **RMB'000**	2012 RMB'000
(a) Finance costs:		
Interest on bank loans	**15,159**	14,033
Less: Interest expense capitalised into properties under development *(note)*	**(12,358)**	(14,033)
	2,801	—
Other finance costs	**651**	70
	3,452	70

Note: The borrowing costs have been capitalised into properties under development for sale at rates ranging from 6.46% to 7.20% per annum for the year ended 31 December 2013 (2012: from 6.14% to 6.98% per annum).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION (Continued)

	2013 RMB'000	2012 RMB'000
(b) Staff costs:		
Contributions to defined contribution retirement plans *(note 27)*	**1,281**	1,162
Salaries, wages and other benefits	**9,720**	9,504
Equity-settled share-based payment expenses *(note 28)*	**1,455**	2,992
Staff costs included directors' and senior management's remuneration *(notes 7 and 8)*	**12,456**	13,658

	2013 RMB'000	2012 RMB'000
(c) Other items:		
Depreciation	**2,815**	2,406
Amortisation of lease prepayments	**77**	—
Operating lease charges	**1,722**	1,644
Net foreign exchange loss/(gain)	**373**	(178)
Auditor's remuneration		
— Audit service	**1,390**	1,280
— Non-audit service — Taxation service	**29**	29
Loss on disposal of property, plant and equipment	**3**	—
Cost of inventories*	**22,776**	17,492

* *Included in cost of inventories in respect of sales of doors and windows are RMB1,722,000 for the year ended 31 December 2013 (2012: RMB1,602,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in notes 5(b) and (c) for each of these types of expenses.*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2013 RMB'000	2012 RMB'000
Current tax		
PRC Corporate Income Tax ("CIT")	843	566
PRC Land Appreciation Tax ("LAT")	2,117	5,581
	2,960	6,147
Deferred tax		
Origination and reversal of temporary differences relating to CIT	1,766	12,583
Origination and reversal of temporary differences relating to LAT	4,886	3,734
	9,612	22,464

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2013 RMB'000	2012 RMB'000
Profit before taxation	15,902	53,505
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	4,200	13,967
Tax effect of non-deductible expenses	159	1,511
LAT	7,003	9,315
Tax effect of LAT	(1,750)	(2,329)
Actual tax expense	9,612	22,464

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (Continued)

(i) Effective from 1 January 2008, the PRC's statutory income tax rate is 25%.

(ii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in these jurisdictions.

No provision for Hong Kong Profits Tax was made as the Group's Hong Kong subsidiary did not earn any income subject to Hong Kong Profits Tax during the year ended 31 December 2013 (2012: nil).

(iii) PRC LAT is levied on properties developed by the Group in the PRC for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use right, borrowing costs and all qualified property development expenditures. LAT paid is deductible expenses for PRC income tax purposes.

A subsidiary of the Group was subject to LAT which is calculated based on 5% to 8% of their revenue in accordance with the authorised tax valuation method approved by the local tax bureau.

The Directors are of the opinion that the authorised tax valuation method is one of the allowable taxation methods in the PRC and the respective local tax bureaus are the competent tax authorities to approve the authorised tax valuation method in charging CIT and LAT to the corresponding PRC subsidiary of the Group, and the risk of being challenged by the State Tax Bureau or any tax bureau of higher authority is remote.

(iv) The PRC CIT Law and its implementation rules impose a withholding tax at 10%, unless reduced by a tax treaty or arrangement, for dividends distributed by PRC-resident enterprises to their non-PRC-resident corporate investors for profits earned since 1 January 2008. Under the Sino-Hong Kong Double Tax Arrangement, a qualified Hong Kong tax resident is entitled to a reduced withholding tax rate of 5% if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise directly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2013					
	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Equity settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Mr. Kai Chenglian	—	647	44	—	534	1,225
Mr. Kai Xiaojiang	—	127	26	—	160	313
Ms. Jiang Shuxia	—	407	38	—	160	605
Ms. Han Liping	—	142	41	—	160	343
Independent non-executive directors:						
Ms. Yang Jing	—	100	—	—	—	100
Mr. Li Fook Wing	—	97	—	—	—	97
Ms. Sun Huijun	—	100	—	—	—	100
Total	—	1,620	149	—	1,014	2,783

	Year ended 31 December 2012					
	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Equity settled share-based payments RMB'000	Total RMB'000
Executive directors:						
Mr. Kai Chenglian	—	605	40	—	1,074	1,719
Mr. Kai Xiaojiang	—	104	23	—	323	450
Ms. Jiang Shuxia	—	401	35	—	323	759
Ms. Han Liping	—	139	28	—	323	490
Independent non-executive directors:						
Ms. Yang Jing	—	100	—	—	—	100
Mr. Li Fook Wing	—	97	—	—	—	97
Ms. Sun Huijun	—	100	—	—	—	100
Total	—	1,546	126	—	2,043	3,715

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

7 DIRECTORS' REMUNERATION (Continued)

Equity settled share-based payment expenses represent the estimated value of share options granted to the directors under the Company's Pre-IPO Share Option Scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(p)(ii), includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting. The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 28.

During the year ended 31 December 2013, there was no amounts paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as a compensation for loss of office (2012: nil). There was no arrangement under which a director has waived or agreed to waive any emoluments during the year ended 31 December 2013 (2012: nil).

