KAI SHI CHINA HOLDINGS COMPANY LIMITED

開 世 中 國 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1281)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

The board (the "Board") of directors (the "Directors") of Kai Shi China Holdings Company Limited (the "Company") is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 together with the comparative figures for the year ended 31 December 2012 as follows:

Consolidated Statement of Profit or Loss
For the year ended 31 December 2013
(Expressed in Renminbi ("RMB"))

	Note	2013 RMB'000	2012 RMB'000
Turnover	3	**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		**10,501**	2,880
Fair value gain upon transfer of completed properties held for sale to investment properties		**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	4(a)	**(3,452)**	(70)
Profit before taxation	4	**15,902**	53,505
Income tax	5(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	6		
Basic earnings per share (RMB)		**0.01**	0.05
Diluted earnings per share (RMB)		**0.01**	0.05

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2013
(Expressed in RMB)

	2013	2012
	RMB'000	*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	**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

Consolidated Statement of Financial Position
At 31 December 2013
(Expressed in RMB)

		At 31 December	
		2013	2012
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Lease prepayments		**6,485**	—
Property, plant and equipment		**18,381**	10,564
Investment properties		**226,800**	209,730
Total non-current assets		**251,666**	220,294
Current assets			
Lease prepayments		**154**	—
Properties under development		**160,915**	329,310
Completed properties held for sale		**345,276**	160,388
Inventories		**23,598**	20,957
Trade and other receivables, deposits and prepayments	*7*	**66,171**	24,183
Deposit in an escrow account		**—**	25,000
Cash and cash equivalents		**39,104**	88,297
Pledged deposit		**25,000**	—
Total current assets		**660,218**	648,135
Total assets		**911,884**	868,429
Current liabilities			
Bank loans		**118,886**	200,000
Receipts in advance		**21,908**	20,603
Trade and other payables	*8*	**260,321**	151,607
Current taxation		**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 RMB)

		At 31 December	
		2013	2012
	Notes	***RMB'000***	*RMB'000*
Non-current liabilities			
Deferred tax liabilities		**50,366**	42,971
Total non-current liabilities		**50,366**	42,971
Net assets		**330,137**	320,787
Equity			
Share capital	*9(a)*	**4,900**	4,884
Reserves	*9(b)*	**325,237**	315,903
Total equity attributable to equity shareholders of the Company		**330,137**	320,787
Total equity		**330,137**	320,787

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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. 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 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 (the "Listing Rules"). 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.

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.

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 banking 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.

(c) Change in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs and amendments to IFRS 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. 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.

2 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".

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

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

	2013	2012
	RMB'000	*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

3 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	2012
	RMB'000	*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

4 PROFIT BEFORE TAXATION

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

	2013	2012
	RMB'000	*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: 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).

	2013	2012
	RMB'000	*RMB'000*
(b) Staff costs:		
Contributions to defined contribution retirement plans	**1,281**	1,162
Salaries, wages and other benefits	**9,720**	9,504
Equity-settled share-based payment expenses	**1,455**	2,992
	12,456	13,658

	2013	2012
	RMB'000	*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 4(b) and (c) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2013	2012
	RMB'000	*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	2012
	RMB'000	*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

(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.

6 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	2012
	No. of shares	*No. of shares*
Issued ordinary shares at 1 January	**600,000,000**	1
Effect of issue of shares by public offering	**—**	145,479,452
Effect of capitalisation issue	**—**	436,438,355
Effect of share options exercised	**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	2012
	No. of shares	*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	**6,597,110**	7,611,111
Weighted average number of ordinary shares (diluted) at 31 December	**607,672,452**	589,528,919

7 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	2013	2012
	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	**—**	—
Gross amount due from customers for contract work	**3,691**	—
	66,171	24,183

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.

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.

(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	2012
	RMB'000	*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	2012
	RMB'000	*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

8 TRADE AND OTHER PAYABLES

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

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	2012
	RMB'000	*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).