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2012: four) are directors whose emoluments are disclosed in note 7 above. The emoluments in respect of the remaining one individual (2012: one) as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other emoluments	**136**	122
Equity settled share-based payment	**52**	108
Contributions to retirement benefit scheme	**36**	10
	224	240

The emolument of the above individual (2012: one) with the highest emoluments is within the following band:

	2013 Number of individuals	2012 Number of individuals
Nil to HK$1,000,000	**1**	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB4,850,000 (2012: loss of RMB13,137,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

10 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2013			2012		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of financial statements of overseas subsidiaries	**(1,767)**	**—**	**(1,767)**	—	—	—
Surplus on revaluation upon transfer of property, plant and equipment to investment properties	**2,972**	**(743)**	**2,229**	—	—	—
Other comprehensive income	**1,205**	**(743)**	**462**	—	—	—

(b) Components of other comprehensive income, including reclassification adjustments

	2013 RMB'000	2012 RMB'000
Surplus on revaluation upon transfer of property, plant and equipment to investment properties:		
Changes in fair value recognised during the year	**2,972**	—
Net deferred tax charged to other comprehensive income	**(743)**	—
Surplus on revaluation upon transfer of property, plant and equipment to investment properties during the year recognised in other comprehensive income	**2,229**	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB6,290,000 (2012: RMB31,041,000) and the weighted average of 601,075,342 ordinary shares (2012: 581,917,808 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2013 No. of shares	2012 No. of shares
Issued ordinary shares at 1 January	**600,000,000**	1
Effect of issue of shares by public offering *(note 30(b)(ii))*	**—**	145,479,452
Effect of capitalisation issue *(note 30(b)(ii))*	**—**	436,438,355
Effect of share options exercised *(note 28)*	**1,075,342**	—
Weighted average number of ordinary shares at 31 December	**601,075,342**	581,917,808

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the company of RMB6,290,000 (2012: RMB31,041,000) and the weighted average number of ordinary shares of 607,672,452 shares (2012: 589,528,919 shares), calculated as follows:

Weighted average number of ordinary shares

	2013 No. of shares	2012 No. of shares
Weighted average number of ordinary shares at 31 December	**601,075,342**	581,917,808
Effect of deemed issue of shares under the Company's share option scheme for nil consideration *(note 28)*	**6,597,110**	7,611,111
Weighted average number of ordinary shares (diluted) at 31 December	**607,672,452**	589,528,919

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

12 LEASE PREPAYMENTS

In June 2013, a subsidiary of the Group acquired a parcel of land in Tianjin, the PRC, and a building situated on that land parcel from Tianjin Free Trade Zone Investment Company Limited (「天津保税區投資有限公司」) for a total consideration of RMB16,500,000, of which RMB6,716,000 related to the acquisition of land. As at 31 December 2013, the Group was still in the process of applying the ownership certificate for the land and building.

As at 31 December 2013, the Group had a current portion of lease prepayment of RMB154,000, which is expected to be amortised to profit or loss within one year.

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2012	3,251	2,609	7,877	2,135	—	15,872
Additions	—	610	1,437	41	—	2,088
Disposals	—	(8)	—	—	—	(8)
At 31 December 2012	3,251	3,211	9,314	2,176	—	17,952
At 1 January 2013	**3,251**	**3,211**	**9,314**	**2,176**	**—**	**17,952**
Additions	**—**	**423**	**82**	**544**	**9,784**	**10,833**
Disposals	**—**	**—**	**—**	**(33)**	**—**	**(33)**
Transfer to investment properties	**(260)**	**—**	**—**	**—**	**—**	**(260)**
At 31 December 2013	**2,991**	**3,634**	**9,396**	**2,687**	**9,784**	**28,492**
Accumulated depreciation:						
At 1 January 2012	434	761	2,655	1,140	—	4,990
Charge for the year	135	342	1,706	223	—	2,406
Written back on disposals	—	(8)	—	—	—	(8)
At 31 December 2012	569	1,095	4,361	1,363	—	7,388
At 1 January 2013	**569**	**1,095**	**4,361**	**1,363**	**—**	**7,388**
Charge for the year	**157**	**293**	**1,965**	**400**	**—**	**2,815**
Written back on disposals	**—**	**—**	**—**	**(30)**	**—**	**(30)**
Transfer to investment properties	**(62)**	**—**	**—**	**—**	**—**	**(62)**
At 31 December 2013	**664**	**1,388**	**6,326**	**1,733**	**—**	**10,111**
Net book value:						
At 31 December 2013	**2,327**	**2,246**	**3,070**	**954**	**9,784**	**18,381**
At 31 December 2012	2,682	2,116	4,953	813	—	10,564

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

All property, plant and equipment owned by the Group are located in the PRC.

Included in property, plant and equipment were buildings situated on land in the PRC, which were all held under medium term leases. Of these, a building of RMB9,784,000 was acquired during the year, which was still under construction (note 12). As at 31 December 2013, the Group was still in the process of applying ownership certificate for the building.

In addition to this, certain other buildings with an aggregate carrying value of RMB2,327,000 as at 31 December 2013 (31 December 2012: nil) were pledged for certain bank loans granted to the Group (note 24).

As at 31 December 2013, certain property, plant and equipment were fully depreciated but still in use. The cost of these property, plant and equipment were amounted to RMB2,281,000 (2012: RMB2,257,000).

14 INVESTMENT PROPERTIES

	Investment properties RMB'000	**Total** RMB'000
At 1 January 2012	157,850	157,850
Additions	13,134	13,134
Fair value adjustment	38,746	38,746
At 31 December 2012	209,730	209,730
Representing:		
Cost	62,109	62,109
Valuation adjustments	147,621	147,621
	209,730	209,730
At 1 January 2013	209,730	209,730
Additions	762	762
Fair value adjustment	16,308	16,308
At 31 December 2013	226,800	226,800
Representing:		
Cost	62,871	62,871
Valuation adjustments	163,929	163,929
	226,800	226,800
Net book value		
As at 31 December 2013	226,800	226,800
As at 31 December 2012	209,730	209,730

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 INVESTMENT PROPERTIES (Continued)

(a) Properties leased out under operating lease

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 4 to 10 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

Certain investment properties with an aggregate value of RMB21,640,000 as at 31 December 2013 (2012: nil) were pledged for certain loans granted to the Group (note 24).

During the year ended 31 December 2013, the directors of the Group announced the following changes in the use of its properties:

- Certain completed properties held for sale in Dalian, the PRC, were changed from for sale to for lease. The Group had entered into lease agreements with independent third parties accordingly. As a result, fair value gain amounting to RMB2,835,000 (2012: RMB35,866,000) was recognised upon the transfer.

- Certain portion of the Group's office building in Dalian, the PRC, were changed from for own use to for lease. As a result, a property revaluation reserve amounting to RMB2,972,000 (2012: nil) was recognised upon the transfer.

Ownership certificates of all investment properties were obtained in September 2011.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2013 RMB'000	2012 RMB'000
Within 1 year	**5,199**	3,963
After 1 year but within 5 years	**6,075**	5,839
After 5 years	**3,700**	3,501
	14,974	13,303

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 INVESTMENT PROPERTIES (Continued)

(b) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2013	**Fair value measurements as at 31 December 2013 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
Recurring fair value measurement				
Investment properties:				
Commercial — PRC	226,800	—	—	226,800

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2013. The valuations were carried out by an independent firm of surveyors, Grant Sherman Appraisal Limited ("Grant Sherman"), who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The Group's property manager and the chief financial officer have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

14 INVESTMENT PROPERTIES (Continued)

(b) Fair value measurement of investment properties (Continued)

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range	Weighted average
Investment properties: Commercial — PRC	Capitalised rental income approach	Risk-adjusted discount rate	3.7% to 3.8%	3.8%

The fair value of investment properties located in the PRC is determined using capitalised rental income approach.The valuation takes into account current rental income of the property interest and the reversionary potential of the tenancy. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. Grant Sherman also adopted the direct market comparison approach by making reference to the recent transaction for similar premises in the proximity to cross check the fair value.

The movement during the year in the balance of the Level 3 fair value measurement is as follows:

	RMB'000
Investment properties — Commercial — PRC	
At 1 January 2013	209,730
Additions	762
Fair value adjustment	16,308
At 31 December 2013	226,800

Fair value adjustment of investment properties of RMB16,308,000 includes change in fair value of investment properties of RMB10,501,000, valuation gains recognised in profit or loss upon transfer from completed properties held for sale to investment properties of RMB2,835,000 and valuation gains recognised in other comprehensive income upon transfer from property, plant and equipment to investment properties of RMB2,972,000.

All the gains recognised in profit or loss for the year arise from the investment properties held at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

15 INVESTMENT IN A SUBSIDIARY

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted shares, at cost	**—**	—

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary share.

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid up/ registered capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the company	Proportion of ownership interest: Held by subsidiaries	Principal activity
Kai Shi Investment Group Company Limited ("Kai Shi Investment")	British Virgin Island ("BVI") 29 November 2010	USD1/ USD50,000	100%	100%	—	Investment holding
China Kai Shi Group Holdings Limited ("China Kai Shi")	Hong Kong 20 April 2010	HK$1/ HK$10,000	100%	—	100%	Investment holding
Tianjin Lion Window & Door Co., Ltd. 萊恩(天津)門窗有限公司** ("Lion Tianjin")	PRC 22 April 2004	USD2,880,000/ USD2,880,000	100%	—	100%	Manufacture and sale of doors and windows
Dalian Kai Shi Property Company Limited 大連市開世地產有限公司* ("Dalian Kai Shi")	PRC 7 April 2006	RMB118,880,000/ RMB118,880,000	100%	—	100%	Property development
Dalian Kai Shi Earthwork Engineering Co., Ltd. 大連市開世建設工程有限公司*/*** ("Kai Shi Construction & Engineering")	PRC 2 September 2010	RMB6,000,000/ RMB6,000,000	100%	—	100%	Earthwork engineering

* *These entities are all PRC limited liability companies. The English translation of the company names is for reference only. The official names of these companies are in Chinese.*

** *Lion Tianjin is a wholly foreign owned enterprise established in the PRC. The English translation of the company name is for reference only. The official name of the company is in Chinese.*

*** *On 5 March 2014, the legal name of Dalian Kai Shi Earthwork Engineering Co., Ltd. ("大連市開世土石方工程有限公司") was changed to Dalian Kai Shi Construction & Engineering Co., Ltd. ("大連市開世建設工程有限公司").*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

16 PROPERTIES UNDER DEVELOPMENT

(a) Properties under development in the consolidated statement of financial position comprise:

	2013 RMB'000	2012 RMB'000
Expected to be recovered within one year		
Properties under development for sale	–	150,009
Expected to be recovered after more than one year		
Properties held for future development for sale	160,915	179,301
	160,915	329,310

(b) The analysis of carrying value of land included in properties under development is as follows:

	2013 RMB'000	2012 RMB'000
In the PRC, with lease term of 50 years or more:	121,585	169,280

As at 31 December 2013, the Group was in the process of applying for the relevant land use rights certificates for certain properties held for future development for sale amounting to RMB50,381,000 (2012: RMB50,381,000).

17 COMPLETED PROPERTIES HELD FOR SALE

All completed properties held for sale are located in the PRC on lease terms of 70 years.

All completed properties held for sale are stated at cost.

As at 31 December 2013, no completed properties held for sale (2012: RMB138,818,000) were pledged for certain bank loans granted to the Group (note 24).

As at 31 December 2012, certain other buildings included in completed properties held for sale with an aggregate carrying value of RMB17,798,000 were located on the land parcels which was pledged for the bank loan purpose. Pursuant to the Group's PRC legal advisors, the directors are of the view that such buildings are not regarded as part of the pledged assets for the bank loans. Such land parcels were released from pledge in 2013.