9 SHARE CAPITAL AND RESERVES

(a) Share capital

(i) *Authorised and issued share capital*

	2013		2012	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'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**	No. of shares	Amount
		HK$		*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 approximately RMB4,900,000 (2012: approximately 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 1,962,000,000 new shares, ranking pari passu with the existing ordinary shares of the Company in all respects.

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.

(b) 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.

(iv) ***Exchange reserve***

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(v) ***Property revaluation reserve***

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings classified as investment properties.

(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 Property Co., Limited ("大連開世地產有限公司" or "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.

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, Earthwork Engineering Co., Ltd (大連市開世土石方工程有限公司) ("Earthwork Engineering Company") 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. 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.

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

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.

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.

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%

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

Earthwork Engineering Company, 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, Earthwork Engineering Company 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), Earthwork Engineering Company 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 Earthwork Engineering Company, 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 Earthwork Engineering Company in the second half of 2013, increasing its registered capital to RMB6.0 million.

Doors and Windows Business

For the year ended 31 December 2013, 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 ended 31 December 2013 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 ended 31 December 2013 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. 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 ended 31 December 2013, representing an increase of approximately 869.8% over the corresponding period in 2012. Earthwork Engineering commenced its operation in late 2012. As a series of auxiliary projects in Beihai were under construction, Earthwork Engineering Company acquired new contacts and developed its business rapidly in 2013. The revenue of Earthwork Engineering for the year ended 31 December 2013 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 ended 31 December 2013 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 ended 31 December 2013 from approximately RMB53.7 million in 2012, and the gross profit ratio of the Group decreased to approximately 36.7% for the year ended 31 December 2013 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.

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 ended 31 December 2013 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 ended 31 December 2013, 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 ended 31 December 2013 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 ended 31 December 2013, respectively. The finance expense mainly represents the interests incurred for bank loans which was obtained by Lion Tianjin Window & Door Co., Ltd. ("萊恩(天津)門窗有限公司" or "Lion Tianjin") and Earthwork Engineering Company 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 ended 31 December 2013 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.

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 ended 31 December 2013 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.

Gearing ratio

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

	31 December 2013	31 December 2012
	RMB'000	*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 ended 31 December 2013 (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 ended 31 December 2013 and the impact of foreign currency risk on the Group's operation is minimal.

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. 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 (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.

Pre-IPO Share Option Scheme

500,000 shares and 1,500,000 shares were issued by the Company to the Directors and employees of the Group pursuant to the exercise of share options granted the pre-IPO share option scheme adopted on 24 June 2011 (the "Pre-IPO Share Option Scheme"). As at 31 December 2013, there were 11,300,000 outstanding share options under the Pre-IPO Share Option Scheme.

CLOSURE OF THE REGISTER OF MEMBERS

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 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (which will be relocated to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014) before 4:30 p.m. on 13 June 2014.

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING

Trading of shares in the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") commenced on 12 January 2012 and the Group raised net proceeds of approximately RMB81.0 million from the initial public offering (the "IPO Proceeds"). Up to and including 31 December 2013, the Group had applied approximately RMB8.0 million of the IPO Proceeds for general corporate and working capital purposes and approximately RMB8.0 million of the IPO Proceeds for the development of Kai Shi Xi Jun, which is in line with the intended use of the IPO Proceeds as disclosed in the Prospectus.

The use of IPO Proceeds has been changed by the Company as disclosed in the announcement of the Company dated 25 April 2013 (the "Announcement"). As stated in the prospectus of the Company dated 30 December 2011, 80% of the IPO Proceeds (the "Acquisition Proceeds") 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 IPO Proceeds would be used by the first quarter of 2012 and the remaining 40% would be used by July 2012. As at the date of the Announcement, the Group had not yet located a suitable land in such area for acquisition purpose and the relevant amount of the IPO Proceeds allocated for the acquisition of land in Beihaijiedao had remained unused. 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 consider making certain adjustments for the use of the IPO Proceeds. In view of the above, the Directors has reallocated approximately 26% of the Acquisition Proceeds from the acquisition of land in Beihaijiedao to the acquisition of the land and plant by Lion Tianjin, a wholly-owned subsidiary of the Company as its production plant for processing and producing windows and doors (the "Proposed Acquisition").