As at 31 December 2013, the amount of the Group's completed properties held for sale expected to be recovered within one year is RMB33,214,000 (2012: RMB14,343,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

18 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2013 RMB'000	2012 RMB'000
Doors and windows for resale		
Raw materials	2,117	1,702
Work in progress	587	2
Finished goods	20,894	19,253
	23,598	20,957

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2013 RMB'000	2012 RMB'000
Carrying amount of inventories sold	22,776	17,492

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

(a) Trade and other receivables, deposits and prepayments in the consolidated statement of financial position comprise:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables				
— Third parties	**19,036**	9,590	**—**	—
	19,036	9,590	**—**	—
Deposits and prepayments	**30,867**	6,121	**—**	—
Other receivables	**12,577**	8,472	**—**	—
Amounts due from subsidiaries	**—**	—	**132,543**	111,433
Gross amount due from customers for contract work	**3,691**	—	**—**	—
	66,171	24,183	**132,543**	111,433

Trade receivables are primarily related to sales of doors and windows and provision of earthwork engineering service. Proceeds are paid by instalments in accordance with the terms of corresponding sales and purchase agreements.

The amount of the Group's trade and other receivables expected to be recovered after more than one year is RMB3,054,000 (2012: RMB2,995,000). All of the other trade and other receivables are expected to be recovered within one year.

In respect of sales to third parties, there are specific payment terms stated in the sales and purchase agreements. Normally, the Group does not obtain collateral from customers.

At each of the end of reporting periods, the Group considered whether impairment provision for doubtful debts for trade and other receivables need to be set up and no additional provision was considered necessary at each of the end of reporting periods. Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(h)(i)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

(b) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables, deposits and prepayments), based on invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	2013 RMB'000	2012 RMB'000
Within 1 year (inclusive)	17,328	9,176
Over 1 year	1,708	414
	19,036	9,590

(c) Impairment of trade receivables

No allowance for doubtful debts in respect of trade receivables was recognised as at 31 December 2013 (2012: nil).

(d) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired as follows:

	2013 RMB'000	2012 RMB'000
Neither past due nor impaired	15,669	6,330
Less than 1 month past due	13	285
Overdue more than 1 month but less than 1 year	1,437	1,865
Overdue more than 1 year	1,917	1,110
Past due	3,367	3,260
	19,036	9,590

20 CONSTRUCTION CONTRACTS

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from to customers for contract work at 31 December 2013, is RMB3,691,000 (2012: nil).

All of the gross amount due from customers for contract work at 31 December 2013 that is expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

21 DEPOSIT IN AN ESCROW ACCOUNT

As at 31 December 2012, a deposit designated for settlement of a special dividend declared by the Company on 10 December 2011 of RMB25,000,000 was placed in an escrow account under the condition of a commercial bank in the PRC. Such deposit was subsequently released by the bank in November 2013.

22 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cash at bank and in hand	**39,104**	88,297	**554**	2,655

As at 31 December 2013, bank balances denominated in RMB that were placed with banks in the PRC amounted to RMB36,037,000 (2012: RMB81,740,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the State Administration of Foreign Exchange of the PRC.

(b) Reconciliation of profit before taxation to cash used in operations:

		Year ended 31 December	
	Note	**2013 RMB'000**	2012 RMB'000
Profit before taxation		**15,902**	53,505
Adjustments for:			
— Depreciation	*13*	**2,815**	2,406
— Amortisation of lease prepayments	*5(c)*	**77**	—
— Finance costs	*5(a)*	**3,452**	—
— Net exchange loss/(gain)	*5(c)*	**373**	(178)
— Interest income		**(405)**	(363)
— Loss on disposal of property, plant and equipments	*5(c)*	**3**	—
— Increase in fair value of investment properties		**(10,501)**	(2,880)
— Increase in fair value of transfer of completed properties held for sale to investment properties		**(2,835)**	(35,866)
— Equity settled share-based payment expenses	*28*	**1,455**	2,992
Changes in working capital			
Increase in inventories		**(2,641)**	(11,363)
Decrease/(increase) in properties under development		**181,108**	(143,244)
(Increase)/decrease in completed properties held for sale		**(185,452)**	32,758
(Increase)/decrease in trade and other receivables, deposits and prepayments		**(41,988)**	15,409
Increase in receipts in advance		**1,305**	9,113
Decrease in trade and other payables		**(26,191)**	(11,990)
Decrease in restricted cash		**—**	60
Net advances from/(to) directors		**—**	17,521
Net advances from/(to) other related parties		**—**	(16,784)
Cash used in operations		**(63,523)**	(88,904)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

22 CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of profit before taxation to cash used in operations: (Continued)

Major non-cash transactions:

During the year ended 31 December 2013, directors of the Group transferred certain completed properties held for sale and property, plant and equipment to investment properties. As a result, the fair value gains on completed properties held for sale and property, plant and equipment amounting to RMB2,835,000 and RMB2,972,000 respectively were recognised to profit or loss and other comprehensive income respectively upon the transfer to investment properties.

During the year ended 31 December 2013, the Group entered into set off agreements with the directors and related parties whereby the amounts due from directors and related parties of RMB6,994,000 (2012: RMB2,062,000) were settled by offsetting against the same amounts due to the directors and related parties.

During the year ended 31 December 2013, the Group entered into set off agreements with certain third party suppliers whereby the trade receivables in respect of sales of properties of RMB9,736,000 were settled by offsetting against trade and other payables of the same amount.

23 PLEDGED DEPOSIT

As at 31 December 2013, the Group had a deposit of RMB25,000,000 pledged to a commercial bank as security against a bank loan granted to the Group (note 24).

24 BANK LOANS

The analysis of the carrying amount of interest-bearing bank loans is as follows:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Current				
— Secured	118,886	200,000	23,886	—

The Group's bank loans were denominated in RMB and were repayable as follows:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Within one year or on demand	118,886	200,000	23,886	—

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

24 BANK LOANS (Continued)

The bank loans bear interest ranging from 1.21% to 7.20% per annum for the year ended 31 December 2013 (2012: 6.14% to 6.98% per annum) are secured by the following assets:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged deposit	**25,000**	—	**25,000**	—
Completed properties held for sale	**—**	138,818	**—**	—
Investment properties	**21,640**	—	**—**	—
Property, plant and equipment	**2,327**	—	**—**	—
	48,967	138,818	**25,000**	—

In addition to the above, the Group had certain bank loans amounting to RMB55,000,000 as at 31 December 2013 (2012: nil) secured by properties owned by a related party controlled by the Controlling Shareholder of the Company.

Certain of the Group's banking facilities are subject to fulfillment of covenants as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly maintains its compliance with these covenants.

Further details of the Group's management of liquidity risk are set out in note 31(b). As at 31 December 2013, none of the covenants relating to drawn down facilities had been breached (2012: nil).

25 RECEIPTS IN ADVANCE

The amount represents sales proceeds received from customers in connection with the Group's sales of doors and windows and pre-sale of properties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

26 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Trade payables	**63,580**	89,258	**—**	—
Other payables and accruals	**26,626**	23,973	**38**	—
Amounts due to an immediate holding company	**25,000**	25,000	**25,000**	25,000
Amount due to Controlling Shareholder	**132,616**	489	**963**	997
Amounts due to other related parties	**12,499**	12,887	**—**	—
	260,321	151,607	**26,001**	25,997

The amount due to Controlling Shareholder and related parties were unsecured, interest-free and had no fixed repayment terms.

As of the end of the reporting period, the ageing analysis of trade payables (which are included in trade and other payables), based on invoice date, is as follows:

	2013 RMB'000	2012 RMB'000
Within 1 month	**31,597**	37,372
Over 1 month but within 1 year	**18,800**	36,433
Over 1 year	**13,183**	15,453
Total	**63,580**	89,258

Included in trade and other payables and accruals of the Group were construction retention payables which were expected to be settled after more than one year amounted to RMB3,264,000 as at 31 December 2013 (2012: RMB3,249,000). Details of the Group's management of liquidity risk are set out in note 31(b).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

27 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at the rate of 18% and 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

28 EQUITY SETTLED SHARE BASED PAYMENTS

The purpose of the Pre-IPO Share Option Scheme is to aid the Company in retaining key and senior employees of the Group. 4 directors of the Company and 10 employees of the Group accepted the Pre-IPO Share Options granted by the Company on 24 June 2011 as follows:

Date granted	Vesting date	Expiry date	Directors	Number of IPO share options granted employees	Total	Contractual life of options
24 June 2011	From the first anniversary of the Listing Date	The date immediately before the fifth anniversary of the Listing date	1,900,000	880,000	2,780,000	5 years
24 June 2011	From the second anniversary of the Listing Date	The date immediately before the fifth anniversary of the Listing date	1,900,000	880,000	2,780,000	5 years
24 June 2011	From the third anniversary of the Listing Date	The date immediately before the fifth anniversary of the Listing date	1,900,000	880,000	2,780,000	5 years
24 June 2011	On the date immediately before the fifth anniversary of the Listing date	The date immediately before the fifth anniversary of the Listing date	3,800,000	1,760,000	5,560,000	5 years
			9,500,000	4,400,000	13,900,000	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 EQUITY SETTLED SHARE BASED PAYMENTS (Continued)

The options granted under the Pre-IPO Share Option Scheme is subject to the satisfactory appraisal by the board of directors of the relevant grantee's performance at the end of each financial year during the option period. The relevant director is required to abstain from making the appraisal if he/she is the relevant grantee. If the Board resolves that the performance of the relevant grantee is unsatisfactory in any particular year, the maximum percentage option exercisable for the next financial year shall lapse automatically and not be exercisable.

(i) The number and weighted average exercise prices of Pre-IPO Share Option Scheme are as follows:

	2013 Number of options '000	2012 Number of options '000
Outstanding at the beginning of the year	**13,700**	13,700
Forfeited during the year *(Note)*	**(400)**	—
Exercised during the year *(Note)*	**(2,000)**	—
Outstanding at the end of the year	**11,300**	13,700
Exercisable at the end of the year	**660**	—

Note: Pursuant to the written resolution of the shareholders of the Company passed on 24 June 2011, the Company has conditionally adopted pre-IPO share option scheme ("Pre-IPO Share Option Scheme").

During the year ended 31 December 2013, certain participants of Pre-IPO Share Option Scheme resigned from the Group and the share options granted to the participant were therefore forfeited on the expiry of 3 months after the date of cessation of employment.

During the year ended 31 December 2013, 2,000,000 share options (2012: nil) with exercise price at HK$0.72 were exercised to subscribe the shares. The weighted average share price at the date of exercise for share options exercised during the year was HK$1.87 (2012: not applicable).

The options outstanding as at 31 December 2013 had an exercise price of HK$0.72 (2012: HK$0.72) and a weighted average remaining contractual life of 3 years (2012: 4 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

28 EQUITY SETTLED SHARE BASED PAYMENTS (Continued)

(ii) Fair value of share options and assumptions:

The fair value of services received in return for share options granted under the Pre-IPO Share Option Scheme is measured by reference to the fair value of share options granted. The estimated fair value of share options granted is measured based on a binomial option pricing model:

Fair value of the share options and assumptions

Fair value per share at measurement date	HK$0.75
Share price	HK$1.43
Exercise price	80% of IPO Price
Expected volatility (expressed as weighted average volatility used in the modelling under binomial model)	60%
Option life	5 years
Expected dividends	1%
Risk-free interest rate	1.26%

The expected volatility is based on past few years historical price volatility of similar listed companies. Expected dividends are based on management's best estimation. The risk-free rate is referenced to the yields of Hong Kong Exchange Fund Bills/Notes.

Except for the conditions mentioned above, there were no other market conditions and service conditions associated with the share option grants.