The Directors have identified a piece of land situate at Industrial lot 04-23-2 in Airport Economic Zone, Tianjin, the PRC (the "Land") and the existing plant erected thereon (the "Plant") for the Proposed Acquisition. It is expected that the consideration for the Land and the Plant under the Proposed Acquisition is approximately RMB16.5 million. To the best knowledge of the Directors having made all reasonable enquiries, the vendor to the Proposed Acquisition and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Up to 30 June 2013, the Land and Plant had been delivered to Lion Tianjin, and then its preparatory work for operation had been conducted gradually. 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. 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.

The Directors are of the view that the change in the timeframe and use of the IPO Proceeds is in the interest of the Company and its shareholders as a whole, allow the Group to continue to explore suitable opportunity to acquire land near Kai Shi Xi Jun for future development of real estate residential project and the headquarters of the Group.

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.

CONTINUING CONNECTED TRANSACTIONS

On 24 December 2013, Dalian Kai Shi as lessor entered into a lease agreement (the "Beihai Lease Agreement") with Beihai Sunshine (Dalian) Corporation (北海陽光(大連)有限公司) ("Beihai Sunshine") as leasee, pursuant to which the Group agreed to lease a property at an annual rental amount of RMB343,200 for Beihai Sunshine to use as office for a term from 1 January 2014 to 31 December 2016.

On the same date, Dalian Kai Shi as lessor, and Tianjin Gangwan Property Management Company Limited ("Gangwan Property Management") (Dalian branch) (天津市港灣物業管理有限公司大連分公司) as leasee, entered into a lease agreement (the "Gangwan Lease Agreement"), pursuant to which the Group agreed to lease certain 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.

On the same date, Dalian Kai Shi as lessor and Mudhouse Wine (Dalian) Corporation Limited ("Mudhouse Wine") (泥房子酒業(大連)有限公司) as lessee entered into a lease agreement (the "Mudhouse Lease Agreement") pursuant to which the Group agreed to lease a property at an annual rental amount of RMB338,000 for Mudhouse Wine to store wines and othergoods for a term from 1 January 2014 to 31 December 2016.

As at 24 December 2013, Beihai Sunshine, Gangwan Property Management and Mudhouse Wine were associates (as defined under the Listing Rules) of Mr. Kai Chenglian, who is an executive Director, the chairman of the Board, the chief executive officer of the Company and a controlling shareholder of the Company, and by virtue of the Listing Rules, Beihai Sunshine, Gangwan Property Management and Mudhouse Wine were therefore connected persons of the Company, respectively. Accordingly, the entering into of the aforesaid agreements between Dalian Kai Shi and Beihai Sunshine, Gangwan Property Management and Mudhouse Wine, respectively constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

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

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 DIVIDEND

The Board proposed no final dividend for the year ended 31 December 2013 (2012: Nil).

CORPORATE GOVERNANCE PRACTICES

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 of the Listing Rules as its own code of corporate governance.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the existing organisational structure, Mr. Kai Chenglian is the chairman of the Board and chief executive officer of the Company. In view of Mr. Kai Chenglian's extensive experience in real estate development and his role of the Company's founder, the Board considered that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Company. Notwithstanding the above, the Board will review the current structure 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 arrangements.

Save as disclosed herein, the Company was in compliance with the code provisions set out in the CG Code throughout the year ended 31 December 2013. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the CG Code.

COMPLIANCE WITH THE MODEL CODE FOR 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 ended 31 December 2013.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

THE 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 together with the management and external auditor for the year ended 31 December 2013. 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.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2013 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.kaishichina.com), and the 2013 Annual Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Kai Shi China Holdings Company Limited
Kai Chenglian
Chairman

PRC, 18 March 2014

As at the date of this announcement, the executive Directors are Mr. Kai Chenglian, Mr. Kai Xiaojiang, Ms. Jiang Shuxia and Ms. Han Liping and the independent non-executive Directors are Ms. Yang Jing, Mr. Li Fook Wing and Ms. Sun Huijun.

In this announcement, the English names of the PRC entities are translation of their Chinese names and included for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.