29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2013 RMB'000	2012 RMB'000
Provision for CIT	**85,107**	86,353
Provision for LAT	**45,159**	46,108
	130,266	132,461

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movement during the year are as follows:

	Provision for LAT RMB'000	Intra group unrealised profit RMB'000	Fair-value change on investment properties RMB'000	Accruals RMB'000	Tax losses RMB'000	Total RMB'000
At 1 January 2012	15,570	269	(49,083)	6,590	—	(26,654)
Credited/(charged) to profit or loss	(4,043)	(66)	(12,487)	(6,590)	6,869	(16,317)
At 31 December 2012	11,527	203	(61,570)	—	6,869	(42,971)
At 1 January 2013	**11,527**	**203**	**(61,570)**	**—**	**6,869**	**(42,971)**
Credited/(charged) to profit or loss	**(237)**	**(46)**	**(6,999)**	**—**	**630**	**(6,652)**
Charged to reserves	**—**	**—**	**(743)**	**—**	**—**	**(743)**
At 31 December 2013	**11,290**	**157**	**(69,312)**	**—**	**7,499**	**(50,366)**

(c) Deferred tax liabilities not recognised

At 31 December 2013, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB143,538,000 (2012: RMB141,816,000). Deferred tax liabilities of RMB35,885,000 (2012: RMB35,454,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

30 SHARE CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000	Share premium RMB'000	Share-based compensation reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2012	—	—	1,540	—	—	1,540
Charges in equity for 2012:						
Loss for the year						
Total comprehensive income for the year	—	—	—	—	(13,137)	(13,137)
Shares issued for exercise of share options	1,221	95,475	—	—	—	96,696
Capitalisation issue	3,663	(3,663)	—	—	—	—
Equity settled share-based transactions	—	—	2,992	—	—	2,992
Balance at 31 December 2012 and 1 January 2013	4,884	91,812	4,532	—	(13,137)	88,091
Changes in equity for 2013:						
Loss for the year						
Total comprehensive income for the year	**—**	**—**	**—**	**(2,629)**	**(4,850)**	**(7,479)**
Shares issued for exercise of share options	**16**	**2,277**	**(1,150)**	**—**	**—**	**1,143**
Forfeiture of share options	**—**	**—**	**(146)**	**—**	**146**	**—**
Equity settled share-based transactions	**—**	**—**	**1,455**	**—**	**—**	**1,455**
Balance at 31 December 2013	**4,900**	**94,089**	**4,691**	**(2,629)**	**(17,841)**	**83,210**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

30 SHARE CAPITAL AND RESERVES (Continued)

(b) Share capital

(i) Authorised and issued share capital

	2013		2012	
	No. of shares '000	Amount HK$'000	No. of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.01 each	2,000,000	20,000	2,000,000	20,000

Ordinary shares, issued and fully paid:

	2013		2012	
	No. of shares	Amount HK$	No. of shares	Amount HK$
At 1 January	600,000,000	6,000,000.00	1	0.01
Issue of shares by public offering	—	—	150,000,000	1,500,000.00
Capitalisation issue	—	—	449,999,999	4,499,999.99
Shares issued for exercise of share options	2,000,000	20,000.00	—	—
At 31 December	602,000,000	6,020,000.00	600,000,000	6,000,000.00

As at 31 December 2013, the Company had issued share capital of HK$6,020,000 (2012: HK$6,000,000), which was equivalent to RMB4,900,000 (2012: RMB4,884,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Increase in authorised share capital

The Company was incorporated on 4 January 2011 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 par value. On the same date, the Company allotted and issued 1 share at par value of HK$0.01 to its then shareholder.

On 22 November 2011, pursuant to a written resolution of the shareholder, the authorised share capital was increased from 38,000,000 shares to 2,000,000,000 shares by the creation of an additional 1,962,000,000 ordinary shares, ranking pari passu with the existing ordinary shares of the Company in all respects.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

30 SHARE CAPITAL AND RESERVES (Continued)

(b) Share capital (Continued)

(ii) Increase in authorised share capital (Continued)

The shares of the Company were listed on the Stock Exchange on 12 January 2012, with a total number of 600,000,000 shares, among which 150,000,000 shares (25% of the total number of shares of the Company) were issued to the public. The gross proceeds received by the Company from the public offering were approximately HK$135,000,000.

In addition, 449,999,999 ordinary shares of HK$0.01 each were issued at par value to the shareholders of the Company as of 12 January 2012 by way of capitalisation of HK$4,500,000 (equivalent to RMB3,663,000) from the Company's share premium account.

During the year ended 31 December 2013, 2,000,000 share options were exercised by the Directors and employees of the Group under the Pre-IPO Share Option Scheme. 2,000,000 ordinary shares with par value of HK$ 0.01 each were issued at a consideration of HK$1,440,000 (equivalent to RMB1,143,000), of which HK$1,420,000 (equivalent to RMB1,127,000) were credited to the share premium account. Amount previously recognised in the share-based compensation reserve in connection with these exercised share options of RMB1,150,000 was also transferred to the share premium account.

(c) Reserves

(i) Share Premium

The excess of the issued price net of any issuance expenses over the par value of the shares issued has been credited to the share premium account of the Company.

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of respective companies of the Group. PRC companies are required to transfer certain of their net profits (after offsetting prior year losses), as determined under the approval by the board of directors, to statutory general reserve.

Statutory general reserve can be used to make good prior years' losses, if any, and may be converted into paid-in/share capital by issuing new shares to shareholders proportionate to their existing percentage of equity interests provided that the balance after such issue is not less than 25% of the registered capital, and is non-distributable other than in liquidation.

(iii) Share-based compensation reserve

Share-based compensation reserve comprises the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted by share-based payments in note 1(p)(ii).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

30 SHARE CAPITAL AND RESERVES (Continued)

(c) Reserves (Continued)

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(t).

(v) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies set out in note 1(e).

(vi) Distributability of reserves

The Company has no reserve available for distribution to shareholders as at 31 December 2013 (2012: nil).

The Company relies on distributions or advances from its subsidiaries to pay any dividends. The ability of these subsidiaries to make distributions to the Company and the Company's ability to receive distributions are subject to applicable legal and other restrictions, including but not limited to restrictions on payment of dividends by PRC companies to non-PRC shareholders out of the PRC. These restrictions may impact the payment of distributions from the subsidiaries to the Company.

(vii) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to fund its property development projects, provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and securities afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors the capital structures of its major operating subsidiary, namely Dalian Kai Shi, on the basis of asset liability ratio and current ratio. For this purpose, the Group defines asset liability ratio as the total liabilities to the total assets of the subsidiary, and current ratio as the total current assets to the total current liabilities of the subsidiary.

(viii) Dividends

During the year ended 31 December 2013, the Company has not declared any dividend (2012: nil) to the shareholders of the Company.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to honour its contractual obligations, and arises principally from the Group's trade and other receivables. The Group maintains a defined credit policy and exposures to these credit risks are monitored on an ongoing basis.

The Group has no concentrations of credit risk in view of its large number of customers. The Group did not record significant bad debts losses during the years ended 31 December 2012 and 2013.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any financial guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Details of maturity analysis for financial liabilities are disclosed in notes 24 and 26.

(c) Interest rate risk

The Group's interest rate risk arises primarily from its bank loans, which expose the Group to interest rate risk. The interest rates of the Group's bank loans are disclosed in note 24.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk (Continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings (as defined above) at the end of the reporting period.

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Net fixed rate borrowing:				
Bank loans	**95,000**	200,000	**—**	—
	95,000	200,000	**—**	—
Variable rate borrowing:				
Bank loans	**23,886**	—	**23,886**	—
	23,886	—	**23,886**	—
Total net borrowings	**118,886**	200,000	**23,886**	—
Net fixed rate borrowings as a percentage of total net borrowings	**80%**	100%	**0%**	n/a

(ii) Sensitivity analysis

At 31 December 2013, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB90,000 (2012: nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2012.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(d) Currency risk

As the Group's principal activities are carried out in the PRC, the Group's transactions are mainly denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The Group currently does not have a policy on foreign currency risk as it had minimal transactions denominated in foreign currencies in the years ended 31 December 2012 and 2013 and the impact of foreign currency risk on the Group's operation is minimal.

(e) Fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2013.

32 COMMITMENTS

(a) Capital commitments on land and development costs outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013 RMB'000	2012 RMB'000
Contracted but not provided for	9,006	25,220

(b) Operating lease commitment

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013 RMB'000	2012 RMB'000
Within 1 year	1,722	1,879
After 1 year but within 5 years	769	2,420
	2,491	4,299

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

32 COMMITMENTS (Continued)

(b) Operating lease commitment (Continued)

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under operating leases. The leases typically run for an initial period of 2 to 5 years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every 3 years to reflect market rentals. None of the leases includes contingent rentals.

33 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions during the year ended 31 December 2013 up to the date that party ceased to be a related party, if applicable.

During the years ended 31 December 2012 and 2013, the directors are of the view that the following are related parties of the companies of the Group:

Name of party	Relationship
Mr. Kai Chenglian	A Director and the Controlling Shareholder
Mr. Kai Xiaojiang	A Director
Ms. Hu Shicui	A close family member of Mr. Kai Chenglian
Mr. Hu Shiliang	A close family member of Mr. Kai Chenglian
Tianjin Da Zhong Group Co., Ltd.* ("天津大眾集團有限公司" or "Tianjin Da Zhong")	Effectively 100% owned by the Controlling Shareholder
Beihai Sunshine (Dalian) Corporation* ("北海陽光(大連)有限公司" or "Beihai Sunshine")	Effectively 100% owned by the Controlling Shareholder
Mudhouse Wine (Dalian) Corporation Limited* ("泥房子酒業(大連)有限公司" or "Mudhouse Wine")	Effectively 70% owned by the Controlling Shareholder
Tianjin Gangwan Property Management Company Limited (Dalian branch)* ("天津市港灣物業管理有限公司大連分公司" or "Gangwan Property Management")	Effectively 96.67% owned by the Controlling Shareholder
Dalian Kai Shi Wine Co., Ltd.* ("大連開世酒業有限公司")	Effectively 100% owned by Ms. Hu Shicui
Australia New Zealand Investment and Development Group Limited ("澳洲新西蘭投資發展集團有限公司" or "Australia New Zealand")	Effectively 100% owned by the Controlling Shareholder

* *The English translation of the companies' names are for reference only. The official names of these companies are in Chinese.*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions

	Note	2013 RMB'000	2012 RMB'000
Sales of doors and windows			
— Beihai Sunshine		**2,513**	—
Earthwork engineering service income			
— Beihai Sunshine	*(i)*	**8,860**	3,286
Rental expense			
— Tianjin Da Zhong	*(ii)*	**720**	720
Rental income			
— Beihai Sunshine	*(iii)*	**324**	324
— Mudhouse Wine	*(iv)*	**319**	319
— Gangwan Property	*(v)*	**1,606**	1,608
Property management fee paid			
— Gangwan Property		**—**	19

(i) On 11 December 2012, Kai Shi Construction & Engineering and Beihai Sunshine entered into agreements for eight projects in connection with the provision of the works by Kai Shi Construction & Engineering to Beihai Sunshine with an aggregate contracted sum of RMB12,601,000, which had been announced by the Group on 11 December 2012. For the year ended 31 December 2013, six projects (2012: two) had been completed and RMB8,860,000 (2012: RMB3,286,000) service revenue was recognised by Kai Shi Construction & Engineering.

(ii) On 1 June 2007, Lion Tianjin entered into a lease agreement with Tianjin Da Zhong, pursuant to which Lion Tianjin leased from Tianjin Da Zhong the production premises with a total floor area of 5,452.83 sq.m., at no cost ("Lion Tianjin Lease").

Subsequently, Tianjin Da Zhong and Lion Tianjin entered into a lease agreement supplemental to the Lion Tianjin Lease, pursuant to which it was agreed between the parties that commencing from 1 January 2011, Lion Tianjin shall pay yearly rental of RMB720,000. The lease was extended on 1 June 2012 and will expire on 31 May 2015. For the year ended 31 December 2013, RMB720,000 (2012: RMB720,000) has been recognised as rental expense.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions (Continued)

(iii) On 1 December 2009, Dalian Kai Shi entered into a lease agreement with Beihai Sunshine from 1 December 2009 to 30 November 2010 at yearly rental of RMB674,000, which was subsequently revised to the yearly rental of RMB343,000 for the period from 1 December 2010 to 30 November 2013. On 24 December 2013, Dalian Kai Shi renewed the lease agreement with Beihai Sunshine for a term of three years commencing from 1 January 2014 to 31 December 2016 at yearly rental of RMB343,200.

(iv) On 1 December 2009, Dalian Kai Shi entered into a lease agreement with Mudhouse Wine, pursuant to which Dalian Kai Shi leased a warehouse for a term of three years commencing from 1 December 2009 to 30 November 2012 at yearly rental of RMB134,000, which was subsequently revised to the yearly rental of RMB338,000 for the period from 1 January 2011 to 31 December 2013. On 24 December 2013, Dalian Kai Shi renewed the lease agreement with Mudhouse Wine for a term of three years commencing from 1 January 2014 to 31 December 2016 at yearly rental of RMB338,000.

(v) On 8 April 2011, Dalian Kai Shi, entered into an agreement with Gangwan Property Management pursuant to which Dalian Kai Shi leased certain investment properties to Gangwan Property Management for a term of one year commencing from 1 May 2011 at a yearly rental of RMB1,000,000. Subsequently, the term was revised to commence from 1 May 2011 to 31 December 2013 and the rental was revised to RMB670,000 for the period from 1 May 2011 to 31 December 2011, RMB1,534,000 and RMB2,334,000 for the two years ended 31 December 2012 and 2013 respectively, of which RMB1,608,000 and RMB1,606,000 have been recognised as rental income for the year ended 31 December 2012 and 2013 respectively.

On 24 December 2013, Dalian Kai Shi renewed the lease agreement with Gangwan Property Management for a term of one year from 1 January 2014 to 31 December 2014 at yearly rental of RMB3,000,000.

(b) Balances with related parties

In addition to the financing arrangements with related parties disclosed in note 33(c) of the financial statements, the Group had the following balances with related parties at the end of the reporting period:

(i) As at 31 December 2013, the Company had dividend payable of RMB25,000,000 (31 December 2012: RMB25,000,000), which was declared on 10 December 2011, to its immediate holding company, Yi Ming Jia Lin Holdings Company Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

33 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Financing arrangements

	Note	Amounts owed by the Group to related parties as at 31 December		Related interest expense	
		2013	2012	**2013**	2012
		RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due to Controlling Shareholder	*(i)*	**132,616**	489	**—**	—
Amount due to other related parties	*(ii)*	**12,499**	12,887	**—**	—

Note:

(i) *During the year ended 31 December 2013, the Group received advances from a director of RMB169,020,000 and repaid RMB36,893,000. As at 31 December 2013, the Group had an amount due to Controlling Shareholder of RMB132,616,000 (2012: RMB489,000), which is included in "Trade and other payables". The outstanding balance is unsecured, interest-free and has no fixed repayment terms.*

(ii) *In October 2012, the Group received an advance of RMB12,887,000 from Australia New Zealand. As at 31 December 2013, the Group had a balance with Australia New Zealand of RMB12,496,000 (2012: RMB12,887,000), which is included in "Trade and other payables". The outstanding balance is unsecured, interest-free and has no fixed repayment terms.*

(d) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employee as disclosed in note 8 is as follows:

	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**1,592**	1,569
Equity settled share-based payment expenses	**1,120**	2,367
Contributions to retirement benefit scheme	**197**	177
Total	**2,909**	4,113

Total remuneration is included in "staff costs" (note 5(b)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Renminbi unless otherwise indicated)

34 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2013, the directors consider the immediate parent and ultimate controlling party of the Group to be Yi Ming Jia Lin Holdings Company Limited and Mr. Kai Chenglian respectively. Yi Ming Jia Lin Holdings Company Limited, which is incorporated in BVI, does not produce financial statements available for public use.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the IASB has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*	1 January 2014
IFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FINANCIAL SUMMARY

CONSOLIDATED RESULTS

A summary of consolidated results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the published audited financial statements or the prospectus issued on 30 December 2011 in connection with the listing of the Company's shares on 12 January 2012 is set out below:

	Year ended 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	190,346	276,867	505,310	105,703	**100,908**
Income tax expense	(40,777)	(43,564)	(91,641)	(22,464)	**(9,612)**
Profit for the year	50,947	49,597	150,426	31,041	**6,290**
Attributable to:					
Shareholders of the Company	50,222	48,937	150,426	31,041	**6,290**
Non-controlling interests	725	660	0	0	**0**

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	Year ended 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS					
Non-current assets	157,905	165,376	168,732	220,294	**251,666**
Current assets	316,590	328,990	569,093	648,135	**660,218**
Total assets	474,495	494,366	737,825	868,429	**911,884**
LIABILITIES					
Current liabilities	299,982	247,612	321,113	504,671	**531,381**
Non-current liabilities	42,278	128,422	226,654	42,971	**50,366**
Total liabilities	342,260	376,034	547,767	547,642	**581,747**
EQUITY					
Total equity attributable to shareholders of the company	130,398	115,835	190,058	320,787	**330,137**
Non-controlling interests	1,837	2,497	0	0	**0**
Total equity	132,235	118,332	190,058	320,787	**330,137**

Design And Produced By: EDICO Financial Press Services Limited
設計及製作：鉅京財經印刷服務有限公司

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